

## Farmers' Pension and Social Security Benefit Scheme -2012

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### 1. Financial Statements

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#### 1:1 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 Farmers' 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 Scheme

Balance of the Farmers' Pension fund had decreased to a negative balance of Rs 48,945.1 million by the end of the year under review from positive balance of Rs. 2,003 million in the year 2006 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 had been made by taking short term loans from other existing Funds of the Agricultural and Agrarian Insurance Board. Therefore future dependency of the Farmers' Pension Scheme would totally depend on Government Grants.

<u>Year</u>	<u>Balance of the Fund</u>
	Rs. Million
2006	2,003.7
2007	1,639.8
2008	1,404.8
2009	663.8
2010	(40,536.7)
2011	(44,154.2)
2012	(48,945.1)

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

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The Following observations are made

- (a) Financial Statements 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 fair value through profit or loss, held to maturity, Loan and receivable and available for sale had not been recognized.
- (c) Disclosures had not been made In terms of SLFRS 07 related to financial instruments.
- (d) Actuarial valuation and its accounting had not been done for the define benefit plan. In order to discharge the obligation under the defined benefit plan In terms of LKAS 19 further contributions made by the employer and the employees had not been invested.
- (e) The last, actuarial valuation of pension liability had been done in the year 2007, and since then no actuarial valuation had been done for the pension liability. Hence the accuracy of the liability shown in the financial statements is open to question.

### **1:2.3 Accounting Deficiencies**

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The following accounting deficiencies were observed in audit.

- (a) The pensions paid to farmers amounting to Rs. 7,305,897 in Anuradhapura and Polonnaruwa District had not been deducted from the pension liability in the financial statements for the year under review. Hence pension liability as at the date of statement of financial position had been overstated by the same amount.
- (b) Commission paid to the Post Offices withdrawals pension payments in the year 2012 amounting to Rs.6,148,860 had been deducted from the pension liability instead of being accounted for as commission .

### **1.2.4 Accounts Receivable and Payable**

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The Following observations are made.

- (a) Out of the total balances of receivable income amounting to Rs. 4,654, 023 shown in the statements of financial position as at 31 December 2012, only a sum of Rs. 2,111,885 or 45 per cent had been confirmed by the respective parties concerned.
- (b) Audit fees payable aggregating Rs, 2,382,031 had not been settled over a long period of time.
- (c) As the Farmers' Pension Scheme had exhausted all of its funds, monthly pension payments had been made by obtaining short term loans of Rs 553,014,955 from Fisherman's Pension Scheme and Rs. 260,976,074 from Agricultural and Agrarian Insurance Board. Those loans and interest thereon had not been settled even up to 20 May 2013.

#### **1:2:5 Matters of Contentious Nature**

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The following observations are made.

- (a) Forty eight cheques valued at Rs. 2,791,679 and Bank Drafts valued at Rs.7,152,249 of Farmers' Pension and Social Security Benefits Scheme had been misappropriated in the year 2008 by 02 Directors and one Assistant Director of the Board. The Board had informed me that a case in this connection had been filed in the High Court.
- (b) The case filed against the field officer who was misappropriated pension money amounting to Rs. 369,590 had been dismissed during the year under review. Only Rs.100,000 had been recovered from him and the case was closed. Therefore balance of Rs. 269,590 could not be recovered, and necessary adjustments had not been made in the accounts.

#### **1.2.6 Lack of Evidences for Audit**

Following item in the accounts could not be satisfactorily verified in audit due to lack of documentary evidences up to 20 May 2013.

Description	Amount Rs.	Evidence not available
The pensions payments made for 936 farmers in Anuradhapura and Polonnaruwa Districts	3,288,000	Details schedules of Pension payments

## **2. Financial Review**

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### **2:1 Financial Results**

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According to the financial statements presented, the working of the Scheme for the year under review had resulted in a deficit of Rs. 4,670,653,346 as compared with the corresponding deficit of Rs.3,617,570,557 for the preceding year, thus indicating an increase of deficit by Rs.1,053,082,789 or 29 percent in the financial results. Details are given below.

	.2012 Rs.	.2011 Rs.	Variance Percentage
Interest Income	2,702,921	1,566,195	72.6
Farmers Contributions	55,475,042	108,458,800	(48.8)
Pension Payments	(1,380,677,601)	(1,226,744,103)	(12.5)
Other Operating Expenses	(52,552,338)	(54,806,188)	4.1
Revenue Over Expenditure	(1,375,051,976)	(1,171,525,296)	(17.37)
Government Grant	8,232,560	664,855,487	(98.8)
Increase of Pension Liability	(3,216,991,000)	(3,059,459,000)	(5.1)
Amortization of Government Grant	1,320,949	1,227,701	7.6
Income For Administration	66,292,332	68,159,142	(2.7)
Administrative and Finance Expenses	(154,456,210)	(120,828,592)	(27.8)
Overall deficit for the year	<u>(4,670,653,346)</u>	<u>(3,617,570,557)</u>	(29.11)

Followings are affected to the above result.

