

Agricultural and Agrarian Insurance Board and its Farmers' Pension and Social Security Benefit Scheme and Fishermen's pension and social security benefit schemes - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the consolidated financial statements of the Agricultural and Agrarian Insurance Board and its Farmers' Pension and Social Security Benefit Scheme and Fishermen's pension and social security benefit schemes for the year ended 31 December 2021 comprising the statement of consolidated financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and the Finance Act, No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the financial statements of the Board and the Group give a true and fair view of the financial position of the fund as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

I expressed qualified opinion on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the board and the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the board and the group's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the board and the group.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the board and the

group, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the board has complied with applicable written law, or other general or special directions issued by the governing body of the board;
- Whether the board has performed according to its powers, functions and duties; and
- Whether the resources of the board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Financial Statements of the Board

1.5.1.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard -----	Comments of the Management -----	Recommendation -----
<p>(a) In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the useful life of non-current assets had not been reviewed. Property plant and equipment costing Rs.32,781,134 had been fully depreciated but still in use. Accordingly, no action had been taken to revise the error and account for carrying amount in terms of Sri Lanka Accounting Standard 08.</p>	<p>Assets that can be used as well as assets that cannot be fully used are included in fully depreciated assets. Even if those assets are reused, practically they cannot be re-valued and accounted for and old furniture, computers and hardware and office equipment are included in this. Updates and new device installations cannot be performed on these assets. Action will be taken to dispose assets that are not in usable condition.</p>	<p>The useful life should be reviewed and adjustments thereof should be made in financial statements.</p>
<p>(b) In terms of paragraph 59 of Sri Lanka Accounting Standard 37, death gratuity for farmer pensioners should be computed based on actuarial assessment. However, liabilities relating to Death Gratuity Fund of farmers amounting to Rs.1,146,766,066 as at 31 December 2021 had not been computed based on actuarial assessment and no provision had been made therefore timely.</p>	<p>This Fund should be operated obtaining premiums from Farmers' Pension Scheme and gratuity payments made during the year is debited to this Fund. Action will be taken to carry out actuarial assessment annually with the commencement of new Pension Scheme.</p>	<p>Liabilities relating to Death Gratuity Fund should be computed based on actuarial assessment timely.</p>

(c) In accordance with the concept of comparability introduced as a qualitative characteristic in the conceptual framework for financial reporting introduced by the Sri Lanka accounting standards, the measurement and presentation of the financial results of similar transactions and other events should be done consistently across an entity and consistently for that entity and for other entities over time. However, government grant received from treasury for administration expenses had shown in the financial statements of the group under two sources of income as government grant of Rs.247,000,000 and other revenue of Rs.1,500,000 under farmers' pension and social security benefit scheme and fishermen's pension and social security benefit scheme respectively.

No comments were made

The measurement and presentation of the financial results of similar transaction and other events should be done consistently across an entity and consistently for that entity and for other entities over time.

1.5.1.2 Accounting Deficiencies

Audit Observation

(a) The value of the land of 76.6 perches belonging to the Board where 03 official quarters are maintained in Mahiyanganaya, Embilipitiya and Anuradhapura and buildings of official quarters in Embilipitiya had not been assessed and indicated in financial statements.

(b) From the United Nations Food and Agriculture Organization and the ministry of Mahaweli, Agriculture, Irrigation and Rural development had been given financial facilities of Rs. 14,715,617 for the development of Agriculture Information System up to 31 December 2021 and the expenditure of Rs. 23,009,698 had been incurred by the board up to year 2021. The receipts and payments were not

Comments of the Management

Necessary action has already been taken to assess the value and action will be taken to expedite those activities and to account assessed value thereof.

This information system is carried out under the initiative of the Ministry of Agriculture and related expenses are reimbursed through the Ministry of Agriculture. All related transactions have been properly accounted for and also disclosed by the accounting notes.

Recommendation

Value of Buildings should be assessed and indicated in the financial statements.

Income and expenditure related to the project should be accurately carried out to the financial statements.

shown in the financial statements as income and expenditure and only the outstanding balance of the expenditure incurred on the project by the financial institutions was shown as a receivable balance in the financial statements.

