

Farmer's Pensions and Social Security Benefit Scheme – 2017

The audit of financial statements of the Farmer's Pensions and Social Security Benefit Scheme for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 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(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 28(4) of the Farmer's Pensions and Social Security Benefit Scheme Act No.12 of 1987. My comments and observations on the above financial statements were included in this report. A detailed report was issued to the Chairman of the Board on 11 April 2018.

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 conducting the audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, income statement, statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Going Concern of the Scheme

The farmers contribution income in the years 2016 and 2017 amounted to Rs.35,198,320 and Rs. 29,381,645 respectively, whereas the farmers pension payments amounted to Rs. 2,611,078,145 and Rs. 2,616,581,105 respectively. The payment of pensions as against the contributions had increased due to the Treasury had spent sums of Rs. 2,450,000,000 and Rs. 2,520,000,000 in the years 2016 and 2017 respectively for the payment of pensions. Accordingly, the situations were occurred where the scheme could not be operated without Treasury contributions.

Further, pension payable liability of the scheme as at the year under review was Rs.63,220,697,989 and it was an increase of 6.1 per cent compare with the preceding year. Also the net asset of the scheme had been negative value of Rs. 67,771,138,975. This had mainly been affected the actuarial valuation in terms of Sri Lanka Accounting Standard 37, payment of farmers pension in terms of Extraordinary Gazette No. 1853/49 dated on 14 March 2014 and recovery of contribution in accordance with the old pension scheme. Therefore it was observed that the going concern of the scheme is in uncertain situation due to possibility of improving this adverse financial situation in future and inability to prove by the Institute that effective actions had been taken to overcome this situation.

2.2.2 Related Party Transactions not Disclosed

Sufficient information had not been disclosed in notes to the accounts with regarding the payable amount of Rs. 194,619,125 to the Agricultural and Agrarian Insurance Scheme from group life insurance operating under the Board.

2.2.3 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 16

As per the paragraph 79 of the standard, though Motor vehicles at a cost of Rs.2,102,060 had been completely depreciated due to non-reviewing of effective life time of non-current asset annually, those were still being utilized. Accordingly actions had not been taken to revise accounting estimation error in terms of the accounting standard 8.

(b) Sri Lanka Accounting Standard 37

- (i). As per the paragraph 59 of the standard, the actuarial assessment for the retirement liability had been carried out in the year 2007, but it had not been carried out subsequently, even up to the year under review. Accordingly, basic components such as interest rate, recruitment, resigning, deaths, disabilities and changes of active contributors and farmers pensioners which could be considerably effected had not been considered in making provision for pensions liability. Therefore the provision of Rs. 29,473,158,000 in the year 2007 had been increased up to Rs. 63,220,697,989 in the year 2017 i.e. an increase of 115 per cent.
- (ii). Even though pensions should be paid from the date of completion of 60 years of age in terms of Farmer's Pensions and Social Security Benefit Scheme Act 12 of 1987, contrary to that, payments had been made from the date of preparing of pension. 9,927 farmers had been applied for pensions from April to December 2017 and arrears which were not paid to them had been aggregating Rs. 244,034,838. However no provision had been made in financial statements in that regard as per the paragraph 14 of the standard.

2.2.4 Accounting Policies

Though the policy of the Institute is to credit the capital grants into revenue through the effective life time of the asset in continuous basis, actions had not been taken accordingly with regarding a sum of Rs. 547,885 capital grants received before the year 1989 from United Nations Food and Agriculture Organisation.

2.2.5 Accounts Receivable and Payable

The Following observations are made.

- (a) Actions had not been taken to settle audit fees even in the year under review relating to the period from the year 1997 to the year 2011 which was included in audit fees payable aggregating Rs. 3,295,285 shown in the financial statements.
- (b) Pensions payable to farmers with relating to the years 2012 and 2013 aggregating Rs. 3,033,329,200 had been included in payable pension balance of Rs. 3,257,634,369 which was shown under current liabilities of the financial statements and actions had not been taken to settle that amount even in the year under review.

2.2.6 Lack of Evidence for Audit

A loan of Rs. 518,000,000 and Rs. 295,230,441 had been given to Farmers Pension Fund in the years 2010 and 2011 respectively from Fisheries Pension Benefit Scheme and, Agricultural and Agrarian Insurance Scheme and, according to the financial statements, a sum of Rs. 663,905,406 and Rs. 398,274,007 respectively had been shown under current liabilities by including the interest for that loan. However an agreement had not been signed by including conditions such as interest percentage charged for that loan, repayment period, number of instalment to recover the loan, installment amount.

