

## **Farmers' Pension and Social Security Benefit Scheme - 2013**

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The audit of financial statements of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity and the cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, 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 Section 28 (4) of the Farmer's Pension and Social Security Benefit Scheme Act, No.12 of 1987 and Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Agricultural and Agrarian Insurance Board in terms of Section 14 (2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit..

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### 1.4 Basis for Qualified Opinion

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My opinion is qualified based on the matters described in paragraph 2.2 of this report

### 2. Financial Statements

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#### 2.1 Qualified Opinion

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In my opinion, except for the effect of the matters described in paragraph 2.2 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 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### 2.2 Comments on Financial Statements

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##### 2.2.1 Going Concern of the Scheme

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The Scheme had a negative Pension Fund account balance of Rs. 53,968.5 million by the end of the year under review and it had been increased continuously since the year 2010 as compared with a positive balance of Rs. 663.8 million in the year 2009 due to making the pension payments by obtaining loans from other existing funds of the Board instead of being collecting the adequate contribution from the members of the Scheme. Thus the ability of the Scheme to continue as a going concern without the financial assistance from the General Treasury other Funds is doubtful. The balance in the Fund account of the Scheme for the year under review and previous four years period are given below.

<b>Year</b>	<b>Fund Account Balance</b>
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	<b>Rs. million</b>
2013	(53,968.5)
2012	(48,945.1)
2011	(44,154.2)
2010	(40,536.7)
2009	663.8

##### 2.2.2 Non-Compliance with Sri Lanka Accounting Standards (LKAS)

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In terms of LKAS. 19, the actuarial valuation for pension liability had been done in the year 2007 and thereafter no actuarial valuation had been done for the pension liability. Further, according to the LKAS. 19, the actuarial valuation and accounting had not been done for the define benefit plan and the contribution had not invested by the employer in order to discharge the obligation under a defined benefit plan.

##### 2.2.3 Accounting Deficiencies

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The following accounting deficiencies were observed in audit.

- (a) Gratuity provision for an interdicted employee since 2012 had not been made, thus the gratuity liability had been understated by Rs. 280,170.
- (b) Value of stock shown in the financial statements amounting to Rs. 2,244,279 had been understated by Rs. 197,990 due to erroneous calculations.
- (c) The pensions paid to the farmers in the Anuradhapura and Polonnaruwa Districts amounting to Rs. 7,305,897 during the year 2012 had not been deducted from the pension liability up to the end of 31 December 2013. Hence, the pension liability had been overstated by the same amount as at 31 December 2013.
- (d) Commissions paid to the Post Offices for year 2012 amounting to Rs. 6,148,860 had been deducted from the pension liability instead of being accounted separately. Thus the said liability had been understated by such amount.
- (e) Income receivable amounting to Rs. 74,918 which confirmed by the respective debtors had been omitted in the financial statements.

#### **2.2.4 Accounts Receivable and Payable**

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The following observations are made.

- (a) Out of the total balances of income receivable amounting to Rs. 6,546,279 shown in the statement of financial position as at 31 December 2013, only a sum of Rs.3,356,891 or 51.27 per cent had been confirmed by the respective parties concerned.
- (b) Audit fees payable aggregating Rs. 2,632,031 had been continuously brought to the financial statements since 1997 without being settled.
- (c) Short term loans obtained for the payment of pension liability in 2010 and interest payable thereon amounting to Rs. 934,123,406 had remained in the accounts without being settled up to end of the year under review.
- (d) Income receivable amounting to Rs. 714,497 had remained in the accounts without being collected from the respective parties since 2006.

### **3. Financial Review**

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#### **3.1 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. 5,026,459,340 as compared with the corresponding deficit of Rs. 4,670,653,340 for the preceding year, thus indicating a further deterioration of Rs.355, 806,000 or 7 per cent in the financial results.

The main reasons for the above deterioration are given below.

- (a) The decrease of interest income and farmers' contribution by 31 per cent and 35 per cent respectively as compared with the corresponding income and contribution of the preceding year.
- (b) The group insurance premium expenses for the year under review were 815 per cent and 800.3 per cent as compared with the life insurance premium income received and the total farmers' contribution received respectively. Further the Group insurance premium had been paid on the basis of average number of farmers without considering the actual number of farmers.
- (c) Farmer's pension liability as at the balance sheet date had been increased by Rs.71,362,000 in terms of LKAS 36 based on actuarial valuation done in the year 2007.

### **3.2 Analytical Financial Review**

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According to the information made available, the following table gives the highlights of the financial results for the year under review and the previous 04 years.

