

Fishermen's Pension and Social Security Benefit Scheme - 2016

The audit of financial statements of the Fishermen's Pension and Social Security Benefit Scheme for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016, 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 13(1) of the Finance Act, No. 38 of 1971 and Section 28(4) of the Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990. 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

The 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 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 Fishermen's Pension and Social Security Benefit Scheme as at 31 December 2016 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 Pension Scheme

The provision made available to the income for the pension liability amounting to Rs. 3,030,671,474 and it had been an increase of 8.85 per cent more than to the preceding year. As a result of that the negative net asset position of the Scheme as at 31 December 2016 was increased to Rs. 2,394,357,348. Accordingly, there was a possibility to increase this provision in future years too and it would be adversely affected to the going concern of the Scheme.

2.2.2 Sri Lanka Accounting Standards

The following non-adhering with Sri Lanka Accounting Standards are observed in audit.

(a) Sri Lanka Accounting Standard 01

Even though the loan granted to the Division of Farmers' Pension amounting to Rs. 649,510,627 and the loan amounted to Rs.21,842,502 taken from the Agricultural Insurance Board also had not been settled within 12 months, it had been presented as current assets and liabilities.

(b) Sri Lanka Accounting Standard 37

The assessment of actuarial should be timely carried out for the liabilities of pensions of active contributors and fishermen pensioners, it had not been done after the year 2007. Therefore, Even though the number of pensioners and the active members had been decreased by 39 per cent in the year 2007 the provision relevant to that period had been increased by 144 per cent. Accordingly, it had not been considered about the matters which could be considerably attributed basic components such as interest rate, recruitments, resignations, deaths, disabilities while making provision for the liabilities for pensions and the changes in active contributors and the fishermen pensioners.

2.2.3 Non-availability of Evidence for Audit

The copies of agreement had not been furnished to audit including the conditions in respect of those cash settlement and collecting interest for the loans granted to the Farmers' Pension Fund From Fishermen's Pension Fund amounting to Rs.649,510,627.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) The audit fees payable amounted to Rs.1,267,697 had been continuously carried forward without being recovered for many years.
- (b) Out of the loan granted for the Scheme of Farmers' Pension and Social Security Benefit in several instances from the year 2007, a balance of Rs. 649,510,627 (loan and interest) as at 31 December 2016 had been carried forward in the financial statements and the progress of recovering of those loans was at a very weak level.

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

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

| Reference to Laws, Rules, Regulations and Management Decisions | Non-compliance |
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| Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990 | |
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(a) Section 16

Action had not been taken to cancellation of the membership of members who had defaulted the payment of membership fee in terms of the Act and due to that reason the right to the contributor for re-validation of a cancelled certificate had been disentitled.

(b) Section 20

Although the Committee of Consultants should be consist of 12 members ,only 09 members had been appointed for that Committee for the year 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Scheme for the year under review had resulted in a surplus of Rs. 2,420,592 as against the deficit of Rs.15,147,293 for the preceding year, thus indicating an improvement of Rs. 17,567,885 or 116 per cent in the financial results in the year under review compared to the preceding year. The increase of the interest income by Rs. 25,005,931 during the year under review had mainly attributed to this improvement in the financial results.

3.2 Analytical Financial Review

The following observations are made.

- (a) The payment of pensions to the Scheme beyond the total contribution for the year under review was Rs. 52,892,968 or 5.697 per cent. The contribution of the fishermen in the year under review had been decreased by 10 per cent and the total payment of pensions by 14 per cent and the liability of pensions by 8.9 per cent had been increased when compared with the preceding year.
- (b) The interest receivable on loan granted to the Scheme was Rs. 61,188,373 and it was 97 per cent from the total interest income. The interest income on Treasury Bills was only 03 per cent.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) Even though out of the pensions sent to the post offices monthly the amount un paid should be brought back from those offices as soon as possible after the time lapsed, it had not been done so by the Board.
- (b) Due to non- maintenance of Bio-data reports in respect of the contributors, names of the dead persons had been included in the registers of monthly pension payment. Hence the possibility of frauds and errors would have been occurred by purposely or by negligence at the instances of monthly pensions are being paid.

