

Local Government Services Pension Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Local Government Services Pension Fund for the year ended 31 December 2020 comprising the balance sheet as at 31 December 2020 and the Income and Expenditure Account and cash flow statement for the year ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with section 62 of the local government services ordinance (cap.264) and with provisions of the National Audit Act No.19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per sub section 16(1) of the National Audit Act No.19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared by the Fund.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidences obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary, the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to the powers, functions and duties; and
- Whether the resources of the Fund has been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations regarding the preparation of financial statements

1.5.1 Sri Lanka Public Sector Accounting Standards

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Even though Accounts should be kept on accrued basis by the Fund in terms of the Sri Lanka Public Sector Accounting Standard 01, despite that the contribution of Rs.72,558,585 due for the year under review had been credited to the Income and Expenditure Account, the contribution of Rs.75,230,921, which had been received in the year relevant to the previous years and this year, had been debited to that account. Accordingly, the difference arisen is Rs.2,672,336, which had been identified as the deficit of the year.	As the monthly payment of pensions to the beneficiaries of Local Government Service Pensions has not been made using this fund since year 2011, the payment of pensions will not be adjusted on accrual basis.	Income and Expenditure should be accounted on accrual basis as per Sri Lanka Public Sector Accounting Standards No. 01.

1.5.2 Amount Receivable

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
According to the financial statements, the number of Local Government Institutions, from which contributions are paid to the Fund	The amount of cheques sent monthly by each local government institutes is	Steps should be taken to recover the due

as at 31 December 2020, was 302 and the outstanding contribution due from those Institutions was Rs. 1,143,420,252. However, according to the financial statements submitted to the audit by 256 Local Government Institutions as at 31 December 2020, the contributions receivable to the Fund from 97 Local Government Institutions was Rs.760,406,356, but that amount was not mentioned as contributions to be paid by the local government institutes. Even though the contributions receivable to the Fund from another 103 Local Government Institutions were amounting to Rs.278,494,348, the amount of contributions that should be paid as per the financial statements of those Local Government Institutions was Rs.184,054,767, which is an overstatement of Rs.94,439,581, while the contribution receivable to the Fund from 22 local government institutes was Rs.14,868,309 but according to the financial statements the contributions to be paid was Rs.19,567,394, which is an understatement of Rs.4,699,085.

deducted and a monthly bill is sent to the local government institutes notifying them the amount due. In addition, the receipts issued monthly for contributions received from the respective local government institutes are sent to those institutes along with the bill. Accordingly, there is no difference between the balance of the bill books as at 31.12.2020 and the balance of contribution receivable from the institutions in the final accounts as at 31.12.2020. It is kindly informed that action will be taken to inquire from those institutions regarding the differences pointed out by you and take action to rectify if any difference is available.

contributions and action should be taken to identify and rectify the reasons for the difference.

1.6 Non-compliance with Laws, Rules and Regulations

Following observations are made.

<u>Reference to laws, Rules and regulations</u>	<u>Non-Compliance</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a)	Paragraph 5 of the Public Finance Circular No. 2/2018 dated 28 August 2018 and Paragraph 15 (2) (b) of the Public Finance Circular No. 1/2020 dated 28 August 2020. It was stated that if there are any funds which have not been activated in the last two years or if the desired objectives of the fund can be achieved under the Government Budget, those funds should be terminated. Accordingly, Even though it has been revealed that by notes to the Account No. 4 that the Fund is inactive, the activities of this fund are being carried out with budgetary allocations under the	According to the report of the special committee, appointed by the General Treasury, issued on 31 March 2017, it has been recommended that the funds including the Local Government Service Pension Fund should be closed by an Act of Parliament. However, it had not been reported yet regarding authorization for implementation of any policy decision regarding the said	Action should be taken in accordance with the circulars.

Vote Head of the Department of report.

Pensions, the necessary steps have not been taken to close the Fund under the provisions of the existing Circular.

- (b) Pension Circular No. 01/2012 dated 08 February 2012
- Reports on the deaths of members of the fund for each month should be called from the District Secretaries before the 25th of the following month and steps should be taken to adjust the deaths in a timely manner according to those reports. However, Rs. 2,306,611 due relevant to deaths of 647 members from year 2014 to 2020 had been written off during the year under review due to the adjustment is not made annually.
- Secretaries of all Local Government Institutions have been informed regarding the deaths of members by the letters my No. 3/2/7 dated 28/02/2019. Over the past few years, it was able to adjust the deaths based on the possibility of obtaining information regarding deceased pensioners through a computer database and the information received monthly on deceased pensioners from local government institutes.
- Action should be taken in accordance with the circulars.

Actions are being taken to send the details of the deceased pensioners to the Department of Pensions to obtain the information available in the database along with the anonymous documents to the relevant local authorities in the absence of this information.

2. Financial Review

2.1 Financial Result

According to the financial statements submitted, the financial result of the Fund's operations for the year under review amounted to a deficit of Rs.2,672,336, and the corresponding deficit in the preceding year amounted to Rs.132,436,333. Therefore an improvement amounting to Rs.129,763,997 of the financial result of the year under review was observed compared to the preceding year. Contributions for the current year were shown as cash income, and the transfers to the general account of the Director-General of Pensions relevant to the current year and the preceding year were shown as expenditure in the Income and Expenditure Account of the current year. The reasons for the improvement is the decrease of the contribution income by Rs.3,890,304 and expenses by Rs.135,654,300 during the current year compared to the preceding year.

2.2 Management Inefficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
According to the financial statement as at 31 December 2020, the contributions receivable from 302 Local Government Institutions were Rs.1,143,420,252. According to the schedules submitted with the financial statements regarding the balance, any amount relating to the contributions of Rs. 459,007,662 had not been received from 88 local government institutes during the year under review.	Action has already been taken to recover the contributions receivable from the local government institutes. Accordingly, a request has been made to the Secretary of the Finance Commission to inform the Heads of Local Government Services Local Government institutes. The officials were informed about the non-payment of money at the discussion, chaired by Western Local Government Commissioner and Director General of Pensions, held at the Department of Pensions in December 2019. Similarly, the institutes have been informed regarding the amount to be paid by monthly Bills sent to all Local Government Institutions, and action has been taken to inform the Institutions by telephone calls and bring down the money.	Should monitor whether monthly contributions are recovered and immediate action should be taken to recover arrears of pension contributions.