

Fishermen's Pension and Social Security Benefit Scheme - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Fishermen's Pension and Social Security Benefit Scheme for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy 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, the National Audit Act No. 19 of 2018 and Fishermen's Pension and Social Security Benefit Scheme Act No. 23 of 1990. My comments and observations which I consider should be reported in 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 give a true and fair view of the financial position of the Scheme as at 31 December 2023, 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 Responsibility 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 determines 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 fund'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 fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per sub Section 16(1) of the National Audit Act, No. 19 of 2018, the Scheme 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 fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the 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 Scheme'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 Scheme'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 Scheme 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 Scheme, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Scheme has complied with applicable written law, or other general or special directions issued by the governing body of the Scheme;
- Whether the Scheme has performed according to its powers, functions and duties; and
- Whether the resources of the Scheme had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

| Audit Observation | Comments of the Management | Recommendation |
|---|--|--|
| (a) Operating activities in the cash flow statement were under stated by Rs.3,410,440 due to a deduction of Rs.98,000 for the prior year adjustment, the amount of Rs.1,746,720 allocated for the death gratuity fund should be added, but the deduction and the payment made from the death gratuity fund amounting to Rs.173,000 were not disclosed and inclusion of Rs.8,000 which was the difference of payable death gratuity balance as additions to changes in working capital contrary to paragraph 4 of Sri Lanka Accounting Standards 7. The investment cash flow was over stated due to the additions of Rs.3,410,440 to investing activities which was the sum of the difference in death gratuity fund account balance and provisions. | An amount of Rs.98,000 as an adjustment related to the preceding year has been included in the cash flow statement as the correction was made this year. Action will be taken to correct adjustments made to operating activities and adjustments made through investing activities. | Cash flow statements should be prepared as per the standard. |
| (b) According to paragraph 59 of Sri Lanka Accounting Standards 37, The life actuarial assessment for the pension liability of Rs.5,532,349,026 had not been done after the year 2007. | I would like to point out that life actuarial assessment is being done along with other newly started social security schemes of the board, and it has been included in the budget document of the year 2024 and the related activities | Actuarial assessment should be done as per the standard. |

are currently being carried out.

1.5.2 Accounting Deficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| (a) Even though the pension liability was Rs.5,532,349,026, the investment value on that day was Rs.793,808,692. Accordingly, sufficient investment was not made to settle these obligations. | No answers have been given. | Adequate investment should be made to settle the pension liability. |
| (b) A total of Rs.1,332,218 was accounted for as salary expenses for two officers who were not directly involved in the respective duties while no carder had been approved by the Department of Management Services. | These officers who have been recruited to perform the duties of the scheme are currently performing other duties. As the duties of the scheme are indirectly performed by other officers, accordingly the salary of these officers has been included in the scheme. | Recruitments should be done and carder must be approved by the Department of Management Services. |

1.5.3 Going Concern of the Scheme

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| (a) Going concern of the scheme is disputed as the total net assets of the scheme continue to be negative and the total liabilities cannot be met by the total assets of the scheme. | This situation has arisen as a result of the scheme not being run on a self-financing basis and the inclusion of government subsidies in determining the premiums. Accordingly, the annual payable pension liability will increase and hence net asset value will also decrease. Due to those reasons, the scheme does not promote new enrolments. | Action should be taken to prevent the total net assets of the scheme from becoming continuously negative. |

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

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

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|------------------|--|--|--|
| (i) Section 5(1) | Any fisherman between the ages of 18 and 59 is eligible to join the Fishermen's Pension Scheme, however no Fishermen's Pension members have enrolled in the scheme after 2018. | Necessary steps are being taken to launch a new fishermen's pension scheme in collaboration with the Ministry of Fisheries in the year 2024 to attract fishermen to the scheme. | New members should be enrolled for the going concern of the Scheme. |
| (ii) Section 7 | Although pensions should have been provided to fishermen who contributed to the scheme upon reaching the age of 60 years, a total of Rs.5,537,581 was recorded as pension arrears in the financial statements, including Rs.4,159,063 for 139 fishermen who were granted pensions between January 2007 and December 2016, and Rs.1,378,518 for 45 fishermen who were granted pensions in 2022 and 2023, but payments were not made to the fishermen. | Lists of contributors who have reached 60 years of age have been obtained from the district offices and sent to the respective offices, and based on these lists, a program has been started to inform the fishermen who are entitled to pensions. As the relevant operations are carried out by the Department of Fisheries and Aquatic Resources, this situation is also communicated to the department, and fishermen are informed through newspaper advertisements. Payment of the outstanding pension arrears was withheld until the reasons for the delays in processing the applications were clarified. Currently, retirement pensions, including the arrears, are being paid. | A plan should be formulated to provide retirement pensions to fishermen who have contributed to the scheme upon reaching the age of 60 |
| (iii) Section 16 | Although the contributor should be informed about the loss of benefits due to non-payment of premiums for ten consecutive installments, this was not done due to the lack of a proper system for collecting and reporting premium payments. | The loss of benefits due to the non-payment of premiums for ten consecutive installments is clearly stated in the "Pension deed" provided when enrolling in the pension scheme and the board continuously provides necessary instructions to the District Fisheries Extension Officers, who are responsible for collecting premiums from contributors, to verify whether a contributor's membership | The contributor should be informed regarding the loss of their benefits. |

- has been cancelled and to ensure the proper collection of premiums.
- (iv) Section 20 The advisory committee established for the implementation of the scheme has not met since November 2016. As new enrollments for the Fishermen's Pension Scheme are planned to commence in 2024, arrangements will be made to convene the Fishermen's Pension Advisory Committee within this year. The Fishermen's Pension Advisory Committee should be convened.
- (b) Section 02(c)(iii) of Budget Circular No. 01/2023, dated 27 January 2023 Rs.557,736 has been paid to 4 officers as allowances for overseeing the pension section, despite the absence of an approved staffing structure from the Management Services Department. The Board's officials have been assigned additional responsibilities related to the pension scheme under the Ministry of Fisheries. There is no separate staffing structure approved for the duties associated with the fisheries pension scheme. Allowances are paid to cover these additional responsibilities. The necessary funds are provided to the Board by the Ministry of Fisheries. These payments have been made since the inception of the fisheries pension scheme in 1991. The payments have received approval from the Fisheries Pension Advisory Committee, the Board of Directors, and the relevant Ministerial Secretary. A staffing procedure approved by the Management Services Department should be established.

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a deficit of Rs.425,104,832, as compared with the corresponding deficit of Rs.406,060,646 of the preceding year, thus observing a decline of Rs.19,044,186 in the financial result. This decrease was primarily due to an increase of Rs.40,412,125 in pension liabilities for the reviewed year compared to the previous year.

3. Operating Review
3.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|---|---|---|
| The scheme has 64,117 contributors, with no new enrollments since 2018. As of December 31, of the year under review, out of 31,146 contributors who had reached the retirement age of 60 years, 24,187 (including 5,549 contributors who had made lump-sum payments) had not received their pension benefits. | Lists of contributors who have turned 60 years have been obtained from district offices, and program to inform fishermen about their benefits has started, including newspaper announcements. Since the Department of Fisheries and Aquatic Resources handles these operations, efforts are being made to inform the department about this situation as well. | Action must be taken to ensure payments are made when contributors reach the age of 60. |