

## **Farmers' Pension and Social Security Benefit Scheme - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets 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 reported in to 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 scheme as at 31 December 2021, 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**

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I expressed qualified 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. 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 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 intend 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 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 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 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 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 Preparation of Financial Statements**

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**1.5.1 Non-compliance with Sri Lanka Accounting Standards**

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**Non-compliance with Reference to the Relevant Standard**

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According to paragraph 59 of Sri Lanka Accounting Standards 37, the liability for the pension of the active contributors and farmer pensioners should be computed based on the actuarial assessment carried out in a timely manner. However, after the year 2007, the pension liability had been computed without carrying out such an actuarial assessment and the liability for the pension as at 31 December 2021 had been Rs.78,184,784,968 Further, adequate investments had not been made for settlement of those commitments.

**Comments of the Management**

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The liability for pension has been brought to account based on the actuarial assessment of the liability of the Farmers Pension Scheme in the year 2007. As this pension scheme is not a self-financing scheme, no new recruitment will be made for this scheme, and a new scheme has been installed which can be run on a self-financed basis. The payments of the old scheme will be paid annually through the annual budget allocations, and the old scheme will also be assessed at the time of the assessment of the new farmer pension scheme.

**Recommendation**

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The liability for pension should be computed on actuarial assessment carried out in a timely manner.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) Only the revenue amounting to Rs.112,139,246 received from contributors for the year under review had been shown in financial statements on cash basis instead of accounting contributions on accrued basis due to failure in maintaining the register in an updated manner including the date of enrollment into the Scheme and date of entitlement by contributors and value of contribution of active members and the register of contributors with the invalidate certificate of deed.</p>	<p>As there were delays in computerization of defaulted installments, getting information on cancelled and inactive contributors from the system had become failure. As such, necessary action has been taken by State Commercial Banks to implement a special programme to recover defaulted installments and to connect those installments with our system so as to computerize them automatically.</p>	<p>Register of contributors must be maintained complete and up-to-date and contributions must be brought to account on accrued basis.</p>
<p>(b) The surplus of the year has increased by that amount Rs.107,929 unpaid to the farmers from the previous year's farmer's pensions were credited to the farmer's pension expense account instead of being debited to the post office account and credited to the farmer's pension account.</p>	<p>The unpaid pension money due to the Board has been accounted for in the previous year on the confirmation of the District Accountant of the Postal Department, and in the receipt of money in the year 2021, an unconfirmed amount of Rs.107,929 has been received in the previous year. Accordingly, the account receivable balance has been reduced by that amount. The amount received is credited to the Unpaid Pension Account (Post Office) and the excess is credited to the Farmers Pension Expenditure.</p>	<p>The unpaid farmers pension should be credited to the payable farmers pension account instead of credited to the expense account.</p>

### 1.5.3 Going Concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
<p>The net assets of the Scheme amounted to a negative balance of Rs.81,967,040,765 as at the end of the year under review and the current liabilities over the current assets had been Rs.4,779,128,996. Accordingly, the contribution of farmers for the years 2020 and 2021 had been</p>	<p>The farmer pension liability increases annually, and the lack of investment in the scheme and the increase of the benefits of this scheme without increasing the premiums in several cases due to government policies, this situation has arisen, and every year</p>	<p>Action should be taken to activate the Scheme.</p>

Rs.19,316,409 and Rs.15,746,696 respectively whereas the payment of pension had been Rs.4,502,560,108 and Rs.3,719,165,280 respectively. Moreover, sums of Rs.4,450,949,000 and Rs.3,753,000,000 had been received from the Treasury in the years 2020 and 2021 respectively. As such, it appears that the Scheme cannot be maintained without contributions from the Treasury.

the government budget allocates money to pay the farmer pension.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

Audit Observation	Management Comment	Recommendation
<p>(a) During the year 2021, 161 cheques amounting to Rs.1,304,300 written to 161 individuals for net premium payments, related interest, disability payments and death gratuities were taken into revenue without confirming that the contributors were not entitled.</p>	<p>In the case of checks that are not presented for payment, the cheques taken as a revenue when the time expires and re-issued as per the requests received through the district office. Expired cheques are kept on file and when a claim is made by the contributor, cheques are re-issued to the contributor as per the recommendations of the concerned district office.</p>	<p>Non-claims should be ascertained and then taken into income.</p>
<p>(b) In the year under review, the value of farmers' pension payments was Rs.3,719,165,280 and the amount of unclaimed pension by farmers was Rs.125,633,943. Actions were not taken to correct the deficiencies and release the amount to the pension holders.</p>	<p>In case of non-receipt of farmers' pensions, they will be taken back to the board, and in cases of death of the farmers' pension contributors, and the names of beneficiaries who do not receive benefits for about 06 months will be removed from the register.</p>	<p>Actions should be taken to provide pensions to the owners, which are not received by the farmers in the coming month or so.</p>

