

Fishermen’s Pension and Social Security Benefit Scheme - 2014

The audit of financial statements of the Fishermen’s Pension and Social Security Benefit Scheme for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and 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 Fishermen’s Pension and Social Security Benefit Scheme Act, No.23 of 1990 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. A detailed report in terms of Section 13(7) (a) of the Finance Act was issued to the Chairman of the Board on 22 July 2015.

1.2 Management’s Responsibility for the Financial Statements

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

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 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

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects 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 Fishermen's Pension and Social Security Benefit Scheme as at 31 December 2014 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

2.2.1 Going Concern of Pension Scheme

The pension liability had been assessed and re-established during the year under review and the provision made thereon amounting to Rs 211,396,733 had been charged against the income for the year under review as well as for the preceding years. Therefore, it had been badly affected to the financial results of the respective years. As a result, the negative net asset position of the Scheme as at 31 December 2014 was increased to Rs.1,930,371,414. Accordingly, there was a possibility to increase this provision in future years too and it would be adversely affected to the going concern of the Scheme.

2.2.2 Non adhering with Sri Lanka Accounting Standards (LKAS)

The following non-adhering with LKAS are observed in audit.

- (a) **LKAS - 07, Cash Flow Statement** - Provision for Pension liability amounting to Rs.211,396,733 had been shown as cash flows from financing activities in the cash flow statement instead of being shown as operating activities.
- (b) **LKAS- 19, Employee Benefits** - The number of active contributors and pensioners had been decreased from 54,248 to 30,735 or 40 per cent during the period from 2007 to 2014 while the provision for liability had been increased from Rs.1,242 million to Rs.2,556 million or 100 per cent during the same period. However, the actuarial valuation for pension liability had been done only in the year 2007.

Even though, the actuarial valuation and accounting had been done for the define benefit plan in terms of the provision in the Standard, the contributions had not been invested by the Scheme in order to discharge the future obligation under a defined benefit plan.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The bank balance amounting to Rs.332,401 relating to a bank account of the Scheme had been disclosed under the income receivables instead of being shown as cash and cash equivalents. Hence, the cash and cash equivalents had been understated by same amount.
- (b) Provision for Gratuity had been understated by Rs.110,610 due to a computation error.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs.646 million (loan and interest) given to the Farmers Pension and Social Security Benefit Scheme in the year 2007 had been continuously carried forward in the financial statements without being recovered.
- (b) Audit fees payable aggregating Rs.1,159,250 had been continuously brought forward since 1998 in the accounts without being settled for.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

<u>Reference to Laws, Rules, Regulations and Management Decisions etc.</u>	<u>Non-compliance</u>
(a) Fishermen's Pension and Social Security Benefit Scheme Act, No.23 of 1990	
(i). Section 20	Although the Consultants Committee should be consist of 12 members comprising 06 ex-officio members and 06 nominated members, only 06 members had been appointed for the year 2014.
(ii). Section 26	Action had not been taken to inform the relevant defaulted members regarding the cancellation of their membership in terms of provisions in the Act.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003.	
(i) Paragraph 9.7 of Chapter 9	Special allowances totalling to Rs. 522,295 had been paid to certain officers without being obtained the required approval from the General Treasury.

3. Financial Statements

3.1 Financial Results

According to the financial statements presented, the operation of the Scheme for the year under review had resulted in a net loss of Rs. 7,170,305 as against the net profit of Rs.12,194,196 for the preceding year, thus indicating a deterioration of Rs.19,364,501 or 159 per cent in the financial results.

The decrease of total income by Rs.13,761,226 or 24 per cent and increase of total expenditure by Rs.5,603,275 or 13 per cent as compared with the preceding year were the main reasons attributed for the above deterioration.

3.2 Analytical Financial Review

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

	for the year ended 31 December		
	2014	2013	Changes {Increase/ (Decrease)}
	Rs.	Rs.	Percentage
Interest Income	38,533,361	52,346,551	(26)
Fishermen's Contribution	1,456,710	2,904,746	(50)
Grant for Recurrent Expenditure	3,000,000	1,500,000	100
Total Income	42,990,071	56,751,297	(24)
<u>Less : Expenses</u>			
Pension Payments	(41,867,619)	(37,367,889)	12
Other Operating Expenditure	(3,459,264)	(3,226,101)	7
Administrative and Finance Expenses	(4,833,493)	(3,963,111)	22
Total expenses	(50,160,376)	(44,557,101)	13
Profit/(loss) for the year	<u>(7,170,305)</u>	<u>12,194,196</u>	<u>(159)</u>

The following observations are made in this regard.

- (a) Although the total contributions to the Scheme for the year under review was Rs.1,456,710, the total pension payments for the year under review was Rs. 41,867,619. Therefore, the pension payments exceeded against the contributions received by 2,874 per cent.
- (b) The balance in the fund account of the Scheme as at 31 December 2014 had decreased to Rs. 16.6 million or 30 per cent in the year under review as compared with the preceding year due to increase of overall deficit by Rs.36.2 million.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) The Scheme had not taken any action to conduct the promotional programs in order to enroll new contributors to the Scheme during the year under review.
- (b) Although 1,100 contributors had been targeted to enroll in the year under review, the actual number of contributors enrolled was only 124, thus showing an achievement of only 11 per cent. It was further observed that even a single contributor had not been enrolled in twenty Districts.
- (c) Even though it was expected to obtain a contribution of Rs. 2,720,000 from the members during the year under review, the actual contribution received was only Rs.559,988.
- (d) The targeted second and subsequent premium collection from 19,500 contributors for the year under review was Rs. 2,925,000. Nevertheless, the actual collection from 725 contributors was only Rs. 551,836 or 19 per cent of the target.

4.2 Operating Inefficiencies

The Scheme had not taken proper action to identify the forfeited contributors and to recover the arrears installments to be recovered from them.

4.3 Item of Contentious Nature

Recognition of Interest Income

A sum of Rs.37,570,605 had been recognized as interest income during 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 between these two Schemes with regard to the payment of interest on such funds. Further, this interest income was representing 90 per cent of the total income of the year under review.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances were observed between the budgeted and actual 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

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

- (a) Accounting
- (b) Payment of Benefits to the Fishermen
- (c) Control over Receivables and Payables
- (d) Recovery of Installments