- (a) The interest income had been increased by 72.6 percent as compared with the preceding year.

- (b) The farmers’ contribution had been decreased by 48.8 percent as compared with the preceding year.
- (c) Farmer’s Pension liability as at the balance sheet date had been determined in terms of LKAS 37 based on actuarial valuation done in the year 2007. The increase of pension liability was shown as Rs. 3,216,991,000 in the financial statements for the year under review and corresponding figures had been restated.
- (d) Government Grant of Rs.8.23 million had been received to pay the pension for the year under review. It had been decreased by 98.8 percent compared with the corresponding figures of the preceding year.

## **2:2 Analytical Review of the Financial Results and the Financial Position**

The Following observation are made.

(a) Even though a part of the administrative expenses had been met from the Government Grants, the financial position of the Fund continued to be in a critical position. The financial results of the Fund had deteriorated from a Deficit of Rs. 235 million in 2008 to a deficit of Rs. 4,671 million in 2012 as shown below. As such there is a serious uncertainty about the viability of the Farmers’ Pension Fund.

According to the financial results of past 5 years, net deficits were as follows.

	2012	2011	2010	2009	2008
	Rs.(000)	Rs.(000)	Rs.(000)	Rs.(000)	Rs.(000)
Total Income	61,148	115,434	170,898	306,607	431,209
Total Expenditure	(1,587,686)	(1,402,379)	(1,195,110)	(1,103,779)	(951,623)
Increase of pension liability	(3,059,459)	(2,938,033)	-	-	
Net Surplus(Deficit)	(4,743,529)	(4,346,404)	(3,962,245)	(797,172)	(520,414)
Government grant	71,555	727,605	39,500	55,860	285,000
Amortization of Govt: Grant	1,321	1,228	1,477	-	-
Net Surplus/ (Deficit) after G/G	(4,670,653)	(3,617,571)	(3,921,268)	(741,312)	(235,414)

- i. The income had been decreased gradually by 85 percent during the period of 2008 to 2012, due to non promoting for enrollment, whereas the total expenditure had increased by only 67 percent during the same period, due to increase number of farmers entitled to pension and withdrawal made from scheme.
- ii. The net surplus before Government Grant had gradually decreased during the period of 2008 to 2012, due to establishing the pension liability in real terms and increase of expenditure.

(b) Total contributions collected from the farmers for the Scheme and the payment of pensions for the year under review and the 04 preceding years are given below.

<u>Year</u>	<u>Contributions</u> <u>Rs. Million</u>	<u>Payment of Pensions</u> <u>Rs. Million</u>
2008	163.1	809.1
2009	148.7	955.6
2010	136.7	1,044.7
2011	97.6	1,226.7
2012	49.6	1,380.7

(c) The investments had decreased rapidly since the year 2007, and as a result the income from investments had recorded a sharp decrease in the year 2012 as shown below.

<u>Year</u>	<u>Investments as at</u> <u>the end of the year</u> Rs. Million	<u>Interest Income</u> <u>for the year</u> Rs. Million	
According to information decreased million in million or 99 million and decreased million in	2007	251.3	the above investments had
	2008	243.9	from Rs.1,656
	2009	138.9	2007 to Rs.12.4
	2010	14.9	per cent in the year
	2011	1.6	Interest income had
	2012	2.7	from Rs.251.3
			2007 to Rs.2.7

million or 98.92 per cent in the year 2012.

### 3 **Operating Review**

#### 3.1 **Performance**

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The Following observations are made.

- (a).The funds of the Scheme had entrusted in 2010 and as a result enrollments had been stopped due to increase of the financial arrears of the Scheme. A final decision had not been taken on the operation of Scheme. Therefore an action plan, had not been prepared for the Farmers Pension and Social Security Benefit Scheme for the year 2012
- (b) Second and subsequent premium amounting to Rs. 58,428,092 had been collected during the year under review.
- (c) No any single farmer had been enrolled to the scheme during the year under review.

#### 3.2 **Management Inefficiencies**

The Following observations are made

- (a) Action had not been taken to recover the value of the unrealized deposits amounting to Rs.1,179,624 relating to 116 cheques deposited in three Bank accounts, remaining as unrealized since 1992 Details as follows.

A/C No	Deposited period	No of cheque	Value Rs.
100-150-112345	1992-2000	81	1,112,339
100-150-112347	1993-2012	07	40, 650
100-150-112344	1993-1998	<u>28</u>	<u>26 635</u>
		<u>116</u>	<u>1,179,624</u>

#### 3.3 **Delay in Projects.**

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The following observations are made.

- (a) Even though a sum of Rs. 21.5 million had been paid since the year 1987 for the computerizing of the personal accounts of the contributors of the Scheme, the computerization of accounts had not been completed or even updated by 31 December 2012, after lapse of 25 years. 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. Accounts of the contributors had not been updated by the District Offices as well.

- (b) 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. However, it had not been completed even by the end of the year under review.

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

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Deficiencies observed in systems and control during the course of audit was 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) Computerized System.
- (b) Financial Management.
- (c) Pension Payments and Unpaid Pensions.