

Fishermen's Pension and Social Security Benefit Scheme – 2017

The audit of financial statements of the Fishermen's Pension and Social Security Benefit Scheme for the year ended 31 December 2017 comprising the Statement of Financial Position as at 31 December 2017 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(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. A detailed report in terms of Section 13 (7) (a) of the Finance Act, was issued to the Chairman of the Board on 23 March, 2018.

1.2 Management's Responsibility for 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 the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraphs 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of financial performance and statement of changes in equity, and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Pension Scheme

The liability of the Scheme for the fishermen's pension amounted to Rs. 3,297,559,198 by the end of the year under review indicating an increase of 8.8 per cent as compared with the preceding year. Furthermore, the Fishermen's Pension Fund of the Scheme had become a minus value of Rs. 2,656,607,635. This situation had mainly been caused by the increase in the payment of fishermen's pension as compared to the actuarial assessment being conducted since the year 2007 in accordance with Sri Lanka Accounting Standard 37, and the fishermen obtaining the membership newly. Because of the facts that the said unfavourable financial position would be further aggravated in the future, and the institution had not confirmed that productive measures had been taken to remedy the situation, it was observed that the going concern of the Scheme had remained doubtful.

2.2.2 Sri Lanka Accounting Standards

Non-compliances with the following Sri Lanka Accounting Standards were observed in audit.

(a.) **Sri Lanka Accounting Standard 01**

The loan balance receivable as at 31 December 2017 amounting to Rs. 663,955,406, had been shown as a receivable balance under current assets in the financial statements without being classified as current or non-current in terms of Paragraph 64 of the Standard.

(b.) **Sri Lanka Accounting Standard 37**

According to Paragraph 59 of the Standard, the liability for pensions of the active contributors and the retired fishermen should be reviewed for every period of reporting, but it had not been so done after the year 2007. Accordingly, due to failure in taking into account the basic factors having a considerable impact on the allocations for pensions, such as interest rate, enrolments, number of persons leaving the Scheme, demise, and disabilities, along with the changes of active contributors and retired fishermen, the active contributors and the retired fishermen in the year 2007 being 54,248 had decreased to 29,472 by the year 2017 representing 46 per cent, but the provision relating to that period had increased from Rs. 1,242,006,539 to Rs. 3,297,559,198 by 166 per cent.

2.2.3 Lack of Evidence for Audit

The Institution failed to provide the Audit with the Agreement including the regulations such as the loan of Rs. 518,000,000 granted to the Farmers' Pension Benefit Scheme by the Scheme, and the interest thereon amounting to Rs. 330,905,406. Owing to that, the accuracy and the completeness of the said transaction could not be verified.

2.3 Accounts Receivable and Payable

The following observations are made.

- a) Audit fees payable as at 31 December of the year under review amounting to Rs. 1,417,697, had continuously been brought forward since the year 1998 without being settled.
- b) The sum of Rs. 515,000 allocated annually for the printing expenses payable, had continuously been brought forward in accounts since the year 2011 without being settled.
- c) The progress in the recovery of loan and interest totalling Rs. 663,955,406 as at 31 December 2017 with respect to the loans granted in several instances to the Farmers' Pension and Social Security Benefit Scheme since the year 2007, had remained weaker.

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

The following non-compliances were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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| a) Fishermen's Pension and Social Security Benefit Scheme Act, No.23 of 1990.
(i) Section 16 | Due to failure in informing the relevant members on the forfeit of their membership following the failure to pay the contributions in terms of the provisions of the Act, the right of a contributor to validate his membership had been deprived of. |
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3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operating activities of the Scheme for the year under review had resulted in a surplus of Rs. 28,891,442 as compared with the corresponding surplus of Rs. 2,420,592 for the preceding year, thus observing an improvement of Rs. 26,470,850 in the financial result of the year under review representing 1094 per cent as compared with the preceding year. The receipt of Rs. 37,672,911 out of a sum that remained receivable as the verdict of a case filed against Bank of Ceylon had been returned in favour of the Board in the year under review, had mainly attributed to the said surplus.

The analysis on the financial results of the year under review and 4 preceding years revealed a surplus of Rs. 12,194,196 in the financial result of the year 2013. However, the said surplus had gradually deteriorated in the years 2014 and 2015 reaching deficits of Rs. 7,170,305 and Rs. 15,147,293 respectively. However, a surplus had occurred once again in the years 2016 and 2017, which had improved up to Rs. 28,891,442 in the year 2017. When the employee remuneration and depreciation on non-current assets had been adjusted with the said financial result, the contribution of the year 2013 amounting to Rs. 14,622,327, had deteriorated to the minus values of Rs. 4,358,373 and Rs. 11,983,314 in the years 2014 and 2015 respectively. But, in the years 2016 and 2017, the contribution of the Scheme had gradually improved up to Rs. 5,601,658 and Rs. 32,281,870 respectively.

3.2 Analytical Financial Review

A summary of the financial results of the year under review and the preceding year, is given below.

