

## Farmers' Pension and Social Security Benefit Scheme-2010

### 1. Financial Statements

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#### 1:1 Opinion

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Farmers' Pension and Social Security Benefit Scheme had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with the Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Farmers' Pension and Social Security Benefit Scheme as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

#### 1:2 Comments on Financial Statements

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##### 1:2:1 Going Concern of the Pension Scheme

Balance of the Farmers Pension Fund of the Scheme had decreased to a negative balance of Rs.319.5 million in the year under review from Rs.2,309.3 million in the year 2005 as shown below. According to the Notes to the Financial Statements, all of the funds had exhausted at the end of August 2010 and after that, monthly pension payments have been made by taking short term loans from other existing funds of the Board. Therefore future dependency of the Farmers' Pension Scheme will totally depend on Government Grants. However, according to the financial statements, the future liability of the Fund amounted to Rs.29.5 billion .

<u>Year</u>	<u>Balance of the Fund</u>
	Rs. Million
2005	2,309.3
2006	2,003.7
2007	1,639.8
2008	1,404.8
2009	663.8
2010	(319.5)

### 1.2.2 Accounting Policies

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The Following observations are made.

- (a) Income Statements for the year under review had not been prepared and presented in terms of Sri Lanka Accounting Standard No. 3 .
- (b) Necessary adjustments regarding the changes in depreciation policy during the year under review had not been made in the financial statements as specified in the Sri Lanka Accounting Standard No. 10.
- (c) Government Grant for capital expenditure should be recognized as income, over the periods necessary to match them with the related cost which they are intended to compensate on a systematic basis in terms of Sri Lanka Accounting Standard 24. This requirement had not been complied with by the Scheme.
- (d) Sufficient provision had not been made in the financial statements for future retirement benefits in terms of Sri Lanka Accounting Standards 36 and 42.
- (e) Post-employment benefit obligation should be made using the services of a qualified Actuary or using a Gratuity Formula Method in terms of Sri Lanka Accounting Standards 16 and 42. However gratuity liability had not been computed in accordance with above requirement.

### 1:2:3 Accounting Deficiency

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It was observed that, action had not been taken for the recovery of the value of the unrealized deposits amounting to Rs.1,179,624 relating to 117 cheques deposited in three Bank accounts, remaining as unrealized from the year 1992 to 2007.

### 1.2.4 Accounts Receivable and Payable

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The Following observations are made.

- (a) Nine receivable balances in the accounts amounting to Rs.125,079,264 had remained unrecovered for a period exceeding three years.

- (b) Out of the accounts receivable amounting to Rs. 8,306,122 shown in the balance sheet as at 31 December 2010, only a sum of Rs.2,328,439 or 28 per cent had been confirmed by the parties concerned up to 21 April 2011 .
- (c) Audit fees payable aggregating Rs. 1,682,031 had not been settled for a long period.

### **1.2.5 Unexplained Difference**

According to the financial statements for the year 2010, contributions to the Employees' Provident Fund and Employees' Trust Fund charged to the Income Statement amounted to Rs.4,789,305 and Rs.1,132,352 respectively. The total salary considered for the contributions to the Employees' Provident Fund amounted to Rs 39,910,878 and for the Employees' Trust Fund it was Rs.37,745,071. Even though all employees are entitled to be contributed for the 02 funds at the specified percentages, it was observed that the salary considered for the computation of contributions to the Employees' Trust Fund was lesser by a sum of Rs. 2,165,807. The reasons for the difference was not furnished to audit.

### **1.2.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions**

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

- (a) Bank Reconciliation Statements had not been prepared in terms of Financial Regulation 395 in respect of two Bank accounts.
- (b) A sum of Rs.1,475,000 had been paid to the University of Colombo School of Computing (UCSC) for Programming of new software for the Scheme without following tender procedure in terms of the Procurement Guidelines - 2006 as amended by Circular No.06 dated 5 October 2006.



(b) Total contributions collected from the farmers for the Scheme and the payment of pensions for the year under review and the 05 preceding years are given below.

