

Fishermen’s Pension and Social Security Benefit Scheme - 2013

The audit of Financial Statements of the Fishermen’s Pension and Social Security Benefit Scheme for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 28 (4) of the Fishermen’s Pension and Social Security Benefit Scheme Act, No.23 of 1990 and Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Agricultural and Agrarian Insurance Board in terms of Section 14 (2) (c) of the Finance Act, appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conduct my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Fishermen's Pension and Social Security Benefit Scheme as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Going Concern of Pension Scheme

The pension liability had been assessed and re-established during the year under review and the provision made thereon had been charged against the income for the year under review and as well as for the preceding years. Therefore, it had badly affected to the financial results of the respective years. As a result, the negative net asset position of the Scheme as at 31 December 2013 was Rs. 1,691,656,081. Accordingly, there is a possibility to increase this provision in future years too and it would adversely affect to the going concern of the Scheme.

2.2.2 Compliance with Sri Lanka Accounting Standards

In terms of LKAS 19, the actuarial valuation of pension liability had been done in the year 2007 and thereafter no actuarial valuation had been done for the pension liability. However, the number of contributors had been increased from 54,248 to 68,560 or 26 per cent during the period of 2007 - 2014 and as well as the liability had also been increased from Rs. 1,242 million to Rs. 2,344 million or 88 per cent during the same period. Further, the actuarial valuation and accounting had not been done for the define benefit plan in terms of the above standard and the contributions had not been invested by the employer in order to discharge the obligation under a defined benefit plan.

2.2.3 Accounting Deficiencies

A sum of Rs. 1,500,000 receivable from a Government Department on behalf of reimbursing the administrative expenses for the year 2012 had been omitted in the accounts.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs. 639 million (loan and interest) given to the payment of farmers pension up to December 2013 had been carried forward without being recovered.

- (b) Audit fees payable aggregating Rs. 1,059,025 had been brought forward without being settled since 1998.

2.2.5 Recognition of Interest Income

A sum of Rs. 50,360,350 had been recognized as interest income in the year under review on funds granted to the Farmers' Pension and Social Security Benefit Scheme for the payment of farmers' pension. However, there was no any agreement between these two Schemes with regard to the payment of interest on such funds. Further, this interest income is representing 91.15 per cent of the total income of the year under review.

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

The following instances of non-compliance were observed in audit.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
(a) Fishermen's Pension and Social Security Benefit Scheme Act, No.23 of 1990	
(i). Section 20	Although the Consultants Committee should be consist of 12 members comprising 06 ex-officio members and 06 nominated members, only 07 members had been appointed for the year 2013.
(ii). Section 26	Action had not been taken to inform the relevant defaulted members regarding the cancellation of their membership in terms of provision in the Act.
(b) Public Enterprises Circular No. PED 12 of 02 June 2003	
(i) Paragraph 7 of Chapter 9	Special allowances totalling to Rs. 395,928 had been paid to certain officers without obtaining the proper approval from the General Treasury.

3. Financial Statements

3.1 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. 182,738,623 as compared with the corresponding deficit of Rs. 154,693,176 for the preceding year, thus indicating a further deterioration of Rs. 28,045,447 or 18 per cent in the financial results.

The main reasons for the above deterioration are given below.

- (a) Interest income and Fishermen’s contributions had decreased by Rs. 7,466,880 or 12.48 per cent and Rs.537,646 or 15.62 per cent respectively as compared with the preceding year.
- (b) Pension payments and pension liability had increased by Rs. 7,870,966 or 26.68 per cent and Rs. 13,719,819 or 7.57 per cent respectively as compared with the preceding year.

3.2 Analytical Financial Review

According to the information made available, the following table gives the highlights of the financial results for the year under review and the previous year.

	Year ended 31 December		Variation
	2013 Rs.	2012 Rs.	%
Interest Income	52,346,551	59,813,431	(12.48)
Fishermen’s Contribution	2,904,746	3,442,392	(15.62)
Grant for Recurrent Expenditure	1,500,000	-	-
Total Income	56,751,297	63,255,823	(10.28)
<u>Less: Expenses</u>			
Pension Payments	(37,367,889)	(29,496,923)	(26.68)
Other Operating Expenditure	(3,226,101)	(3,091,878)	(4.34)
Increase of Pension Liability	(194,932,819)	(181,213,000)	(7.57)
Administrative and Finance Expenses	(3,963,111)	(4,147,199)	4.44
Total expenses	(239,489,920)	(217,949,000)	(9.88)
Overall Deficit for the Year	<u>(182,738,623)</u>	<u>(154,693,177)</u>	<u>(18.13)</u>

The following observations are made in this regard.

- (a) Although the total contribution to the Pension Scheme for the year under review was Rs. 1,213,086, the total pension payments for the year under review was Rs.

37,367,889. Therefore, pension payment exceeds the contribution received by 3,083 per cent.

- (b) The balance in the Fund account of the Scheme as at 31 December 2013 had decreased to Rs. 28.03 million or 18.13 per cent in the year under review as compared with the preceding year due to increase the overall deficit by Rs. 28,045,447.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Scheme had not taken any action to conduct the promotional programs in order to enroll the new contributors to the Scheme during the year under review.
- (b) Although 1,700 contributors had been targeted to enroll during the year under review, the actual number of contributors enrolled was only 476, thus showing an achievement of only 38 per cent. It was also observed that even a single contributor had not been enrolled in seven Districts.
- (c) It was expected to obtain a contribution of Rs. 3,540,000 from the members for the year under review. However, the actual contribution received was only Rs. 2,169,418.
- (d) Even though the targeted second and subsequent premium collection from 39,900 contributors for the year under review was Rs. 5,985,000, the actual collection from 1,129 contributors was only Rs. 849,599 or 14.19 per cent.

4.2 Operating Inefficiencies

The Scheme had not taken proper action to identify the forfeited contributors and to recover the arrears installments to be recovered from them.

5. Accountability and Good Governance

5.1 Delays in the Presentation of Financial Statements

According to the Paragraph 04.3 of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements of the Scheme for the year under review should be submitted to the Auditor General within 02 months after the close of the financial year. However, the financial statements for the year under review had been submitted for audit only on 10 April 2014.

6. Systems and Controls

Deficiencies observed in systems and controls during the course of audit were brought to the notice of the Chairman of the Agricultural and Agrarian Insurance Board by my detailed report issued in terms of Section 13 (7) (a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Achievement of Objectives
- (b) Payments of Benefits to Fishermen
- (c) Receivables and Payables
- (d) Recovery of Installments
- (e) Function of the Consultation Committee