1.5.2 Financial Statements of the Farmers' pension and social security benefit scheme

(a) Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard

According to paragraph 59 of Sri Lanka Accounting Standards 37, the liability for the pension of the active contributors and farmer pensioners should be computed based on the actuarial assessment carried out in a timely manner. However, after the year 2007, the pension liability had been computed without carrying out such an actuarial assessment and the liability for the pension as at 31 December 2021 had been Rs.78,184,784,968 Further, adequate investments had not been made for settlement of those commitments.

Comments of the Management

The liability for pension has been brought to account based on the actuarial assessment of the liability of the Farmers Pension Scheme in the year 2007. As this pension scheme is not a self-financing scheme, no new recruitment will be made for this scheme, and a new scheme has been installed which can be run on a self-financed basis. The payments of the old scheme will be paid annually through the annual budget allocations, and the old scheme will also be assessed at the time of the assessment of the new farmers' pension scheme.

Recommendation

The liability for pension should be computed on actuarial assessment carried out in a timely manner.

(b) Accounting Deficiencies

Audit Observation

(i) Only the revenue amounting to Rs.112,139,246 received from contributors for the year under review had been shown in financial statements on cash basis instead of accounting contributions on accrued basis due to failure in maintaining the register in an updated manner including the date of enrollment into the Scheme and date of entitlement by contributors and value of contribution of active members and the

Comments of the Management

As there were delays in computerization of defaulted installments, getting information on cancelled and inactive contributors from the system had become failure. As such, necessary action has been taken by State Commercial Banks to implement a special programme to recover defaulted installments and to connect those installments with our system so as to computerize them

Recommendation

Register of all contributors must be maintained complete and up-to-date and contributions must be brought to account on accrued basis.

register of contributors with the invalidate certificate of deed.

(ii) During the year 2021, 161 cheques amounting to Rs.1,304,300 written to 161 individuals for net contribution payments, related interest, disability payments and death gratuities were taken into revenue without confirming that the contributors were not entitled.

(iii) The surplus of the year has increased by that amount Rs.107,929 unpaid to the farmers from the previous year's farmer's pensions were credited to the farmer's pension expense account instead of being debited to the post office account and credited to the farmer's pension account.

automatically.

In the case of cheques issued for payment of net contribution, payment of death gratuity and disablement gratuity are not presented for payment, the cheques taken as revenue when the time expires and re-issued as per the requests received us through the district office. Expired cheques are kept on file as scheduled and when a claim is made by the contributor in any time, cheques are re-issued to the contributor as per the recommendations of the concerned district office. A number of cheques are issued by the board and unrealised cheques are reconciled timely.

The unpaid pension money due to the Board has been accounted for in the previous year on the confirmation of the District Accountant of the Postal Department, and in the receipt of money in the year 2021, an unconfirmed amount of Rs.107,929 has been received in the previous year. Accordingly, the account receivable balance has been reduced by that amount. The amount received is credited to the Unpaid Pension Account (Post Office) and the excess is credited to the Farmers Pension Expenditure.

Action should be taken to ensure that contributors were not entitled before taken into income.

The error should be corrected.

(c) Going Concern of the Fund

Audit Observation

The net assets of the Scheme amounted to a negative balance of Rs.81,967,040,765 as at the end of the year under review and the current liabilities over the current assets had been Rs.4,779,128,996. Accordingly, the contribution of farmers for the years 2020 and

Comments of the Management

The farmer pension liability increases annually, and the lack of investment in the scheme and the increase of the benefits of this scheme without increasing the

Recommendation

Action should be taken to increase the contribution of the insured to the Scheme.

2021 had been Rs.19,316,409 and Rs.15,746,696 respectively whereas the payment of pension had been Rs.4,502,560,108 and Rs.3,719,165,280 respectively. Moreover, sums of Rs.4,450,949,000 and Rs.3,753,000,000 had been received from the Treasury in the years 2020 and 2021 respectively. As such, it appears that the Scheme cannot be maintained without contributions from the Treasury.

premiums in several cases due to government policies, this situation has arisen, and every year the government budget allocates money to pay the farmers pension.