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

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

Reference to Laws, Rules and Regulations	Non-compliances
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Farmers Pensions and Social Security Benefit Scheme Act No.12 of 1987.	
(a) Sections 15(2),(3)	In terms of the provisions of the act, the cancellation of membership of members who evaded the payment of instalments should be informed the relevant members. It had not been done accordingly, and as such the right to re-validate the certificate of a contributor which had been cancelled had been breached. It was observed that a sum of Rs. 18,839,792 had been paid as net instalments for 3024 members who evaded the payment of instalments in the year under review.
(b) Section 20	Although the Consultation Committee should consist of 12 members, only 10 members had been appointed for the year under review and not even single meeting had been conducted.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the operating results of the scheme for the year under review had been a deficit of Rs. 42,640,061 as compared with the deficit of Rs. 74,030,438 for the preceding year thus indicating a decreasing of Rs.31,390,377 in the deficit of the year under review as compared with the preceding year. Though the revenue had been decreased by Rs. 13,159,670 and the expenditure had been increased by Rs. 26,471,566 during the year under review, increase in Government grants by Rs. 70,000,000 had mainly attributed to this decrease in the deficit.

When reviewing financial result of the year under review and preceding 04 years, deficit of the year 2013 had been a surplus in the year 2014 and then again it had become a financial deficit from the year 2015. However, after adjusting staff remuneration and the depreciation for non-current assets into the financial result, the minus contribution of Rs. 1,678,119,540 in the year 2013 had been Rs. 74,364,024 (Rs. 159,604,332) Rs. 20,328,449 and Rs. 54,958,066 from 2014 to the year 2017 respectively.

4. Operational Review

4.1 Performance

4.1.1 Planning

According to the action plan prepared for the year under review, though it had been planned to enlist 700 farmers during the year and collect contribution amounting to Rs. 1,106,400 from them, it had not been performed accordingly.

4.1.2 Functioning and Reviewing

Following observations are made with regarding the performance of the Institute.

- (a) According to the paragraph 4 of Farmer's Pensions and Social Security Benefit Act No. 12 of 1987, though it was shown that any farmer possess the relevant qualification and not below the age of 18 years and not more than the age of 59 years has the right to join in this scheme, the number of active farmers in the scheme as at the end of the year 2012 was 959,254 and after that, Institute had not taken actions to follow sufficient and proper procedure to improve membership by enlisting members into this scheme. Further, though 3,025 farmers had been decrease due to resigning, deaths, disabilities and non-payment of instalment management had failed to verify the number of active members as at the end of the year under review due to non-maintaining of updated information after the year 2012.
- (b) Information to review the progress of the scheme could not be ascertained as the information not properly updated in the computer system such as recovery of instalment amount of the members, abolition of membership benefits given and farmers personal details etc after the year 2012.

4.2 Management Activities

The following observations are made.

- (a) According to the Extraordinary Gazette No.1853/49 of 14 March 2014, though new pension scheme should be implemented from 01 January 2014, payment of pension had been made according to the new scheme by collecting the contribution amount in accordance with old pension scheme. Pension of Rs.7,664,298,940 had been paid for the period from January 2014 to December 2017 on this basis and a sum of Rs. 92,443,207 had only been recovered as contribution. Management had failed to implement the new scheme or to implement by making amendments even as at 30 May 2018 for further continuation of this scheme.

- (b) It was observed in field inspection at Kalutara District Secretariat that, contribution applications of 10 applicants with the age between 61 years to 68 years had been presented due to non-maintaining a proper farmers awareness procedure by the Institute about enlisting into the pension scheme and receiving of benefits.
- (c) It was observed that, 08 applications out of the sample of 50 pension payment applications, there were instances where the period from 07 months to over 02 years had been spent for making payments from the date of those presentations.
- (d) According to the deed awarded to contributors who enlisted in the scheme, though it was shown that the spouse is entitle to the pension until the month falling the eightieth birthday of the contributor who died before 80 years of age, arithmetic data with relating to the number of applications received to Head Office who applied for spouse entitlement from the year 2014 to December 2017 were not presented to audit.
- (e) Pension applications of 6,680 had been received to Pension Division during the year under review from District Offices and answers had only been provided for 4,917. No decision had been given for 584 pension applications of Kandy and Matale Districts.
- (f) Though the unclaimed pensions should be return to the Board in the first day of the following month, it was observed that unpaid pension aggregating Rs.10,997,732 were kept idle in outside post offices for more than 03 months due to non-making follow up actions by the management in that regard.
- (g) Actions had not been taken even in the year under review with relating to 117 cheques in 03 bank accounts valued at Rs. 1,179,624 which was deposited but not realised from the year 1992.

4.3 Operating Activities

The following observations are made.

