

## **Fishermen's Pension and Social Security Benefit Scheme -2012**

### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 1.2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Going Concern of the Pension Scheme**

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The pension liability had been assessed and established during the year under review and the provision charged against the income had resulted a huge negative impact of the financial results for the year under review and the preceding year. Accordingly, the provision will be increased in future years and would be resulted to increase the future losses. Further the net assets position shows a negative figure in the financial statements as a result of establishing pension liability. This had been badly affected to the going concern of the Pension Scheme.

##### **1.2.2 Compliance with Sri Lanka Accounting Standards**

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Following observations are made

- (a) Financial Statement had not been prepared in terms of SLFRS 1, First Time Adoption of Sri Lanka Accounting Standards.
- (b) In terms of LKAS 39, Financial instruments such as, Loans and receivables, available for sale had not been at fair value through profit or loss in a financial assets.

- (c) Disclosures had not been made in terms of SLFRS 07 related to financial instruments.
- (d) In terms of LKAS 19, Actuarial valuation and its accounting had not been done for the defined benefit plan in order to discharge the obligation under a defined benefit plan. The contribution by the employer also had not been invested.
- (e) In terms of LKAS 19, Actuarial valuation for pension liability had been done in the year 2007 and thereafter no actuarial valuation had been done for the pension liability up to 20 May 2013.

### **1.2.3 Accounting Deficiencies**

Following Accounting Deficiencies were observed.

- (a) According to the circular no 01 dated 19 March 1991, Chairman of the Board and the director of Fisheries and Aquatic Department had agreed to reimburse the administration expenses of the Fishermen's Pension and Social Security Benefit Scheme and accordingly these expenses were reimbursed up to the year of 2010. However the amount receivable for the year 2011 had also been shown in the financial statements as receivable. The amount receivable for the year under review had not been taken into account, and as a result the income for the year had been understated by the same amount.
- (b) The commission paid, amounting to Rs.371,190 for the year under review had been deducted from the pension liability. This commission had not been included when assessing the pension liability. Therefore pension liability had been understated by the same amount.
- (c) According to the financial statements, it was observed that salary expenses and gratuity provision had been made for 6 employees of the Scheme. According to the physical inspection it was observed that only 4 employees had been allocated to the fisherman pension division and the salary and gratuity should be provided only for these employees. Therefore salary expense of Rs. 602,864 and gratuity provision of Rs.304,360 had been overstated in financial statements.

#### 1.2.4 Unexplained Differences

The following Unexplained Differences were observed in audit as per information received from the fisheries division. These differences had not been reconciled, even up to 20 May 2013. Details are given below.

Details	Amount as per the	Amount as per the	Difference
	financial statements	record maintained by the fisheries division	
	Rs.	Rs.	Rs.
Contribution to the fishermen's pension	3,442,392	2,934,986	507,406
Repayment of net contribution	506,856	191,600	315,256
Repayment of net interest	433,133	204,168	228,965
Payment of dead gratuity	658,797	826,000	(167,203)

#### 1.2.5 Accounts Receivable and Payable

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 Following observations are made.

- (a) A sum of Rs.608 million had been paid as loan to the Farmers' Pension fund to pay farmers' pensions and the outstanding amount including interest as at the balance sheet date was Rs.608 million .The Fishermen's Pension Fund had failed to recover the outstanding amount even up to 20 May 2013.
- (b) Audit fees payable aggregating to Rs.1,059,025 had not been settled for long period of time.
- (c) The unpaid fisherman pension amounting to Rs. 823,980 had not been shown as payable balance in the statement of financial position for the year under review.

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

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

Reference to laws, rules etc. -----	Non- Compliance -----
(a) Fishermen's Pension and Social Security Benefit Scheme Act, No.23 of 1990 -----	
(i). Section 20	Although the consultants committee should consist of 12 members, comprising 06 ex-officio members and 06 nominated members as per provisions, only 06 members had been appointed for the year 2012.
(ii). Section 26	Action had not been taken to inform the relevant members regarding the cancellation of membership who had defaulted membership fees in term of the Act.
(b) Public Enterprises Circular No. PED 12 dated 02 June 2003 -----	
(i) paragraph 7 of chapter 9	Special allowances totaling to Rs. 352,428 had been paid to certain officers without obtaining the approval of the Treasury.