1.5.3 Financial Statements of the Fishermen's pension and social security benefit scheme

(a) Non-compliance with Sri Lanka Accounting Standards

Audit Observation -----	Comments of the Management -----	Recommendation -----
(i) In terms of paragraph 43 of the Sri Lanka Accounting Standard 07, Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. However, the contribution allocated to death gratuity fund amounting to Rs.1,752,840 had been shown incorrectly under investing cash flows.	Since amount allocated to the fishermen's death gratuity fund has not been paid in cash, the allocation will be shown under operational activities from the year 2022.	Action should be taken to eliminate provisions from cash flow statement
(ii) In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the useful life of non-current assets had not been reviewed. Assets costing Rs.696,175 including furniture and fixtures, office equipment and computers had been fully depreciated but still in use. Accordingly, no action had been taken to revise the error and account for carrying amount in terms of Sri Lanka Accounting Standard 08.	Although furniture and fixtures, computer equipment and office equipment are used, cannot be valued and estimated useful life. Action will be taken to dispose equipment such as computers; those are in a condition that needs to be removed, due to the condition that cannot be updated and cannot be used with full efficiency.	Action should be taken to revalue fully depreciated assets.
(iii) The liability for the pension of the active contributors and fishermen contributors and fishermen pensioners as at 31st December 2021 had been Rs.4,644,164,591. In terms of paragraph 59 of Sri Lanka Accounting Standard 37, the liability for the pension of the active contributors and fishermen pensioners	The liability has been brought to account based on the actuarial assessment carried out in the year 2007. Action will be taken to carry out the actuarial assessment after action taken to restructure the schemes of the board.	The liability for pension should be computed on actuarial assessment carried out in a timely manner.

should be computed based on the actuarial assessment carried out in a timely manner. However, after the year 2007, the liability for the pension had not been computed based on the actuarial assessment.

(b) Accounting Deficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
(i) The total salary of three officers who are not performing any direct duty in fishermen's pension division amounting to Rs.1,979,712 had been brought to account as expenditure of the scheme.	These officers have been recruited to perform the duties of this scheme and are currently performing other duties. Since the duties of the scheme are indirectly performed by other officers, the salary of these officers has been included in the scheme. After recruited sufficient number of employees, action will be taken to absorb wages of the employees concerned under the scheme.	Action should be taken to account only expenses related to scheme.
(ii) The commission charged Rs.11 in one installment by the District Fishery Project Officers of the Department of Fisheries and Aquatic Resources was not identified and accounted for as an expense of this scheme. The said commission was deducted from the fishermen's pension contribution and accounted for.	Amount received from the district fisheries offices has been accounted for under installments and action will be taken to account commission amount in future.	Amount of the commission charged should be accounted for

(c) Un reconciled control account or reports

Subject -----	Value as per the financial statements -----	Value as per the corresponding reports -----	Difference -----	Comment of management -----	Recommendation -----
	Rs.	Rs.	Rs.		
Contribution received from 121 fishery insured	146,707	117,648	29,059	All cheques received by the board have been recognized as revenue and un-reconciled receipts would	Differences should be identified and corrected.

be reconciled expeditiously.

(d) Going concern of the Scheme

Audit Observation -----	Comments of the Management -----	Recommendation -----
The liability for pension of the Scheme as at the end of the year under review had been Rs.4,644,164,591 and it was an increase of 9 per cent than the preceding year. Moreover, the position of net assets of the Accumulated Fund had become a negative value of Rs.4,103,708,674, that is, it had increased by 12 per cent than that of the preceding year. As such, said increase as well had adversely affected the going concern of the Scheme.	This situation has been arisen due to the scheme is not running on a self-financing basis. Accordingly, the annual pension liability will increase and hence the net asset value will also decrease. Due to those reasons, the scheme does not promote new enrolments.	Action should be taken to increase the contribution of the insured to the Scheme.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation -----	Comments of the Management -----	Recommendation -----
Action had not been taken Even in the year under review to recover salary advances, loans, and advance balances for various tasks for officers totalling Rs 1,519,371, old for a period from 2 years to 38 years.	After the submission to the Audit and Management Committee, it will be submitted to the Board of Directors for approval to write off irrecoverable loans older than 10 years, and action will be taken to collect money from other suspended employees. The balance debts will be recovered before paying the employees' gratuities, etc.	Action should be taken to settle loans and advances.

