

## **Local Government Services Widows' and Orphans' Pension Fund - 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the of Local Government Services Widows' and Orphans' Pension Fund for the year ended 31 December 2019 comprising the balance sheet as at 31 December 2019 and the revenue and expenditure account 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 Order No.06 of the Local Government Services Widows' and Orphans' Pension Fund of 1985 enacted in terms of Section 23 of the Local Government Services Law No.16 of 1974. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph - Basis for Qualified Opinion, of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, 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**

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My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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**

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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 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 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

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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 judgment and maintain professional skepticism 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 Institute 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 Financial Statements**

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### **1.5.1 Internal Control over the Preparation of Financial Statements**

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The Fund is required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Accounting Deficiencies**

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<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
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a) Contributions totalling Rs. 174,558 received in the year under review with respect to the preceding years had been brought to accounts on cash basis contrary to Sri Lanka Public Sector Accounting Standard 01 whilst no action had been taken to adjust the contributions that had further remained in arrears.	The matter has been agreed upon.	Accounting should be done on accrual basis in accordance with Sri Lanka Public Sector Accounting Standard 01.
b) This Fund had been established with the objective of paying pensions to the widows and orphans of the members in the local Government service with pensions in terms of Section 16 of the Local Government	The matter has been agreed upon.	It is necessary to disclose in the notes to the accounts as to the Fund becoming dormant.

Services Law No.16 of 1974. Nevertheless, as the provincial government officers recruited after the establishment of Provincial Government Service in the year 1993 had been entitled to the W&OP as their counterparts in the Government Service, no new members had shown interest in the Fund after 03 September 1993.

As contributions sufficient for paying pensions to the widows and orphans of the members who had been deceased after that date, had not been paid to the Fund, budget provision had been allocated under the Head of Expenditure of the Department of Pensions in regard of the expenses of the Fund. The expenditure so incurred in the current year totalled Rs. 922,080,202. No disclosures had been made in in the notes to the accounts relating to the Fund becoming dormant.

## **2. Financial Review**

### **2.1 Financial Results**

According to the financial statements presented, the operations of the Fund had resulted in a deficit of Rs. 174,557 for the year under review as compared with corresponding deficit of Rs. 352,202 in the preceding year, thus indicating an improvement of Rs. 177,644 in the financial result of the year under review. The reasons such as, receipts of contributions relating to the preceding years being credited to the Accumulated Fund as revenue, and the funds being remitted from the Fund to the general account of the Director General of Pensions, were shown in the revenue and expenditure account as expenses, were attributable to the said deficit.