

Farmers' Pension and Social Security Benefit Scheme - 2019

1.1 Qualified Opinion

The audit of the financial statements of the of Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity 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 provisions of the National Audit Act No. 19 of 2018. 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 1.5 of this report, the financial statements give a true and fair view of the financial position of the Farmers' Pension and Social Security Benefit Scheme as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 Scheme'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 Scheme or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Scheme 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 Scheme.

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 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 Scheme'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 Scheme'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 Scheme 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 Scheme, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Scheme has complied with applicable written law, or other general or special directions issued by the governing body of the Scheme;
- Whether the Scheme has performed according to its powers, functions and duties; and
- Whether the resources of the Scheme had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
The actuarial assessment relating to the contribution for the pensions of the active contributors and farmer pensioners should be carried out in a timely manner in terms of Section 59 of the Standard. However, without carrying out such an actuarial assessment, the liability for the pensions as at 31 December 2019 had been shown as Rs. 70,252,869,112 in the financial statements.	The liability for pensions has been brought to accounts based on the actuarial assessment carried out in the year 2007 with respect to the farmers pension scheme. As this pension scheme is not a self-financing scheme, it will be restructured in due course thereby properly assessing the liability. Discussions are underway at present to obtain a fair contribution from the contributors through the improvement of pension scheme. It is thus expected that, in the future, a new pension scheme will be formulated in a more formal manner.	The actuarial assessment on the liability for pensions should be carried out in a timely manner.

1.5.2 Going Concern of the Scheme

Audit Observation	Comment of the Management	Recommendation
The net assets of the Board amounted to a negative balance of Rs. 74,347,975,129 as at the end of the year under review. The current liabilities had exceeded the current assets by a sum of Rs. 5,098,968,963. Pensions had been	Action had been taken to revise the farmers' pension scheme through the Gazette Extraordinary, No. 153/49, thus introducing a new pension scheme that could be maintained on a self-financing	Action should be taken to formulate a new pension scheme for farmers that can be maintained on a self-financing basis without being

paid since 01 January 2014 in accordance with the directives published in the Gazette Extraordinary, No. 1853/49, dated 14 March 2014 relating to the Farmers' Pension and Social Security Benefit Scheme, but contributions had been recovered by following the method published in the Gazette, No. 452/12, dated 07 May 1987. Accordingly, the contribution of farmers for the years 2018 and 2019 totaled Rs. 24,552,961 and Rs. 21,495,773 respectively whereas the payment of pensions totaled Rs. 3,059,370,767 and Rs. 3,217,332,522 respectively. Due to increase in the payment of pensions, sums of Rs. 2,725,000,000 and Rs. 3,065,000,000 had been received from the Treasury in the years 2018 and 2019 respectively. It appears that the Scheme can not be maintained without contributions from the Treasury.

basis. Although the Farmers' Pension Fund showed a zero balance, action had been taken to obtain Treasury provisions for the payment of pensions. A report has already been submitted to the Treasury to establish the Fund in relation to the increased liability for pensions. It is expected to take necessary action once Treasury approval is received.

contributed by the Treasury.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
Farmers Pension And Social Security Benefit Scheme Act, No. 12 of 1987	a) Section 04 The objectives of the Scheme included : to make a payment for the farmers not older than 59 years in case of a partial or permanent disablement ,	Although pensions had been paid in accordance with the Gazette Extraordinary relating to pensions to the eligible persons not younger than 18 years, the contribution payable under this Scheme was	Action should be taken to continuously entitle the farmers in line with the objective of the pension scheme.

paying a death gratuity, and to pay a periodical pension upon completion of the age of 60. However, no member had been entitled to the Scheme during the period of 2012-2019.

higher. As such, the Secretary to the Ministry of Finance was requested for instructions in that connection following the discussions held on the said matter. Accordingly, entitlement to the Scheme had to be delayed. In the wake of the changes in Government policies that took place in the year 2015, instructions were sought from a panel of experts to formulate a new scheme of pension for farmers and submit for Cabinet approval. As per the manifest of the new Government that came into power in the year 2019, action will be taken to make entitlements to the farmers' pension scheme.

