

Farmers' Pension and Social Security Benefit Scheme-2011

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1.2.1 Going Concern of the Scheme

Balance of the Farmers' Pension Scheme had decreased to a negative balance of Rs.44,154.2 million in the year under review from Rs. 2,309.3 million in the year 2005 as shown below. According to the Notes to the Financial Statements, all of the funds had exhausted at the end of August 2010 and after that, monthly pension payments had been made by taking short term loans from other existing Funds of the Board. Therefore future dependency of the Farmers' Pension Scheme will totally depend on Government Grants.

<u>Year</u>	<u>Balance of the Scheme</u>
	Rs. Millions
2005	2,309.3
2006	2,003.7
2007	1,639.8
2008	1,404.8
2009	663.8
2010	(40,536.7)
2011	(44,154.2)

1.2.2 Compliance with Sri Lanka Accounting Standard

Post-employment benefit obligation should be made using a Gratuity Formula Method in terms of Sri Lanka Accounting Standard 16. However gratuity liability had not been computed in accordance with the above requirement.

1.2.3 Accounting Deficiencies

Action had not been taken to recover the value of the unrealized deposits amounting to Rs.1,179,624 relating to 117 cheques deposited in three Bank accounts, remaining as unrealized since 1992.

1.2.4 Accounts Receivable and Payable

The Following observations are made.

- (a) Effective action had not been taken to recover the outstanding amount aggregating to Rs.125,079,264 which was outstanding for more than 04 years.
- (b) Out of the total balances of accounts receivable amounting to Rs. 9,335,445 shown in the balance sheet as at 31 December 2011, only a sum of Rs.3,538,729 or 38 per cent had been confirmed by the respective parties.
- (c) Audit fees payable aggregating Rs. 2,082,031, had not been settled over a long period of time.
- (d) As the Scheme had exhausted all of its money, monthly pension payments had been made by taking short term loans of Rs. 518,000,000 from Fishermens' Pension Scheme and Rs.149,030,442 from Agricultural and Agrarian Insurance Board. No any settlements had been made during the year under review regarding the above loans.

1.2.5 Non-compliance with Laws, Rules, Regulations, and Management Decisions

A sum of Rs. 1,475,000 had been paid to the School of Computing of the University of Colombo on the preparation of a new software for the Scheme without following the Government Tender procedure.

1:2.6 Matters of Contentious Nature

The following observations are made.

- (a) According to the Cabinet Memorandum No MAS/CM/2006/18 dated 26 September 2006 it had been decided to allocate Rs.176 million from the Farmers' Pension and Social Security Benefits Scheme for the payment of compensation to the farmers who were affected due to closing of Mavil Aru Anicut. However, investments amounting to Rs. 194,169,155 had been discounted for this purpose and a sum of Rs.120,198,639 had been paid as compensation, and shown continuously as receivable from the Treasury.
- (b) Forty eight cheques valued at Rs. 2,791,679 and Bank Drafts valued at Rs.7,152,249 of Farmers' Pension and Social Security Benefits Scheme had been misappropriated in the year 2008 by 02 Directors and one Assistant Director of the Board. The Board had informed me that a case in this connection had been filed in the High Court.
- (c) The case filed against the field officer who had misappropriated pension money amounting to Rs. 369,590 had been dismissed during the year under review. However only Rs.100,000 had been received from him and the case was closed. Therefore the balance of Rs. 269,590 could not be recovered.

2. Financial Review

2:1 Financial Results

According to the financial statements presented, the working of the Scheme for the year under review had resulted in a deficit of Rs. 3,617,570,558 as compared with the corresponding deficit of Rs.3,921,267,739 for the preceding year, thus indicating a decrease of deficit by Rs.303,697,181 or 4.74 per cent in the financial results.

