

Local Government Services Pension Fund - 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the Local Government Services Pension Fund for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the income and expenditure account for the year then ended, and cash flow statement for the year then 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 the 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.

I do not express an opinion on the financial statements of the fund. Because of the significance of the matters described in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I expressed Disclaimer of opinion 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.

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

Management is responsible for the preparation of these 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 intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per 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.

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

My objective 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 auditor's 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 statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercised professional judgment 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 its 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 the management's use of the going concern basis of accounting and based on the audit evidence 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. 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 its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws;

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Management Comment	Recommendation
As per the Standard No.01, although the fund should account on accrual basis, the amount of Rs.91,670,745 of contributions received in the year under review in relation to previous years and in relation to the year under review had been accounted on cash basis.	The pension payment will not be adjusted according to the accrual basis since the monthly pension payment for the beneficiaries of local government service pensions is not made using this fund which is in inactive status and is gradually depleting since the year 2011.	In accordance with Sri Lanka Public Sector Accounting Standard No.01, revenue and expenditure should be accounted for on an accrual basis.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Contributions of Rs.1,041,976,262 had been paid for 39,478 pensioners in the year 2022 using treasury allocations and these payments had not been shown in the income and expenditure account. Contributions received from local authorities during the year were Rs.91,670,744 and that amount had been accounted against receipt of contributions in the income and expenditure account as payments from the pension fund.	It has been presented as an account note under Note 02 and 03.	The Income Expenditure Account should show the result of receipts and payments of contributions.
(b) The receipts of Rs.27,070,918 for the previous year included in total receipts of Rs.91,670,744 for the year under review had been adjusted to the Income Expenditure Account as the deficit being transferred to the Accumulated Fund.	The surplus or deficit in the Income Expenditure Account has been adjusted to the Accumulated Fund in accordance with the Accounting Concepts.	The surplus or deficit in the Income Expenditure Account should be adjusted to the Accumulated Fund based on the receipts and payments of contributions.

1.5.3 Un-reconciled Control Accounts or Records

Subject	Value as per financial statements Rs.	Value as per corresponding records Rs.	Difference Rs.	Management Comment	Recommendation
Contribution receivable	994,388,194	141,701,021	852,687,173	This difference is reflecting as checks sent in December 2022 were received by us in January 2023 and not being accounted in December 2022.	Action should be taken to confirm the amount of contribution receivable by verifying the balance.

1.5.4 Documentary Evidences not made available for Audit

Subject	Amount Rs.	Unsubscribed Audit evidences	Management Comment	Recommendation
Contributions receivable	103,587,376	Balance confirmations	Balance confirmation reports will be obtained from these local authorities in the future and, if there are any differences, action will be taken to correct those.	Action should be taken to confirm the amount of contribution receivable by verifying the balance.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) Even though the last member of a local government entity in the year 2019 had also died, action had not been taken to collect the outstanding contributions of Rs.435,355.	We have been informed by the letter 23 dated March 2023 that, it is difficult to pay the outstanding amount of Rs.435,355 from the said local authority as the concerned entity is a low-income entity. Nevertheless, arrangements have been made to recover the amount in whole or in parts in the future.	Steps should be taken to recover the contributions receivable.

- (b) According to the financial statements, the balance of contributions receivable from 303 local government entities on 31 December 2022 was Rs.1,090,156,001 and the number of local government entities that had not received contributions in the year 2022 was 82 and its value was Rs.7,339,172.
- Arrangements have been made to contact the local government officials through letters and phone calls to the local government entities to collect the contributions receivables and, the correct remittance of outstanding contributions is the main responsibility of those institutions also.
- Steps should be taken to recover the contributions receivable.

1.7 Non-compliance with laws, rules, regulations and management decisions etc.

Reference to laws, rules, regulations etc.	Non-compliance	Management Comment	Recommendation
Public Finance Circular No.07/2016 dated 29 July 2016	A special committee was appointed by the General Treasury on 11 June 2016 to ensure that all statutory and non-statutory funds are subject to parliamentary control in accordance with a process approved by the Parliament through the 2016 budget proposals No.425 and 426 and, although the said committee had been recommended that it should be amended and closed the Acts related to this fund, action had not been taken to take a decision in that regard. Furthermore, the recommendation made in the report to collect the arrears of contributions from the relevant institutions as soon as possible also had not been implemented.	According to the committee report issued on 31 March 2017 by the Special Committee appointed by the Treasury, it has been recommended that funds including the Local Government Service Pension Fund should be closed by an Act of Parliament. However, there has been no report of any policy decision regarding that report being given authority for implementation.	Necessary actions should be taken to close the fund.