

Farmers' Pension and Social Security Benefit Scheme - 2015

The audit of financial statements of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and the 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 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 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 2015 and its financial performance and 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.

At the end of the year under review, the negative net assets position of the fund was Rs.60,714.5 million and this was mainly due to payment of pension over contributed income in the preceding years. The contributed income had decreased by 41 per cent while payment of pension had increased by 94 per cent during the period from 2011 to 2015. Hence, the ability of the Scheme to continue as a going concern without the financial assistance from the General Treasury is in doubt. The balance in the Fund account of the Scheme, Farmers' contributions and pension expenses as at the end of the year under review and previous four years period are given below.

Year	Fund Account Balance as at end of the Year	Farmers Contribution	Pension Expense
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	Rs. Million	Rs. Million	Rs. Million
2015	(60,714.5)	66.9	2380.8
2014	(57,249.4)	53.5	1977.9
2013	(53,968.5)	38.1	1646.9
2012	(48,945.1)	58.4	1380.7
2011	(44,154.2)	113.5	1226.7

2.2.2 Comply with Sri Lanka Accounting Standards (LKAS).

LKAS 19, Employee Benefits – Even though, the actuarial valuation for pension liability had been done in the year 2007, thereafter no actuarial valuation had been done for the pension liability up to the end of the year under review.

2.2.3 Accounting Deficiencies.

The following accounting deficiencies were observed in audit.

- (a) Out of farmers contribution amounting Rs. 67,481,962 collected by the agents on behalf of the Scheme during the year under review, a sum of Rs Rs.540,397 had been

remitted to the Board only in the month of March 2016. However, this income had not been accounted as receivable as at the end of the year under review.

- (b) Unpaid pensions as at 31 December 2015 aggregating Rs.35,689,048 had been credited in pension payments without being identified the reasons. As such, the pension expenditure for the year under review had been understated by that amount.
- (c) Provision for group insurance premium amounting Rs.27,011,280 for the year under review had been calculated based on average number of contributors without taking into account the actual number of contributors. Therefore, the accuracy and reliability of the above amount shown in the financial statements could not be ascertained in audit.

2.2.5 Accounts Receivable and Payable.

The following observations are made.

- (a) Balance confirmations for income receivables amounting to Rs.3,348,720 which representing 69 per cent of the total value of the accounts receivable had not been presented for audit.
- (b) Accumulated audit fees payable as at 31 December 2015 amounting to Rs.3,382,031 had remained in the accounts for more than 10 years without being settled.

2.2.6 Non-compliance with Laws, Rules, Regulations and Management Decisions.

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

Reference to Laws, Rules, Regulations etc.	Non-Compliance
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Farmers Pension and Social Security Benefit Scheme Act, No.12 of 1987.	
(a) Section 15	Action had not been taken to inform the relevant members regarding the cancellation of their membership who had defaulted due installments in terms of provisions in the Act.
(b) Section 20	Consultants committee should consist of 12 members, comprising 06 ex- officio members and 06 nominated members. However, only 07 members had been appointed for committee in the year 2015.

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. 3,443,359,969 as compared with the corresponding deficit of Rs. 3,281,960,985 in the preceding year thus, indicating a further deterioration of Rs.161,398,984 in the financial results. Increase of pension payments by Rs.402,898,833 during the year under review was the main reason attributed for this deterioration in the financial results.

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.

	2015	2014	2013	2012	2011
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Total Income	168,566	150,295	40,104	61,148	115,434
Total Expenditure	(2,602,304)	(2,174,449)	(1,847,921)	(1,587,686)	(1,402,379)
Increase of Pension Liability	(3,193,389)	(3,285,970)	(3,288,353)	(3,216,991)	(3,059,459)
Deficit for the year Before Government Grant	(5,627,127)	(5,310,124)	(5,096,170)	(4,743,529)	(4,346,404)
Government Grant	2,183,000	2,027,550	69,000	71,555	727,605
Amortization of Government Grant	767	613	711	1,321	1,228
Deficit After the Government Grant	(3,443,360)	(3,281,961)	(5,026,459)	(4,670,653)	(3,617,571)

The following observations are made in this regard.

- (i) The total income had decreased gradually by 65 per cent during the period from 2011 to 2013 while it had increased by 320 per cent during the period of 2014 and 2015. In the meantime, the total expenditure had increased by 85 per cent during these periods. Increase of pension payments after introducing the new scheme in the year 2014 was the main reason attributed for this increase in expenditure.
- (ii) The net deficit before Government grant had drastically increased during the period from 2011 to 2015 due to increase in expenditure.

4 Operating Review.

4.1 Performance.

The following observations are made.

The main objectives of establishment of the Scheme are to pay a periodical pension to farmers at their retirement, a lump sum gratuity or pension / periodical allowance in case of permanent partial or total disablement and a death gratuity. However, no enrolment to the Scheme during the last 05 years including the year under review had been happened and attention of the management in this regard had not been drawn.

Further, personal information of the farmers and contributions received from farmers had not been properly updated to the computerized system. As a result, obtaining information for reviewing the progress of the Scheme was impossible.

4.2 Deficiencies in Operation of Bank Accounts.

A decision had been taken on 18 February 2015 to write off 117 cheques valued at Rs.1,179,624 which deposited but not realized since the year 1992 in respect of 03 bank accounts. Even though an approval in this connection was sought from the General Treasury, such approval had not been received yet.

4.3 Financial Management.

In some instances, the farmers contributions collected by 06 District Offices had been remitted to the Scheme with the delay of the period ranging from 01 month to 07 months, exceeding the maximum limit of one week as per the letter of Deputy Director (Finance) dated 12 June 2013.

4.4 Management Inefficiencies

The following observations are made.

- (a) Even though the new pension scheme had to be implemented with effect from 01 January 2014 in accordance to the Extraordinary Gazette Notification No. 1853/49 of 14 March 2014, the payments of pension only had been made in accordance to the new scheme while the contributions to the scheme is being made under old pension scheme.

Accordingly, a sum of Rs.2,436,639,690 had been paid as pensions for the period from January 2014 to December 2015 and only Rs. 27,863,242 had been collected as contributions for the same period.

- (b) Payable of pension for the years 2012 and 2013 aggregating Rs.3,033,329,200 had remained in the accounts without being settled even up to the end of the year under review.

4.5 Operating Inefficiencies

Only 11 district offices had completed survey activities required to update the members information under the new Farmers' Pension Scheme which was due to implement from January 2014, even though all district offices had to be completed surveys on or before 28 February 2015 as per the letter dated 28 January 2015 of Director General of the Board.

4.6 Matters of Contentious Nature.

The following observations are made.

A sum of Rs.1,475,000 had been paid to a University in the year 2008 for designing a new computer software in order to implement the Farmers' Pension and Social Security Benefit Scheme in a computerized system. In addition to that, sums aggregating Rs.1,200,000 had been paid in three instances to the same University for the completion of the delayed works and the similar works agreed in year 2008 by making few amendments to the earlier works.

In addition to the above, a new agreement had been entered with the same University for another 06 months period commencing from 01 March 2016 with the contract price of Rs.300,000 in order to maintain the computerized system even though an officer had been appointed internally as systems administrator to cover up these duties.

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 for year 2015 had not been prepared.

5.2 Budgetary Control.

The variance between the budgeted and actual income for the year under review was 32 per cent, 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.

Control Area -----	Observation -----
(a) Accounting.	Weaknesses in income / expenditure recognition.
(b) Contribution Income.	Material delays in remittances.
(c) Accounts Receivable and Payable.	Unavailability of sufficient evidence.
(d) Management Information System.	Unavailability of management information in the system.