

## **Farmers' Pension and Social Security Benefit Scheme - 2014**

---

The audit of financial statements of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Farmer's Pension and Social Security Benefit Scheme Act, No.12 of 1987 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 conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing 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 judgement, 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 qualified 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 effects 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 Farmers' Pension and Social Security Benefit Scheme as at 31 December 2014 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 the Scheme**

---

The Scheme had a negative Pension Fund account balance of Rs.57,249 million by the end of the year under review and it had been increased continuously since the year 2010 as compared with a positive balance of Rs. 663.8 million in the year 2009 due to making the pension payments by obtaining loans from other existing funds of the Agricultural and Agrarian Insurance Board and Fishermen's Pension and Social Security Benefit Scheme instead of being collecting the adequate contributions from the members of the Scheme. As a result the ability of the Scheme to continue as a going concern without the financial assistance from the General Treasury is doubtful. The balance in the Fund account of the Scheme as end of the year under review and previous five years period are given below.

<b>Year</b>	<b>Fund Account Balance as at end of the Year</b>
-----	-----
	<b>Rs. million</b>
2014	(57,249.4)
2013	(53,968.5)
2012	(48,945.1)
2011	(44,154.2)
2010	(40,536.7)
2009	663.8

Further, the Scheme had introduced a new pension scheme under the special notification issued in the Extra Ordinary Gazette No.1853/49 of 14 March 2014 and accordingly a sum of Rs.1,977.9 million had been paid as pension payments under the new Scheme by using

Government grant of Rs.1,954.8 million received during the year under review. However, the Scheme had not communicated with the contributors up to end of the year 2014 about the new contribution introduced in the new Scheme and no any single contribution had been collected during the year under review under the new Scheme.

## **2.2.2 Non-adhering with Sri Lanka Accounting Standards (LKAS)**

---

The following observations are made in this connection.

- (a) **LKAS - 07, Statement of Cash Flows** – The cash flows from operating, investing and financing activities had not been properly categorized and shown accordingly in the statement of cash flow.
- (b) **LKAS - 08, Accounting Policies, Changes in Accounting Estimates and Errors** - Detail disclosures relating to prior year adjustments had not been presented.
- (c) **LKAS - 16, Property, Plant and Equipment** - Details of fully depreciated assets which are being utilized at present had not been properly disclosed.
- (d) **LKAS- 19, Employee Benefits** - The actuarial valuation for pension liability had been done in the year 2007 and thereafter no actuarial valuation had been done for the pension liability. Further, the contribution had not been invested by the Scheme in order to discharge the obligation under the defined benefits plan and details of retirement benefits had not been presented.
- (e) **LKAS-20, Accounting for Government Grants and Disclosure of Government Assistant** - Capital grants amounting to Rs.547,885 received from an organization before 1989 had not been amortized.
- (f) **LKAS-24, Related Party Disclosures** - Even though there were some related party transactions during the year under review, such transactions had not been disclosed in the financial statements.

## **2.2.3 Accounting Deficiencies**

---

The following accounting deficiencies were observed in audit.

- (a) A bank balance of Rs.472,878 remained in the bank account of the District Office had been shown as income receivable in the financial statements instead of being shown as cash and cash equivalents.
- (b) The refunded contribution amounting to Rs.686,033 had been erroneously debited to the farmers' contribution. Hence the farmers' contribution for the year under review had been understated by similar amount.
- (c) Provision for Gratuity had been overstated by Rs.4,537,453 due to computation error.

- (d) Income receivable amounting to Rs.574,696 had been omitted in the financial statements.

#### **2.2.4 Accounts Receivable and Payable**

---

The following observations are made.

- (a) Out of total balances of income receivable amounting to Rs. 6,628,887 shown in the statement of financial position as at 31 December 2014, only a sum of Rs.2,111,110 or 30 per cent had been confirmed by the parties concerned.
- (b) Audit fees payable aggregating Rs.2,882,031 had been continuously brought forwarded to the financial statements since 1997 without being settled.
- (c) Short term loans obtained for the payment of pension liability in 2010 and interest payable thereon amounting to Rs. 959,420,810 had remained in the accounts without being settled even up to the end of the year under review.
- (d) Income receivable amounting to Rs.704,479 had remained in the accounts without being collected from the respective parties since 2006.
- (e) The Scheme had paid a sum of Rs.1,978 million as pension money for year 2014. However, the amount payable for the years 2012 and 2013 amounted Rs.3,033 million had not been paid even in 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.

##### **Reference to Laws, Rules, Regulation etc.**

---

##### **Non-Compliance**

---

- |  |   |
|--|---|
| (a) Section 20 of part III of Farmers' Pension and Social Security Benefit Scheme Act, No.12 of 1987 | 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 2014.                                       |
| (b) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka        |   |
| (i) Financial Regulation 395(h)  | The person who had connected with the banking of collection, the writing out of cheques or the maintenance of the cash book had prepared the bank reconciliation statements contrary to the provisions in the regulation. |

(ii) Financial Regulations 880,881

Even though the relevant officers should be furnished the security within two months from the date of appointments, the officers who signed cheques, and officers who collect the revenue had not furnished securities even up to end of the year 2014.

### **3. Financial Review**

---

#### **3.1 Financial Results**

---

According to the financial statements presented, the operations of the Scheme for the year under review had resulted in a deficit of Rs. 3,281,960,985 as compared with the corresponding deficit of Rs.5,022,289,687 for the preceding year, thus indicating an improvement of Rs.1,740,328,702 or 34.65 per cent in the financial results.