- (a) According to the letter of the Director General of the scheme dated 28 January 2015, survey on bio data of farmer contributors should have been completed before 28 February 2015, but the survey had been completed only in the 14 District Offices out of 25 Districts, despite the information of members of the new pensions scheme implemented since January 2014. Though almost a sum of Rs. 2,705,000 had been spent to install the computer system and a sum of Rs. 1,726,875 had been spent as incentives and other expenses for Agrarian Research and Production Assistant who were participated for the survey, the expenditure incurred for this had been fruitless due to incompleteness of the survey and non-updating the information received into the system.
- (b) Pension had continuously been return to District Account Offices again and again when the time of unclaimed for the time range from 07 months to 11, without finding reasons for not claiming. District offices or Board had failed to find out reasons for sending payment-cheques for more than three times for beneficiaries who were not claimed.

4.4 Transactions of Contentious Nature

A sum of Rs. 15,000 for Assistant Commissioner of Matara District and A sum of Rs.88,000 for 22 Development Officers in Agrarian centers by Rs. 4,000 each had been paid as allowances without the approval, despite of paying incentives of Rs.120,850 payable to Agrarian Research and Production Assistant officers in 22 Agrarian Centers who were participated in the farmers pension survey at Matara District in the year 2015. The remaining balance of Rs. 17,850 had not been settled to District Office as at the date of audit of 25 October 2017. Further, though a sum of Rs.17,850 had been taken on 21 December 2015 from District Office to pay for Agrarian Research and Production Assistant officers, no corroborative evidence were presented to audit that, this had been paid to officers.

5. Achieving of Sustainable Development Goals

Actions should be taken by every Government Institution in terms of sustainable development “the agenda” for the year 2030 of the United Nations and it was not aware the manner in which should be implemented with regarding the activities coming under the scope of Farmer’s Pensions and Social Security Benefit Scheme.

- (a) Though it had been identified to implement the objectives of sustainable development which should be achieved under the scope of Farmer’s Pensions and Social Security Benefit Scheme with the awareness as per the above agenda of the year 2030 which should be completely alleviated its poverty in every aspect, the Institute had not been taken actions to implement the amendments completely which was gazetted under its scope as new scheme by Gazette No. 1853/49 dated on 14 March 2014. Therefore targets expected from the amendments of the scheme could not be achieved.
- (b) Though the parties such as Ministry of National Policy and Economic Affairs, Ministry of Social Empowerment and welfare, Ministry of Finance, Ministry of Rural Economic affairs, Agrarian Societies and Farmers could be identified as the interested parties with regarding the implementation of sustainable development objectives as the responsibility of the scheme, remedies had not been taken even as at the date of audit in June 2018 though it had been proposed in Cabinet Decision taken on 26 October 2016 for the Cabinet Paper presented on 13 September 2016 as “to Take Steps to Present New Permanent Sustainable Financial Proposal to Initiate New Pension Scheme”.
- (c) Though it was compulsorily required to have a correct data base to measure the performance correctly, it was observed that the actions had not been taken to generate a correct data base to measure the achievement of sustainable development goals by the Institute. It was observed that this had been occurred due to the reasons such as non-performing a survey on members bio data by covering all District, non-managing survey activities properly in the year 2015, non-assessing age analyses of active agrarian contributors after the year 2007.
- (d) It was observed that the preparation of plans and process to achieve targeted goals was in slow progress due to non-keeping proper coordination with the Board and other related Institutions such as District Accounts Offices, Agrarian Service Centres, Department of Agrarian Service, Cooperative Societies and Rural Banks with a view of achieving sustainable development goals.

6. Accountability and Good Governance

6.1 Budgetary Control

Variances ranging from 18 per cent to 81 per cent were observed between the budgeted figures and the actuals during the year under review and as such the budget had not been made use of as an effective instrument of management control.

6.2 Implementation of Social Responsibility

This scheme had been introduced to be a relief for social and economic problems facing at the time of aging or impotency or untimely death caused to agrarian community engaging in agricultural activities in Sri Lanka. It was revealed that the services should be given from this Institute to the farmers entered into this scheme were not implemented efficiently, effectively and as expected due to the following reasons.

- (a) Out of the net instalment applications received to Agrarian Pension Division from 29 District Offices, payments had not been made up to 31 December of the year under review for 466 applications presented in the year 2016 and 217 applications presented in the year 2017. According to the test sample (August and December 2017), further the delay period ranging between 2 ½ and 5 ½ years had been occurred for the calculation of net instalment payments which was received from District Offices.
- (b) Though a sum of Rs. 50 had been deducted in each month from the monthly pension paid to contributor as per the paragraph 13 (2) (b) of the Extraordinary Gazette No. 1853/49 of 14 March 2014, actions taken from this money had not been disclosed by the Gazette.

7. Systems and Controls

Weaknesses in systems and control were brought to the attention of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

Areas of systems and control	Observations
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(a) Financial Control	Non taking actions to recall unclaimed pensions without any delay.
(b) Collecting contributions, Payment and accounting	(i). Non taking actions to avoid membership abrogation by making aware the members who omit the payment of contribution instalments. (ii). Non taking actions to get informations for progress reviewing of the scheme by updating the computer system properly. (iii). Non performing of net instalment payment application process without a delay