

## **Fishermen's Pension and Social Security Benefit Scheme - 2015**

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The audit of financial statements of the Fishermen's 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 and a summary of significant accounting policies and other explanatory information 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 Section 28(4) of the Fishermen's Pension and Social Security Benefit Scheme Act No.23 of 1990. My comments and observations on the said Financial Statements appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

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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**

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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 risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fishermen Pension and Social Security Benefit 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 Fishermen Pension and Social Security Benefit 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 financial statements.

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 Audit Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 Fishermen's 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**

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#### **2.2.1 Going Concern of the Pension Scheme**

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The operating result of the year under review amounted to a deficit of Rs.15,147,293 and it was 111 per cent more than the previous year deficit. Increase in payment of pensions and the provisions for pension as at 31 December of the year under review amounting to Rs.2,784,156,361 had attributed to the increase in deficit. Adverse financial results continued to exist in the pension scheme for many years which had resulted in a negative position of net assets. The negative value of the net assets as at 31 December of the year under review amounted to Rs.2,151,853,459. This position had occurred as a result of paying pensions in excess of the overall receipts of the Scheme. If this position persists continuously, it could adversely affect the going concern of the Scheme.

#### **2.2.2 Sri Lanka Accounting Standards**

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Non – compliance with the following Sri Lanka Accounting Standards were observed.

##### **(a) Sri Lanka Accounting Standard – 08**

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Lesser payments to Employee's Provident Fund and Employee's Trust Fund made during 2006 to 2013 amounting to Rs. 654,801 had been rectified during the year under review. While doing so, adjustments had been made to the funds in the year under review without adjusting retrospectively .

##### **(b) Sri Lanka Accounting Standard – 19**

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The following observations are made.

- (i) The actuarial valuation for Pension liability of active contributors and Fishermen's Pensioners should be made in timely basis. No actuarial valuation had been done after year 2007. As such, the number of Active Contributors and Pensioners were 54,248 in 2007 had decreased to 32,740 by 40 per cent during the year 2015. However, the provision for that period had increased by 124 per cent, that is, from Rs.1,242,006,539 to Rs.2,784,156,361.

- (ii) Further, although the actuarial valuation and accounting had been carried out for Defined Benefit plan in terms of the provisions in the Standard, the balance of Rs.1,182,885 as at end of the year under review had not been invested by the employer for entrusting the future liabilities under the Defined Benefit plan.

### 2.3 Accounts payable

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Audit fees payable totalling Rs.1,431,025 continued to be brought forward in the accounts since 1998 without being settled.

### 2.4 Non – compliance with Laws, Rules, Regulations and Management Decisions

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The following non – compliances were observed in audit.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non – compliance</b>
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<p>(a) <b>Fishermen’s Pension and Social security Benefit Scheme Act No. 23 of 1990</b></p> <p>-----</p> <p>(i) Section 16</p> <p>(ii) Section 20</p> <p>(b) <b>Public Enterprises Circular No.PED/12 of 02 June 2003</b></p> <p>-----</p> <p>Paragraph 9.7 of Chapter 9</p>	<p>Action had not been taken to made aware the members that their membership could be cancelled if they neglect paying their membership fees, as per provisions in the Act.</p> <p>The Advisory Committee should consist of 12 members including 06 ex-officio members, and 06 nominated members. However, 07 members only had been appointed for the year 2015.</p> <p>Special allowances amounting to Rs.506,928 had been paid to 04 officers during the year under review without the approval of the Treasury.</p>

## 3. Financial Review

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### 3.1 Financial Results

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According to the accounts presented the operating activities of the Scheme for the year under review had resulted in a deficit of Rs. 15,147,293 as compared with the previous year’s deficit of Rs. 7,170,305 and it was observed that the financial results had deteriorated by

Rs.7,976,988 in the year under review that is, 111 per cent as compared with the previous year. The increase in payment of pensions by Rs.5,550,959 and the decrease in government grant for administrative expenses by Rs.1,500,000 had mainly attributed to the above deterioration.

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

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##### **4.1 Performance**

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The Fishermen's Pension and Social Security Benefit Scheme had been established to fulfil the objectives of offering social benefits to fishermen at their old age or when they become disable, to offer assistance to dependents of fishermen when they die, to encourage fishermen to continuously earn their livelihood, to refer youngsters to engage in the fishing industry and to create the habit of savings and to promote thrift among fishermen. The following observations are made in this regard.

- (a) Attention had not been paid by the Scheme to encourage fishermen to continue their livelihood in fishing, to refer youngsters in the fishing industry and to create the habit of savings among fishermen and to promote thrift among fishermen.
- (b) It was estimated to enroll 200 new contributors to the Scheme during the year under review as per budget estimate. However, 94 contributors only had been enrolled. Meanwhile, 85 contributors had left the Scheme during the year under review.
- (c) The contribution expected from the contributors during the year under review was Rs.3,292,500. However, the actual contribution obtained amounted to Rs. 1,030,292.
- (d) The total contribution received by the Scheme during the year under review was Rs. 1,030,292 and the total payment of pension amounted to Rs. 47,418,578. As such, payment of pension exceeding the contribution received was 4,502 per cent.

##### **4.2 Management Activities**

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The following observations are made.

- (a) Out of the loans given on many instances from 2007 for the Farmers's Pension and Social Security Benefit Scheme, the balance carried forward in the Financial Statements as at 31 December 2015 amounted to Rs. 628,322,254 (loans and interests). The progress in recovery of these loans was at a weak level.
- (b) The information relating to annual changes in the number of membership due to cancellation of membership of the Scheme, deaths, disablement during the past 5 years had not been furnished to audit while the management had not analyzed the change in the number of membership and the reasons thereon. Further, when informing the number of active contributors by end of the year under review informed figures as 29,310 members and 27,827 members.

**5. Accountability and Good Governance**  
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**5.1 Budgetary Control**  
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Significant variations ranging from 26 to 69 per cent were observed between the budgeted and the actual income and expenditure showing that the budget had not been utilized as an effective instrument of management control.

**6. Systems and Controls**  
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Deficiencies in systems and controls observed in audit were brought to the notice of the Chairman of the Agricultural and Agrarian Insurance Board from time to time. Special attention is needed in respect of the following areas of control.

<b>Systems and Controls Field</b> -----	<b>Observations</b> -----
(a) Unpaid Pensions	Unpaid pensions not been periodically get back.
(b) Management Information System	System had not been updated and inability to obtain the reports needed for the management.