## 1.7 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a) Farmers' Pension And Social Security Benefit Scheme Act, No. 12 of 1987 (i) Section 6(1)	Although the pension was due to the members from the date of attaining the age of 60 years, the payments were made from the date of fixation of pension. Although provisions were made for the arrears of pensions to be paid during that period, the arrears of pension amounting to Rs.3,835,146,157 from the year 2012 are still being brought forward in the financial statements without payment to the farmers.	More than 20,000 farmers who were on the waiting list for pensions have been put on the pension roll, which has enabled a large number of farmers on the waiting list to pay their pensions. As listing will be done at the instance of receiving entitlement for pension so as to avoid arrears in future, it is due to obtain provision from the Treasury in the payment of arrears payable in pension regularly.	Farmers' pensions should be paid from the date of reaching the age of sixty years.
(ii) Sections 15(2) and (3)	In order to make an appeal in the event of loss of benefits, the farmers were not notified about the cases of loss of benefits as the scheme had not maintained information to be able to calculate the number of cases of non-payment of premiums properly. Due to this, 1127 people had submitted applications stating that they are entitled to receive pension after completing 60 years of age.	In case of contributors defaulting on 05 consecutive instalments 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 instalments and the certificate of deed as well. As for the instalments 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.	In the instance of forfeit of benefits on failure in due payment of instalments, the contributor should be notified thereof.

(iii) Section 27(1)	<p>The amount of loan taken by the Farmers Pension and Social Security Benefit Scheme should be decided upon the agreement of the Minister-in-Charge and the Minister-in-Charge of Finance, but without obtaining such agreement, borrowing money from the Fishermen's Pension and Social Security Benefit Scheme and the Agricultural and Agricultural Insurance Scheme had As of December 31, 2021, the balance of the loan was Rs. 248,129,566 and Rs. 546,031,197 respectively.</p>	<p>In the years 2010 and 2011, due to the lack of money in the scheme for the payment of farmer pensions, according to the recommendations given by the Ministry of Finance, money has been taken and paid through the Agricultural Insurance and Fishery Pension Schemes. These loan amounts are repaid gradually.</p>	<p>The amount of loan availed by the scheme shall be decided upon the concurrence of the Minister in charge and the Minister in charge of Finance.</p>
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**2. Financial Review**  
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**2.1 Financial Results**  
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The operations for the year under review had resulted in a surplus of Rs.249,530,974 and the corresponding the surplus of Rs.67,897,112 of the preceding year, thus observing an improvement of Rs.181,633,862 in the financial result. The increase in Treasury grants by Rs.197,000,000 in relation to the preceding year had mainly attributed to this improvement.

**3. Operating Review**  
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**3.1 Management Inefficiencies**  
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Audit Observation	Comments of the Management	Recommendation
<p>(a) As on 11th August 2017, Rs.5,640,925 had been spent on the proposed project to prepare the data system containing information about the biodata of the members of the Farmer Pension Scheme and to carry out survey work at the district level and enter the data. As of May 2022, the survey work had not been done in 14 districts and the intended purpose had not been achieved due to not updating the data system by including biodata information of the farmer contributors.</p>	<p>In the contribution information update program of the Farmer Pension Scheme, despite the low number of farmers who had submitted the information, steps have been taken to computerize and update the information received at the district level. Since the response of the farmers to this survey was minimal, the continuation of the survey work was stopped.</p>	<p>The system should be updated by entering the biographical information of the farmer contributors included in the pension scheme.</p>

(b) For the payment of pensions and administrative expenses to the pensioners of the farmers, money is given monthly from the treasury, and in spite of this, the farmers have been insured and an insurance fund has been built by depositing an annual premium in the Agricultural and Agricultural Insurance Scheme for the payment of incapacity payments and death gratuities to the farmers. At the end of the year 2021, the value of that fund was Rs.1,146,766,067 and the premium amount for the year 2021 was Rs.17,737,354 and the disability payments and death gratuity payments during the year were Rs.1,011,630. It is observed that this insurance is continuously being done without studying the effectiveness of maintaining it.

(c) In the year under review, out of the Rs.247,000,000 received from the treasury to the bank account of the Agricultural and Agricultural Insurance Scheme for administrative expenses to the Farmers' Pension Fund, the administrative expenses of the scheme in the year under review were Rs.209,734,912, while the remaining Rs.37,365,088 were not used for the Farmers' Pension Fund. It was observed that the money balance in the bank account of the scheme was only Rs.199,551 as on 31st December 2021 and the money was used for other purposes.

This fund was initially operated by other insurance agencies for the payment of death disability gratuity to the farmers' pension contributors, and at present, this fund is prepared through an annual contribution of Rs.60 per farmer through the agricultural insurance scheme within the board. This fund is required to pay benefits to the contributor before the farmer retires. Funds from the Exchequer are provided only for payment of pensions and operational and administrative expenses.

The total amount of Rs 247 million for administrative and operational expenses in the year 2021 has been accounted for by the Farmers Pension Scheme, which has been accounted for through the current account between the Board's Agricultural Insurance Scheme and the Farmers Pension Scheme. Some of the transactions that take place during the year are done through the main scheme of the Board, the Agricultural Insurance Scheme, and the expenses related to that scheme are adjusted through the above current account. All the moneys received accordingly remain in the balances of the Farmers Pension Scheme.

The effectiveness of maintaining insurance should be studied.

The money received from the treasury should not be used for other purposes.



### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
By the end of the year under review, 6,478 applications had been submitted by farmers for getting pension and the scheme had failed to benefit 1,580 applications during the year.	These payments will be made promptly.	The benefits should be given to the farmers immediately.