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| b) Sections (2), (3) | 15 | Where any contributor has forfeited the benefits, a contributor shall have the right to appeal to the Board to validate his policy, and the Board may validate the policy. As a contributor had been deprived of the opportunity to get his policy validated due to his | In case of contributors defaulting on 05 consecutive installments payable to the farmers' pension scheme, their entitlement to the scheme will be cancelled, and the farmers are apprised in that connection at the time of their entitlement. This is also clearly stated in the notebook given to them to record the | When benefits are deprived, action should be taken to issue a notice to the relevant contributor informing him in that connection. |
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failure in appealing the Board to validate his policy that had been cancelled due to non-settlement of contributions, pensions had not been given to 1,863 persons aged 60 years who had submitted applications for pensions believing that they had been entitled to the pension scheme.

installments and the certificate as well. As for the installments already paid by the farmers whose entitlement has been cancelled, action will be taken to reimburse such monies to them together with the interest when they turn 60 years of age.

c) Section 20

The Advisory Committee should comprise 12 members including 06 ex officio members and 06 nominated members. However, appointment of all the members had not been completed even by 06 December 2019. Hence, the Advisory Committee had not assembled during the year under review whereas the said Committee had last assembled on 03 November 2006. As such, the Advisory Committee had not assembled for a period of 03 years.

It is expected to take action to appoint members for the Advisory Committee of the farmers' pension scheme and assemble the Committee with immediate effect.

The Advisory Committee should assemble and take measures on the amelioration of the Scheme.

1.7 Funds Management

Audit Observation	Comment of the Management	Recommendation
No legal action had been taken with respect to 117 cheques relating to 03 bank accounts of the farmers' pension scheme valued at Rs. 1,179,624 and continued to exist since 1992 without being realized although deposited.	Those balances continued to exist over a period of 15-25 years. Action had been taken in the year 2003 and all the balances that could be rectified had been corrected whilst the balances that could not be so traced were brought forward. The most probable reason to this is that receipts were issued twice for the same cheque. Having continuously found out in that connection at special meetings held at the audit committees and the Treasury, approval was sought from the Treasury. It is expected that, once the approval is received, such balances would be written off from the accounts.	Issuing receipts twice for the same cheque should be looked into, and remedial action should be taken.

1.8 General Administration relating to Information Technology

Audit Observation	Comment of the Management	Recommendation
As of the end of the year 2012, there had been 959,254 active contributors to the scheme. Following the year 2012 however, information relating to those who left the scheme, became disabled, deceased, and removal due to defaulting on the installments, had not been maintained in an up-to-date manner. As such, the it was not possible for the scheme to identify the number of active members at the end of the year under review, the contribution being added	Computerization of subsequent premiums has been commenced in order to identify the active members of the scheme. It is planned to continuously proceed with the computerization process of subsequent premiums in the future. At present, 03 apprentices have been assigned full-time to computerize the subsequent premiums. It is expected to further enhance the capacity of inputting such data. Action has been taken to update the	Action should be taken to maintain the information system up-to-date.

annually, and the accurate information relating to the amount of pensions to be contributors who had left the paid. scheme, become disabled, or been deceased.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a deficit of Rs. 58,984,105 as compared with the corresponding deficit of Rs. 312,010,448 for the preceding year thus observing a decrease of Rs. 253,026,343 in the deficit. The increase in the Treasury grants had mainly attributed to the said decrease.

3. Operating Review

3.1 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
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a)	It was stated in the report of the Advisory Committee meeting held on 25 August 2015 that the information system should be updated by inputting the biodata of the farmer contributors subscribed to the new pension scheme that had become effective from January 2014. Accordingly, surveys had been conducted covering only 08 districts by spending a sum of Rs. 1,726,875. Due to failure of the Board to promptly conduct the survey on the other districts thereby updating the information system, the expenditure incurred thereon had become fruitless.	A lesser number of farmers had furnished information with respect to the programme to update the contributors' information of the farmers' pension scheme, but action was taken to input the received information district wise, thus updating the system. As farmers had not furnished information for the survey contrary to the Board's expectation, the relevant targets could not be achieved. It is expected to follow a suitable methodology in due course to update such information.	Action should be taken to update the system by inputting biodata of the farmer contributors.
b)	Pensions should be paid to the members upon completion of 60 years of age in terms of the Farmers Pension And Social Security Benefit Scheme Act, No. 12 of 1987. Nevertheless, the institution had	As more than 20,000 farmers remained in the waiting list for receiving pensions, necessary measures were taken to	Action should be taken to pay pensions from the date of completing the age of 60 years thus