<u>Year</u>	<u>Contributions</u>	<u>Payment of Pensions</u>
	Rs. Million	Rs. Million
2005	161.8	415.2
2006	214.7	550.3
2007	222.6	685.7
2008	163.1	809.1
2009	148.7	955.6
2010	136.7	1,044.7

(c) The Capital and Reserves of the Scheme had decreased from Rs.2,529.2 million in 2005 to a negative balance of Rs.295.3 million or 111.7 per cent in the year 2010. Details are as follows.

<u>Year</u>	<u>Balance of Capital and Reserves</u>
	Rs. Million
2005	2,529.2
2006	2,247.5
2007	1,911.1
2008	1,427.8
2009	688.0
2010	(295.3)

(d) The investments had decreased rapidly since the year 2006 while the income from investments had also recorded a sharp decrease in the years 2009 and 2010 as shown below.

<u>Year</u>	<u>Investments</u>	<u>Interest Income</u>
	Rs. Million	Rs. Million
2005	2,488.6	198.9
2006	1,985.3	264.4
2007	1,656.0	251.3
2008	1,256.1	243.9
2009	582.2	138.9
2010	3.5	14.9

According to the above information, Investments had decreased from Rs.2,488.6 million in 2005 to Rs.3.5 million or 99.9 per cent in the year 2010 and Interest income had decreased from Rs.264.4 million in 2006 to Rs.14.9 million or 94.4 per cent in the year 2010.

## **2:2 Operating Review**

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### **2:2:1 Performance**

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Even though contributions amounting to Rs.55,478,000 from 10,000 enrolments had been targeted for the year under review, the actual contributions collected amounted to Rs.11,459,433 from 4,902 contributors. Accordingly, actual financial achievement amounted to 20.6 per cent and the actual enrolments was 49 per cent, The progress of achievement of 06 districts had been below 10 per cent.

### **2:2:2 Implementation of Projects**

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The following observation are made.

- (a) Even though a sum of Rs. 21.5 million had been paid since the year 1987 for computerizing the personal accounts of the contributors of the Scheme, the accounts had not been updated as at 31 December 2010, after lapse of 22 years, since the establishment of the Scheme, while the subsequent premiums of individual contributors had also not been computerized and updated. The Scheme was not in possession of adequate information to determine the contributors becoming eligible for the payment of contributions to the Farmers' Pension and Social Benefits Scheme. Computerizing the data of the contributors had not been updated by the District Offices as well.
- (a) An agreement had been entered into with the University of Colombo in the year 2008 to develop new computerized system for Farmers' Pension and Social Benefits Scheme. The expenditure incurred thereon up to the year under review amounted to Rs.5,479,120. According to the agreement the project should be completed within six months, but it had not been completed even by the end of the year under review.

### 2.2.3 **Financial Management**

Information relating to the number of contributors who had left the Scheme and the number of leavers at the stage of second and subsequent premiums during the year under review had not been submitted to audit .

### 2:2:4 **Matters of Contentious Nature**

The following observations are made.

- (a) According to the Cabinet Memorandum dated 26 September 2006 it was decided to allocate Rs.176 million from the Farmers' Pension and Social Security Benefits Scheme for the payment of compensation to the farmers who were affected due to closing of Mavil Aru Anicut. However, investments amounting to Rs. 194,169,155 had been discounted for this purpose and a sum of Rs.120,198,639 had been paid as compensation. The compensation paid had been shown continuously as receivable from the Treasury.
- (b) Forty eight cheques valued at Rs.2,791,679 and Bank Drafts valued at Rs.7,152,249 had been misappropriated in the year 2008 by 02 Directors and one Assistant Director of the Agricultural and Agrarian Insurance Board which had managed the Scheme . The Board had informed me that a case in this connection had been filed in the High Court.

### 2:2:5 **Budgetary Control**

Significant variances were observed between the budgeted and actual of income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 3. **Systems and Controls**

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

- (a) Computerized System.
- (b) Financial Management.
- (c) Pension Payments and Unpaid Pensions