1.6.2 Payables

Audit Observation -----	Comments of the Management -----	Recommendation -----
The value of repayable Tender deposits amounting to Rs.426,871 remained as at 31 December 2018 had not been settled even by the end of the year under review.	The remaining balance of the repayable tender deposit will be reviewed, and the relevant parties will be informed, and the money will be paid when properly requested by them, in the year 2022.	Prompt Action should be taken to settle this balance.

1.7 Non-compliance with Laws, Rules, Regulations, Management Decisions etc.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>-----</p> <p>Agricultural and Agrarian Insurance Act, No. 20 of 1999 Section 7(a)</p>	<p>-----</p> <p>Indemnity of Rs.70,800,200 paid by in the year 2017 and 2018 entitled to 8,185 farmers relating to the Kethata Aruna Insurance Scheme operated by the board, had been returned by banks as Account numbers, names of farmers and identity card numbers had not been tallied. Moreover, action had not been taken to identify relevant farmers and settle those monies for 05 years.</p>	<p>-----</p> <p>Agrarian service Centers and district offices have been informed to prepare and send amended documents for farmers whose payments have been rejected. Accordingly, even if payment has been made for the amended documents received, the amount of Rs.70,800,200 of farmers who haven't claimed an indemnity has been continuously unclaimed by farmers and as such, the said indemnity has been submitted to the board of Directors for transferring to the Agricultural Insurance Fund and approval has been received for providing those monies to design the Agricultural Data Management System.</p>	<p>-----</p> <p>Action should be taken to identify farmers and to settle the same.</p>

1.8 Cash Management
Audit Observation

After spending Rs. 219,074,225 of the Rs. 267,000,000 received from the Treasury for meeting the scheme's capital expenditure and the Farmers Pension and Social Security Benefit Scheme's administrative expenditure during the year under review, the remaining Rs.47,925,775 had been made investments in Treasury bills against the proposed objective

Comments of the Management

The corresponding procurement activities will be completed, and payments will be made in 2022, because capital expenditure for the year was received at the end of the financial year. An amount of Rs. 247,000,000 has been provided for operational and administrative expenditure for the Farmers' Pension Scheme. Some of the expenditure during the year are done by the Board's main scheme, the Agricultural Insurance Scheme, then adjustments are made for the Farmers' Pension Scheme's expenses through the current account in which transactions are exchanged between the schemes. Accordingly, the funds have been properly accounted for in the Farmers Pension Scheme through the current account.

Recommendation

The treasury allocation should be utilized only for the relevant activity.

2. Financial Review

2.1 Financial Results

The operation result for the year under review had been a surplus of Rs.1,779,698,659 as compared with the corresponding surplus of Rs.1,187,412,073 for the preceding year, thus observing an improvement of Rs.592,286,586 in the financial result. Decrease the indemnity payment by Rs.263,883,675 compared to the year 2020, write off the reinsurance indemnity amount of Rs.163,619,152 in the year 2020 which should have been received in 2019 and increase in government grants for administrative expenses of Farmer's Pension and Social Security Benefit Scheme compared to 2020 by Rs.97,000,000 had been mainly attributed for this improvement.

3. Operating Review
3.1 Management Inefficiencies

Audit Observation

Out of 18 posts in the approved cadre of the Scheme, 156 vacancies existed in 14 posts as at the end of the year under review and it was observed in audit that these vacancies have become a hindrance in the discharge of duties of the Head Office, Districts Offices and duties relating to the Field.

Comments of the Management

Although employee recruitment began in the year 2021, employees have been recruited for several vacancies including Assistant Director and Development Officers, while the necessary activities for the recruitment of other employees were being carried out, employee recruitment has been delayed due to the government's suspension. In the future, the required employee recruitment will take place promptly after approval.

Recommendation

Action should be taken to review Existing vacancies and to fill essential vacancies.