	<u>2017</u>	<u>2016</u>	<u>Increase/(Decrease) in the Difference</u>
	Rs.	Rs.	%
<u>Income</u>			
Interest Income	58,753,600	63,046,648	(7)
Contribution of the Fishermen	920,022	928,732	(1)
Grants for Recurrent Expenses	1,500,000	<u>1,500,000</u>	-
Other Income	<u>37,672,912</u>		100
Total Income	<u>98,846,534</u>	<u>65,475,380</u>	51
<u>Deductions – Expenses</u>			
Payment of Pensions	(59,897,422)	(53,821,700)	11
Other Operating Expenses	(3,865,686)	(4,148,448)	(7)
Administrative and Financial Expenses	<u>(6,191,984)</u>	<u>(5,084,640)</u>	22
Total Expenditure	<u>(69,955,092)</u>	<u>(63,054,788)</u>	11
Profit (Loss) for the Year	<u>28,891,442</u>	<u>2,420,592</u>	

The following observations are made.

- (a.) The contribution of the Scheme for the year under review totaled Rs. 920,022, whereas the payment of pensions, net installments, and benefits on death & debility, amounted to Rs. 59,897,422, Rs. 1,354,615, and Rs. 463,800 respectively, thus payments made in excess of contribution, amounted to Rs. 60,795,815 indicating 6,608 per cent. As compared with the preceding year, the contributions of fishermen in the year under review, had decreased by 1 per cent, whereas the payment of pensions had increased by 11 per cent whilst the liability for pensions had increased by 8.8 per cent.

- (b.) The main income of the Scheme should be the contribution to Fishermen's Pension and Social Security Benefit Scheme; however, the income of the year under review had comprised of a sum of Rs. 54,394,779 or 55 per cent of the interest on loans granted to the Farmers' Pension Benefit Scheme.
- (c.) According to the budget estimate, it was expected to enroll 100 new contributors to the Scheme in the year under review, but 109 contributors had been enrolled. Nevertheless, 144 contributors had left the Scheme in the year under review.

3.3 Legal Cases Instituted by the Institution

The Board had filed a case against Bank of Ceylon in order to recover the interest that the Fishermen's Pension Fund had been deprived of due to the Bank acting erroneously on the maturity of the investments made by the Board in the year 1996 in Treasury Bills. The same verdict returned by the District Court on 07 October 2003 that the interest and the monies deprived including the legal fees be paid to the Board, had been reached by the Appellate Court as well on 14 August 2015. As per the calculations of the Board, the amount that remained receivable from Bank of Ceylon, amounted to Rs. 103,248,251 as at 31 March 2017, but the Bank had paid only a total of Rs. 37,672,911 comprising sums of Rs. 31,618,396, and Rs. 6,054,515 paid on 17 February 2017, and 07 April 2017 respectively. As the management had delayed in implementing the verdict given, and failed to take action to recover the monies in a timely manner, the Board had again filed a case against the Bank of Ceylon on 25 July 2017 to recover the balance.

4. Operating Review

4.1 Performance

The Fishermen's Pension and Social Security Benefit Scheme had been established to achieve the objects of : to provide social security to fishermen during their old age or disability, to provide relief to the dependents of fishermen upon the death of such fishermen, to encourage fishermen to continue in their occupation, to attract young persons to the fishing industry, and to inculcate the habit of saving and to promote thrift among the fishermen. The following observations are made in this connection.

- (a.) At the time of preparing the Corporate Plan for the period 2014-2016, the Fund remained in a state of erosion after the year 2014 that would end up in zero by the year under 2020, and a period of 03 years had elapsed since the management had identified that the Fund should be restructured. However, the Board had failed to carry out any restructuring activity.

- (b.) Attention of the Scheme had not been drawn on the objects such as, to encourage fishermen to continue in their occupation, to attract young persons to the fishing industry, and to inculcate the habit of saving and to promote thrift among the fishermen.
- (c.) Despite being expected to collect contributions totalling Rs. 3,684,000 from the contributors in the year under review, the actual receipt of contributions totaled Rs. 920,022 only.

4.2 Operating Activities

Owing to reasons such as, delays in paying benefits to the contributors, unexpected deprivation of benefits expected by fishermen from the Scheme, non-updation of contributor information, decreased tendency for the industry due to gradual decline in the enrolments, and lack of interest in saving habits, it was observed that the service to be rendered by the Fishermen's Pension and Social Security Benefit Scheme for the fishermen, had not been as efficient and productive as expected.

5. Accountability and Good Governance

5.1 Budgetary Control

As significant variances ranging from 34 per cent to 110 per cent were observed between the budgeted and actual income and expenditure, it was observed that the budget had not been made use of as an effective instrument of management control.

5.2 Action Plan

An Action Plan had not been prepared for the Scheme for the year under review in accordance with Public Finance Circular, No. 01/2014, dated 17 February 2014. Although the going concern of the Fund had remained doubtful, the Scheme had no plan or preparation whatsoever to face the situation likely to arise due to failure in preparing an annual Action Plan.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Insurance Board from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observation

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| (a.) Management of Contributions | Failure to take action to recover the unpaid monies out of the pensions remitted for payment. |
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- (b.) Management Information System
- (i) As the applications sent through the district offices for obtaining benefits are not documented at the Pensions Division, a methodology does not exist enabling easy identification of the number of applications received during the year, and the number of applications either processed so far or waiting to be processed.
 - (ii) Due to failure in documenting the information, it is not possible to separately identify and analyze the payment of pensions, payment of net installments, and payment of gratuity on death and debility, out of the total number of applications received during the year.
 - (iii) Failure to maintain the information relating to bio data in an up-to-date manner.