2:2 Analytical Review of the Financial Results and the Financial Position

- (a) Even though a part of administrative expenses had been met from the Government Grants, the financial position of the Scheme continued to be in a critical position. The financial results of the Scheme had deteriorated from a Deficit of Rs. 364 million as at the end of 2007 to a deficit of Rs.3,617 million as at 31 December 2011 as shown below. As such there is a serious uncertainty about the viability of the Farmers' Pension Scheme. The financial results of preceding 5 years are given below.

	2011	2010	2009	2008	2007
	Rs.(000)	Rs.(000)	Rs.(000)	Rs.(000)	Rs.(000)
Total Income	115,434	170,898	306,607	431,209	501,983
Total Expenditure	(1,402,379)	(1,195,110)	(1,103,779)	(951,623)	(891,660)
Increase of pension liability	(3,059,459)	(2,938,033)	-	-	-
Net Surplus / (Deficit)	(4,346,404)	(3,962,245)	(797,172)	(520,414)	(389,677)
Government grant	727,605	39,500	55,860	285,000	25,603
Amortization of Govt. Grant	1,228	1,477	-	-	-
Net Surplus/ (Deficit) after Govt. Grant	(3,617,571)	(3,921,268)	(741,312)	(235,414)	(364,074)

- (i) The income had decreased gradually by 77 per cent during the period of 2007 to 2011. Whereas the total expenditure had increased by 57 per cent during the same period.
- (ii) The net surplus before Government Grant had drastically decreased during the period of 2007 to 2011, due to establishment of pension liability and increase of expenditure.
- (b) Total contributions collected from the farmers for the Scheme and the payment of pensions during the year under review and the 04 preceding years are given below.

<u>Year</u>	<u>Contributions</u> Rs. Million	<u>Payment of Pensions</u> Rs. Million
2007	222.6	685.7
2008	163.1	809.1
2009	148.7	955.6
2010	136.7	1,044.7
2011	97.6	1,226.7

- (c) The investments had decreased rapidly since the year 2006, and the income from investments had recorded a sharp decrease in the year 2011 as shown below.

<u>Year</u>	<u>Investments</u> Rs. Million	<u>Interest Income</u> Rs. Million
2006	1,985.3	264.4
2007	1,656.0	251.3
2008	1,256.1	243.9
2009	582.2	138.9
2010	3.5	14.9
2011	30.7	1.6

According to the above information Investments had decreased from Rs.1,985.3 million in 2006 to Rs.30.7 million or 98.5 per cent in the year 2011 and interest income had decreased from Rs.264.4 million in 2006 to Rs.1.6 million or 99.4 per cent in the year 2011.

3. Operating Review

3.1 Performance

The Following observations are made.

- (a) An action plan had not been prepared for the Farmers` Pension and Social Security Benefit Scheme for the year 2011.

- (b) Second and subsequent premium amounting Rs. 11,385,125 had been collected during the year under review.
- (c) No any single farmer had been enrolled to the Scheme during the year under review.
- (d) A sum of Rs. 5,994,479 had been paid for 615 contributors whose membership had been forfeited during the year under review.

3.2 Assets Management

Action had not been taken on unusable stocks valued at Rs. 173,789 reported by the Board of Survey for the year under review.

3.3 Delay in Projects

The following observations are made.

- (a) Even though a sum of Rs. 21.5 million had been paid since the year 1987 for computerizing the personal accounts of the contributors of the Scheme, the accounts had not been computerized and had not been even updated by 31 December 2011, after lapse of 24 years. The Scheme was not in possession of adequate information to determine the contributors becoming eligible for the payment of contributions to the Farmers' Pension and Social Benefits Scheme. Accounts of the contributors had not been updated by the District Offices as well.
- (b) An agreement had been entered into with the University of Colombo in the year 2008 to develop new computerized system for Farmers' Pension and Social Security Benefit Scheme. The expenditure incurred thereon up to the end of the year under review amounted to Rs. 5,479,120. According to the agreement the project should be completed within six months, but it had not been completed even by the end of the year under review.

4. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Computerized accounting System.
- (b) Financial Management.
- (c) Pension Payments and Unpaid Pensions.