Local Government Services Pension Fund - 2025

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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 2025 comprising the balance sheet as at 31 December 2025 and the income and expense account, and the statement of cash flows 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No.19 of 2018, and Section 62 of the Local Government Service Act (Authority 264). 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 basis for disclaimer of opinion of my report, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

As described in paragraph 1.5 of this report, I was unable to confirm or verify the material items included in the balance sheet, the statement of income and expenditure, and the cash flow statement through alternative methods.

Consequently, I was unable to determine whether any adjustments were necessary regarding the recorded or unrecorded values or transactions of the items or values used to prepare the balance sheet, the statement of income and expenditure, and the cash flow statement.

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 of 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 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 of the Fund.

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

My responsibility is to conduct an audit of the Fund's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

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 the reference to particular Standard	Management Comment	Recommendation
Although the Fund is required to maintain accounts on an accrual basis in accordance with Paragraph 7 of Sri Lanka Public Sector Accounting Standard No.01, Rs.71,486,862 of contributions relating to both prior years and the year under review had been accounted on a cash basis during the year under review.	As monthly pension payments for Local Government Service pensioners are not made using this fund which has been inactive and steadily depleting since 2011 adjustments are not made to the pension payments on an accrual basis.	In accordance with the standard, all income including contributions should be recognized on an accrual basis and reported in the financial statements of the relevant accounting period.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	A sum of Rs.946,164,110 was paid as contributions for pensioners in the year 2025 using Treasury allocations. Contributions received from local government institutions during the year amounted to Rs.71,486,862, and this amount was accounted as payments from the Pension Fund and set off against the contributions received.	That it is presented as a note to the accounts under item 3 of Note 02.	Contribution receipts and related expenses should be properly recognized and presented in the Statement of Income and Expenditure in accordance with the relevant accounting policies.

(b)	Contribution receipts for the year 2025 amounted to Rs.71,486,862 and, although Rs.17,154,464 of this amount represented receipts for prior years, this amount was not separately identified and, instead adjusted against the Income and Expenditure Account, the resulting deficit had been transferred to the Accumulated Fund.	That the surplus or deficit in the income and expenditure account has been adjusted against the accumulated fund in accordance with accounting concepts.	The surplus or deficit in the Income and Expenditure Account, based on the contribution receipts and payments for the year should be adjusted against the Accumulated Fund.

1.5.3 Unreconciled Control Accounts or Records

	Item	Balance As per Financial Statements Rs.	Balance as per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a)	The total of 135 accounts included in the outstanding contribution balance.	903,004,905	163,780,395	739,224,510	This discrepancy arises because cheques dispatched in December 2025 were received by us in January 2026 and, consequently, were not recorded in the accounts for December 2025.	Actions should be taken to verify the outstanding contribution by confirming the balance and to record the accounts accordingly.
(b)	The total of 40 accounts included in the outstanding contribution balance.	17,002,487	20,452,291	3,449,804	Adjustments for deaths occurring in the final three months of 2025 will be reflected in the December 2025 bills and since local government	Actions should be taken to verify the outstanding contribution by confirming the balance and to record the accounts accordingly.

				authorities will only be notified of this in January 2026, the fund balance will appear lower.

1.5.4 Documentary Evidences not made available for Audit

Item available	Amount Rs.	Evidence not available	Management Comment	Recommendation
Contribution Receivable	50,655,484	Balance Confirmations	Actions will be taken to obtain balance reports from these local government bodies in the future and to rectify any discrepancies found.	Actions should be taken to verify the contribution receivable by confirming the balance and to record the accounts accordingly.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Management Comment	Recommendation
(a)	According to financial statements, although the receivable contributions from 301 local government bodies as of 31 December 2025 is Rs.1,034,003,520, there were 66 local government bodies which no contributions were received during 2025 and the value of the contributions receivable amounting to Rs.215,908,328.	Arrangements have been made to collect outstanding contributions by contacting officers of local government bodies through letters and telephone calls.	An action plan with a specific timeframe should be prepared, and formal actions should be taken to promptly recover outstanding contributions.
(b)	Although the financial statements indicated a receivable contribution of Rs.250,620,155 from 59 local government authorities as of 31 December 2025, a discrepancy of Rs.250,620,155 was observed between the accounts, as the financial statements of the respective local government authorities were not indicated contribution payable as of that date.	This discrepancy arises because cheques dispatched in December 2025 were received by us in January 2026 and, consequently, were not recorded in the accounts for December 2025.	Actions should be taken to accurately verify contribution balances and recover receivable contribution.

(c)	Although the financial statements indicated that there were no outstanding contribution balances receivable from 04 local government bodies as of 31 December 2025, it was observed that the total contribution balance payable to the fund as of that date amounted to Rs.8,158,957 according to the financial statements of the respective local government bodies.	The outstanding balance is calculated based on data and information provided by the respective local government authorities and furthermore, adjustments will be made during the preparation of the 2026 accounts as receipts from the previous year by calculating the amounts further retained by these authorities due to staff-related changes.	Regular reconciliations of contribution balances should be conducted between the Department of Pensions and the relevant local government institutions, and accounts should be rectified upon reaching an agreement.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Management Comment	Recommendation
Report dated 02 July 2025 of the Fund Review Committee appointed to deal with non-statutory funds, under Section 39(4) of Part VIII of the Public Financial Management Act, No.44 of 2024.	According to the recommendation of the review committee, It was recommended to amending the relevant Act and winding up the fund. Although it was granted the approval via Cabinet Decision No.CP/25/1531/804/179 dated 04 September 2025, the legal and administrative actions required to close the fund had not yet been completed by the end of the year under review.	It was decided at a meeting held at the Ministry of Finance on 06 April 2026, regarding statutory funds maintained by government ministries, departments, and other institutions to proceed with the winding up of the Local Government Service Pension Fund by amending the relevant Act.	Necessary actions to winding up the fund should be completed expeditiously, in accordance with Cabinet approval and relevant directives.

2. Financial Review

2.1 Financial Result

The financial result for the year under review was a deficit of Rs.17,154,464, compared to a deficit of Rs.14,732,110 in the preceding year. Consequently, a deterioration of Rs.2,422,354 was observed in the financial result. This deterioration was primarily attributed to a decline in contribution income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
Although a register of members under the Local Government Pension Fund had been maintained since 2015, an up-to-date register was not kept because the names of deceased pensioners were not removed from it.	That a soft copy of the updated membership register is being maintained.	Instead of updating the number of members at the Pradeshiya Sabha level, the membership register containing the names of the members should be updated.