The increase of interest income and farmers' contribution by 5,067 per cent and 40 per cent respectively, and decrease of loan interest and refund of contribution by 24 per cent and 39.7 per cent respectively as compared with the preceding year were the main reasons attributed for this improvement.

#### **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 04 years.

	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>
Total Income	150,295	40,104	61,148	115,434	170,898
Total Expenditure	(2,174,449)	(1,847,921)	(1,587,686)	(1,402,379)	(1,195,110)
Increase of Pension Liability	(3,285,970)	(3,288,353)	(3,216,991)	(3,059,459)	(2,938,033)
Deficit for the year before Government Grant	(5,310,124)	(5,096,170)	(4,743,529)	(4,346,404)	(3,962,245)
Government Grant	2,027,550	69,000	71,555	727,605	39,500
Amortization of Government Grant	613	711	1,321	1,228	1,477
Deficit after the Government Grant	(3,281,961)	(5,026,459)	(4,670,653)	(3,617,571)	(3,921,268)

The following observations are made in this regard.

- (i) The income had decreased gradually by 77 per cent during the period from 2010 to 2013 while it had increased by 275 per cent in 2014, whereas the total expenditure had increased by 82 per cent during the same period.
- (ii) The deficit before the Government grant had continuously increased during the period from 2010 to 2014 due to establishing the pension liability in real terms and increase of expenditure.
- (iii) The deficit after the Government grant had drastically increased during the period from 2010 to 2013 while it had decreased by 35 per cent during the year under review as compared with the preceding year due to increase of the Government grant received.

#### **4. Operating Review**

---

##### **4.1 Performance**

---

The following observations are made.

- (a) Total contributions collected from the farmers for the Scheme and the payment of pensions during the year under review and the preceding 04 years period are given below.

Year	Contributions	Payment of Pension
-----	-----	-----
	Rs. million	Rs. million
2014	45.0	1,977.91
2013	32.1	1,646.98
2012	49.6	1,380.70
2011	97.6	1,226.70
2010	136.7	1,044.70

The payments of pension for the last four years had increased drastically. Meanwhile the contribution received had gradually decreased for last four years and it was increased in 2014 due to payment of outstanding amounts. Further, it had not been enroll even a single Farmer to the Scheme during the year under review.

- (b) The Farmer's contribution amounting to Rs.53,631,560 or 20 per cent out of the budgeted amount of Rs.203,000,000 had only been collected during the year under review.
- (c) A sum of Rs.667,373 had been refunded to 71 contributors as their membership of the Scheme forfeited during the year under review.
- (d) The investments and the interest income thereon had rapidly decreased since the year 2009 while it had been increased in 2014 as shown below.

<b>Year</b>	<b>Investments Rs. million</b>	<b>Interest Income Rs. million</b>
2014	199.6	96.6
2013	14.5	1.9
2012	12.4	2.7
2011	30.7	1.6
2010	3.5	14.9
2009	582.2	138.9

- (e) Even though 7,176 files had been received from 24 District Offices and 2 Sub offices to prepare pension payments, only 3,830 or 53 per cent had been processed up to 18 December 2014 and those files had not been properly documented.

#### **4.2 Deficiencies in Operation of Bank Accounts**

---

The Scheme had not taken proper action in respect of 117 unrealized cheques valued at Rs.1,179,624 shown in the bank reconciliation statements since 1992.

#### **4.3 Management Inefficiencies**

---

Even though a sum of Rs. 27.48 million had been paid since the year 1990 for computerizing the personal accounts of the contributors of the Scheme, such accounts had not been updated even by 31 December 2014 after lapse of 24 years. Further, the Scheme had not maintained adequate information to determine the contributors becoming eligible for the payment of contributions to the Scheme. Moreover, the accounts of the contributors had not been properly updated by the District Offices as well.

#### **4.4 Matters of Contentious Nature**

---

The following observations are made

- (a) Forty eight cheques valued at Rs. 2,791,679 and bank drafts valued at Rs.7,152,249 had been misappropriated in the year 2008 by 02 Directors and one Assistant Director of the Board. A case in this connection had been filed in the High Court and not so far settled.
- (b) A case was filed against a field officer who had misappropriated pension money of Rs.369,590 and he had been dismissed during the year under review. Only a sum of Rs.100,000 had been recovered from him and the case had been withdrawn due to the death of employee. Therefore, the balance of Rs. 269,590 could not be recovered and the necessary adjustments in this connection had not been made in the accounts up to end of 31 December 2014.
- (c) Even though a sum of Rs.500,000 had been allocated for awareness and training program, the Scheme had spent an amount of Rs.6,880,534 for this purpose. It shows an increase of Rs.6,769,568 or 6,100 per cent as compared with the previous year.

## **5. Accountability and Good Governance**

---

### **5.1 Action Plan**

---

Even though the Board had prepared a Corporate Plan for the period 2014–2016, an Action Plan in line with the Corporate Plan for year 2014 had not been prepared.

### **5.2 Budgetary Control**

---

Significant variances were observed between the budgeted and actual income and expenditure for the year under review, thus indicating that the budget had not been made use as an effective instrument of management control.

## **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 Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting.
- (b) Control over Contributors' Accounts.
- (c) Pension Payments.
- (d) Budget.
- (e) Accounts Receivable and Payable.