	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>	<b>Rs.000</b>
Total Income	40,104	61,148	115,434	170,898	306,607
Total Expenditure	(1,847,921)	(1,587,686)	(1,402,379)	(1,195,110)	(1,103,779)
Increase of Pension Liability	(3,288,353)	(3,216,991)	(3,059,459)	(2,938,033)	-
Deficit for the year Before Government Grant	(5,096,170)	(4,743,529)	(4,346,404)	(3,962,245)	(797,172)
Government Grant	69,000	71,555	727,605	39,500	55,860
Amortization of Government Grant	711	1,321	1,228	1,477	-
Deficit After the Government Grant	(5,026,459)	(4,670,653)	(3,617,571)	(3,921,268)	(741,312)

The following observations are made in this regard.

- (i) The income had decreased gradually by 87 per cent during the period from 2009 to 2013, whereas the total expenditure had increased by 67 per cent during the same period.

- (ii) The net surplus before the Government grant had drastically decreased during the period from 2009 to 2013 due to establishing the pension liability in real terms and increase of expenditure.

#### **4 Operating Review**

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##### **4.1 Performance**

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The following observations are made.

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

<b>Year</b>	<b>Contributions</b>	<b>Pension Expense</b>
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	<b>Rs. million</b>	<b>Rs. million</b>
2013	32.1	1,646.98
2012	49.6	1,380.7
2011	97.6	1,226.7
2010	136.7	1,044.7
2009	148.7	955.6

The payments of pension for the last five years continuously increased drastically meanwhile the contribution received had been gradually decreased due to the inability of enroll the Farmers to the Scheme.

- (b) The second and subsequent premium amounting to Rs. 38,229,878 or 31 per cent out of the budgeted amount of Rs. 122,666,000 had only been collected during the year under review.
- (c) No any single farmer had been enrolled to the Scheme during the year under review.
- (d) A sum of Rs. 3,318,494 was refunded to 81 contributors as their membership of the Scheme forfeited during the year under review.
- (e) The investments and the interest income thereon had rapidly decreased since the year 2008 as sown below.

<b>Year</b>	<b>Investments</b>	<b>Interest Income</b>
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	<b>Rs. million</b>	<b>Rs. million</b>
2013	14.5	1.9
2012	12.4	2.7
2011	30.7	1.6
2010	3.5	14.9
2009	582.2	138.9
2008	1,256.1	243.9

According to the above information investments had decreased from Rs.1,256.1 million in 2008 to Rs.14.5 million or 99 per cent in the year 2013 and interest income had also decreased from Rs. 243.9 million in 2008 to Rs. 1.9 million or 99 per cent in the year 2013.

#### **4.2 Deficiencies in Operation of Bank Accounts**

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The Scheme had not taken proper action in respect of 117 unrealized cheques valued at Rs. 1,179,624 shown in the bank reconciliation statements since 1992.

#### **4.3 Delays 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 computerizing the personal accounts of the contributors of the Scheme, such accounts had not been computerized and updated even by 31 December 2013 after lapse of 25 years. Further, the Scheme had not maintained adequate information to determine the contributors becoming eligible for the payment of contributions to the 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 a new computerized system for the Scheme. The expenditure incurred thereon up to the year under review amounted Rs. 5,479,120. According to the agreement, the Project should be completed within the six months period, but it had not been completed even by the end of the year under review.

#### **4.4 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 had been misappropriated in the year 2008 by 02 Directors and one Assistant Director of the Board. A case in this connection had been filed in the High Court and not so far settled.
- (b) A case was filed against the field officer who had misappropriated pension money of Rs. 369,590 had been dismissed during the year under review. Only a sum of Rs. 100,000 had been recovered from him and the case was closed. Therefore, the balance of Rs. 269,590 could not be recovered and the necessary adjustments had not been made in the accounts up to end of 31 December 2013.

## **5. Accountability and Good Governance**

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### **5.1 Delays in the Presentation of Financial Statements**

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According to the Paragraph 04.3 of the Public Finance Circular No.PF/423 of 22 December 2006, the financial statements of the Fund for the year under review should be submitted to the Auditor General within 02 months after the close of the financial year. However, the financial statements for the year under review had been submitted for audit only on 10 April 2014.

### **5.2 Corporate Plan**

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Even though the Board had prepared a Corporate Plan for the period 2014 – 2016, it had not been updated for the year 2013 in terms of Section 5.1.3 of the Department of Public Enterprises Circular No. PED/ 12 of 02 June 2003.

### **5.3 Budgetary Control**

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

## **6 Systems and Controls**

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

- (a) Accounting.
- (b) Control over the Contributors' Accounts.
- (c) Pension Payments.
- (d) Budget.
- (e) Accounts Receivable and Payable.