

## **Local Government Services Pension Fund - 2023**

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### **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 2023 comprising the balance sheet as at 31 December 2023 and the income and expenditure account for the year then ended, and notes to the financial statements, including material accounting policy information 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 (Chapter.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.

I do not express an opinion on the accompanying 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 and 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 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' stability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis for accounting unless management either intend 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 Sub Section 16(1) of 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 of the Fund.

## 1.4 Auditor's Responsibility 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 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 fund's 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. 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 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 related to the preparation of financial statements

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
According to Sri Lanka Public Sector Accounting Standard No. 01, the fund should keep accounts on an accrual basis but the contribution received in relation to the previous years and the audited year was Rs. 77,965,865 had been accounted for in the cash basis during the year under review.	That the monthly pension payment for the beneficiaries of local government service pensions is not made using this fund which is in inactive state and is gradually depleting since the year 2011, so the pension payment will not be adjusted according to the accrual basis.	According to Sri Lanka Public Sector Accounting Standard No. 01, revenue and expenditure should be accounted for on accrual basis.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Contributions of Rs.932,929,839 had been paid for the pensioners in the year 2023 using treasury allocations. Contributions received from the local authorities during the year was Rs. 77,965,865 and although the amount was accounted against the receipt of contributions as payments from the pension fund, no disclosures had been made in the accounts and out of that amount Rs. 16,701,878 was receipts for previous years but that value was adjusted to the income and expenditure account by transferring the deficiency to the accumulated fund.	That has been presented as an account note under No. 03 of Note 02.	The result of receipts and payments of contributions should show in the Revenue and Expenditure Account.

- (b) Due to the fact that Rs.858,060 which was sent by a cheque on 12 February 2018 of Pudukkudiruppu Pradeshiya Sabha was credited to the Widows' and Orphans' Pension Fund instead of being credited to the Local Government Pension Fund, the balance of contributions due at that value was overstated.
- That the cheque has been credited under the widows' and orphans' provincial revenue head as the cover letter received from the Pudukkudiruppu local council only mentions to Widows' and Orphans' Pension Fund.
- Arrangements should be made to credit the correct accounts.

### 1.5.3 Un-reconciled Control Accounts or Records

Item	Value as per financial statements Rs.	Value as per corresponding records Rs.	Difference Rs.	Comments of the Management	Recommendation
(a)Contribution amount receivable	835,735,244	114,383,538	721,351,706	That this change reflects the fact that cheques sent in December 2023 were received in January 2024 and were not accounted for in December 2023.	Steps should be taken to verify the amount of contribution to be received by verifying the balance.
(b)Contribution amount receivable	50,516,885	59,725,510	9,208,625	That the death removals related to the last three months of the year 2023 will be carried out in the December 2023 bill and the local government bodies will be informed in this regard in January 2024, so according to the account of the Local Government Service Fund, the balance on 31.12.2023 will be shown less.	Steps should be taken to verify the amount of contribution to be received by verifying the balance.

#### 1.5.4 Absence of written evidence for audit

<b>Matter</b>	<b>Amount Rs.</b>	<b>Audit evidence not provided</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Contribution amount receivable	74,922,370	Balance confirmations	That through the monthly bills, a notification is made quarterly about the money to be paid by the respective institutions and so far no notification has been made that there is a change in the contribution amount to be paid by any of the institutions.	Steps should be taken to verify the amount of contribution to be received by verifying the balance.

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Receivable

<b>Audit Observation</b>	<b>Comments of the management</b>	<b>Recommendation</b>
According to the financial statements, the balance of contributions due from 303 local government bodies as of 31 December, 2023 was Rs.1,073,077,382, of which the number of Local government bodies that had not received contributions in the year 2023 was 81. The balance of contributions to be collected from the relevant institutions was Rs.284, 259,658.	Those arrangements have been made to collect the contributions due by contacting the officials of the local government bodies and that it is the main responsibility of those institutions to remit the outstanding contributions correctly.	Steps should be taken to recover the due contributions.

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

<b>With reference to laws, rules, regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Finance Circular No. 07/2016 dated 29 July 2016	A special committee had been 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 Resolution No. 425 and 426 and the said committee should amend and close the Acts related to this fund. Although it had been proposed, no decision had been taken in this regard. Furthermore, the recommendation given in the report to collect the arrears of contributions from the relevant institutions as soon as possible had not been implemented.	According to the committee report issued on 31 March, 2017 by the Special Committee appointed by the General Treasury, it has been recommended that funds including the Local Government Service Pension Fund should be closed by an Act of Parliament. However, it has not been reported so far about any policy decision regarding that report being given authority for implementation.	Necessary steps should be taken to close the fund and the arrears should be recovered.

## 2. Financial Review

### 2.1 Financial Result

The operating result for the year under review was a deficit of Rs. 16,701,878 and the corresponding previous year's deficit was Rs. 27,070,918. Accordingly, a financial decline of Rs.10, 369,040 was observed in the financial result. This decline was mainly due to the decline in subscription income.

## 3. Operational Review

### 3.1 Operational inefficiencies

<b>Audit Observation</b>	<b>Comments from the management</b>	<b>Recommendation</b>
(අ) 04 pensioners receiving pensions under the Local Government Pension Fund had died between October 2016 and April 2022, but by 31 December 2023, their names had not been removed from the list of local government service pensioners and contributions had been collected from the local government institutions.	After obtaining and verifying the death certificates from the relevant local government institutions, they will be removed from the list of pensioners in the local government service.	Deaths should be identified timely and the register should be updated.