- (c) It had been mentioned in the Report of Meeting of Consultancy Committee on 30 November 2016 that the recruitment of fishermen , payment of pensions, gratuity for deaths and disability and the balance of the Fund only up to the month of October in the year under review. Even though it had been identified that the Fishermen's Pension Fund was being reached to a financial crisis from the year 2014 it had not been mentioned in the report that any matter such as what were the recommendations of the Consultancy Committee to face that crisis and the progress of implementation of them.
- (d) Even though it had been mentioned under the terms and privileges of the Deed Certificate issued to a contributor and under the instructions of pass book of installment payment the contribution money would not be accepted from a contributor who had disintitled for the benefits after as at the date , installments had been undertaken by the institution from the contributors who had disintitled for the benefits even after the date. Accordingly, a sufficient method for the achievement of the term enacted had not been implemented within the institution and infringement of foresaid terms had been done by the institution itself .

4.2 Performance

The Fishermen's Pension and Social Security Benefit Scheme had been established to the accomplishment of objectives such as to provide social security for fisher folk during old age or disability to them, to provide relief to dependents in the event of death of fishermen, encouraging the fishermen to continue in their livelihood, to attract young persons to the fishing industry , induce the habit of saving and promote thrift among fishermen. The following observations are made with regard to this.

- (a) Even though it had been lapsed 03 years after identifying the commencement of the circumstance of decline the Fund from the year 2014 consequently, and it would become zero in 2020 and also should be reorganized at the instance of preparation of the Corporate Plan 2014-2016, the institution had failed to carry out any reorganizing activity.
- (b) Even though it should be prepared an Action Plan for the year under review recruitment of fishermen and recover of contribution money had only been prepared. Despite there was a critical circumstance being occurred, a plan had not been prepared to face the possibility of such circumstance and to improve the Scheme identifying the strengths and weaknesses.
- (c) The attention of the Scheme had not been paid in respect of the achievement of the objectives such as stimulation of fishermen for engaged in livelihood themselves continuously, refer the youth towards the fisheries industry, induce of savings habit among the fishermen and improvement of thrift.
- (d) Even though it had been expected to charge contribution money amounting Rs.3,275,000 from the members during the year, the actual contribution money received was Rs. 928,732.

- (e) According to the Budget Estimate it was estimated that to recruit 150 new contributors to the Scheme during the year under review , only 86 contributors had been recruited. That was a decrease of 86 per cent as compared to the year 2012. Similarly, the number of 109 contributors had left the Scheme during the year under review. This circumstance had affected the going concern of the Fund adversely.
- (f) Even though the entire contribution to the Scheme for the year under review was Rs.1,251,221, due to the payment of entire pension amounting Rs.50,320,018, payment of net installment Rs.1,655,836 and payment of death and disability beneficiaries also Rs.441,000 , payment of Rs. 51,165,633 had been made from the Fund over the received contribution.
- (g) According to the matters such as the delay in payment of benefits for contributors, disentitlement of benefits unexpectedly the fishermen expected from the Scheme, non-updating of the information in respect of the contributors and less trend in encouraging due to the decline in recruitment in to the industry and diminishing in the habit of saving; a circumstance of non-accomplishment as expected the service which should be given to the fisher folk efficiently, effectively from the Fishermen’s Pension and Social Security Benefit Scheme .

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances from 30 per cent to 133 per cent were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of 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 Agricultural and Agrarian Insurance Board from time to time. Special attention is needed in respect of the following areas of control.

| Area of Systems and Control | Observations |
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| (a) Unpaid Pensions | Action not taken to call up unpaid pensions timely. |
| (b) Management Information System | Due to Non-updating of the system, inability of having required reports to the management. |