## 1.2.7 Transactions of Contentious Nature

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The interest amounting to Rs.55,301,495 had been recognized as interest income in the year under review on funds granted to the Farmers' Pension and Social Security Benefit Scheme for the payment of farmers' pension. However there was no any agreement to make payment of fixed rate of interest between these two schemes. Since this interest income represented 92.5 percent of the total income for the year under review, recognizing the above amount as interest income of the Scheme is open to question.

## 2. Financial Statements

### 2.1 Financial Results

According to the financial statements presented, the working of the Scheme for the year under review had resulted in an operating surplus of Rs. 30,667,022 as compared with the corresponding surplus of Rs.15,705,562 for the preceding year, thus indicating an increase of Rs.14,961,460 or 95 per cent in the financial results. Details are given below.

	Year ended 31 December		Variation
	2012 Rs.	2011 Rs.	%
Interest Income	59,813,431	40,525,747	47.6
Fishermen's Contribution	3,442,392	3,025,262	13.78
Pension Payments	(29,496,923)	(24,636,392)	(19.72)
Other Operating Expenditure	<u>(3,091,878)</u>	<u>(3,209,055)</u>	3.6
Operating Surplus	30,667,022	15,705,562	95.0
Operating Grant	-----	1,500,000	
Increase of Pension Liability	(181,213,000)	(170,403,000)	(6.0)
Administrative & Finance Expenses	<u>(4,147,199)</u>	<u>(4,180,860)</u>	0.8
Overall deficit for the year	<u>(154,693,177)</u>	<u>(157,378,298)</u>	1.7

Following observations are made in this regard.

- (a) The interest income had been increased by 47.59 percent compared with the preceding year due to increase of interest receivable on loan given to the farmer's pension and social security benefit Scheme. The interest of treasury bill was Rs.4,511,936 and it was 7.5 per cent from the total interest income.

- (b) The fishermen's contribution had been increased by 13.78 percent compared with the preceding year. Although total contribution to the pension fund for the year under review was Rs. 3,442,392, total pension payment for the year under review was Rs.29,496,923. Therefore pension payment exceeds the contribution by 757 per cent.
- (c) Pension liability as at the statement of financial position date had been assured in terms of SLAS 36 based on actuarial valuation done in the year 2007. The increase of pension liability was shown as Rs. 181,213,000 in the financial statements for the year under review .
- (d) Balance of the Fishermen's Pension Fund of the Scheme had decreased from Rs. 27.4 million or 44 percent in the year under review as compared with the preceding year.

### **3. Operating Review**

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#### **3.1 Performance**

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Following observations are made.

- (a). The Board had not taken action to create any promotional programme for recruitments of contributors to the scheme during the year under review.
- (b). Although 2,140 contributors had been targeted for the year under review, the actual number of contributors enrolled was only 498 thus showing an achievement of only 23.27 per cent. It was also observed that even a single contributor had not been enrolled in three districts.
- (c). Although the financial target of enrolment amounted to Rs. 4,117,000 for the year under review; the actual contribution was only Rs. 2,104 381. It was also observed that the reason for the low performance was that no any single contributor had been enrolled in two districts and one contributor had been enrolled in five districts .
- (d). Although the target of second and subsequent premium collection amounted to Rs. 5,978,000 from 39,854 contributors for the year under review, the actual collection amounted to Rs.830,605 from 1,122 contributors only. Accordingly, actual financial achievement was only 13.89 per cent and the actual enrolment progress was only 2.81 per cent, while 11 districts had not collected even a single premium.

- (e) According to the Financial Statement, pension payment amounting to Rs. 29,496,923 had been paid while total contributions collected was only Rs. 1,793,052 or 6.0 per cent from collected contributions during the year under review.

### **3.2 Operating Inefficiencies**

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The Board had not taken action to identify contributors whose membership of the Fishermen's Pension Scheme had not been forfeited and to recover the installments in arrears.

### **4. Systems and Controls**

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Deficiencies observed in system and controls during the course of audit were brought to the notice of the Board by my detailed report issued in terms of Section 13(7) a of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Achievement of Objectives
- (b) Payments of Benefits to Fishermen
- (c) Cash Receivable
- (d) Recovery of the 2<sup>nd</sup> and post installments
- (e) Function of the consultation committees