made payments since the date of computation of the pension. Hence, pensions totalling Rs. 584,359,397 remained in arrears with respect to 27,049 farmers relating to the period from April 2017 to 31 December 2019. Furthermore, due to financial difficulties, pensions totalling Rs. 3,033,329,200 payable to 90,573 farmers had not been paid during the period 2012-2013.

include them in the register of pensions to ensure prompt payment of pensions. As such, pensions could be paid to 20,503 farmers who were in the waiting list. Action is being taken to include the names in the pensions register at the time of entitling to the pension scheme thereby avoiding any arrears in the future. Action will be taken to pay the said arrears gradually in due course utilizing provision obtained from the Treasury. The pension in arrears have been shown in the financial statements as pensions payable and that will be removed at the time of payment.

avoiding any arrears.

- c) The committee of experts assembled on 01 July 2019 with a view to introducing a new pension scheme replacing the existing scheme. It was decided that the committee should be responsible for : preparation of computational reports relating to the 04 alternative proposals presented by the farmers' pension scheme, to submit the information relating to the implementation of the scheme selected out of the said 04 schemes to the committee of experts, to prepare detailed reports on those schemes and furnish to the Department of Treasury in the month of August thus obtaining approval thereon, and coordination. However, the scheme was not implemented even up to the end of the year under review.

The committee of experts appointed to introduce a new pension scheme for farmers and fishermen had decided that it would be suitable to formulate a pension scheme for the said communities under the investment rate of 9 per cent. It was further decided to find out methodologies to compute income for the scheme. It was primarily observed that the cultivation tax fund and the income from the Govisetha lottery could be made use of therefor.

A new pension scheme for farmers should be formulated with immediate effect in accordance with the Government policies, thereby entitling contributors.

A new pension scheme for farmers is mentioned in the policy framework of

the new Government – Vistas of Prosperity. As such, action will be taken in due course in line with that policy.

- d) According to the letter, dated 07 July 2015 relating to the payment of farmers' pensions issued by the Post Master General to the post masters and sub post masters belonging to the district accounting offices with a view to updating the unpaid pensions and particulars of the deceased pensioners, the post masters and sub post masters mentioned above should submit a monthly report on particulars relating to the pensioners whose pensions had not been paid, to the Agricultural and Agrarian Insurance Board through the email address given by the Board. However, due to failure of the district accounting offices in Matara and Colombo in doing so, sums ranging from Rs. 1,000,000-Rs. 1,700,000 and Rs. 100,000-Rs. 300,000 belonging to the offices in Matara and Colombo respectively remained being remitted throughout the year between the Agricultural and Agrarian Insurance Board and the district accounting offices.

Action was taken to apprise the Post Master General on the observation made by the Auditor General that the district accounting offices had not complied with the letter, dated 07 July 2015 issued by the Post Master General relating to the returning of the unpaid pensions. Accordingly, it was instructed that : pensions should be paid within 06 working days during the 07th day and 15th day of each month; it is necessary to make sure that summaries of all the farmers' pensions, particulars of pensioners whom pensions had not been paid to and the balance monies should be handed over to the Agricultural and Agrarian Insurance Board prior to the 10th day of the ensuing month, and action should be taken to avoid delays pointed out by the Audit by apprising the district accountants in that connection.

The district accountants in Matara and Colombo have been apprised by now thus taking action to collect the unpaid pensions and registers with immediate effect.

Action should be taken to obtain a report on the information relating to the pensioners to whom pensions had not been paid.