

Farmer's pension and social security benefit scheme – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Farmer's pension and social security benefit scheme for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of comprehensive income, statement of income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the scheme as at 31 **December 2018**, and of its financial performance and its cash flows for the year then ended in accordance with **Sri Lanka Accounting Standards**.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Farmer's pension and social security benefit scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate Farmer's pension and social security benefit scheme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Farmer's pension and social security benefit scheme's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Farmer's pension and social security benefit scheme is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the scheme.

1.4 Auditor's responsibility of auditing the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Farmer's pension and social security benefit scheme, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Farmer's pension and social security benefit scheme has complied with applicable written law, or other general or special directions issued by the governing body of the Scheme.
- Whether the Farmer's pension and social security benefit scheme has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

| Non Compliance with the reference to particular Standard | Management Comment | Recommendation |
|--|---|---|
| (a) Still using a motor vehicle which costs Rs. 2,102,060 which has been fully depreciated and in terms of Standard 08 steps had not been taken to reevaluate the said vehicle and include that in the financial statements after considering the useful lifetime of that vehicle. | Revaluation of the Board's motor vehicles has commenced on present and expecting to make the necessary adjustments in the coming year | Should take steps to reevaluate the fully depreciated assets and include that financial statements in terms of the standard. |
| (b) In terms of paragraph 59 of standard 20, capital donation of Rs. 547,885 received prior to 1989 from United Nations Food and Agriculture Organization has not been amortized against the income on a regular basis during the useful lifetime of the said asset. | Steps will be taken to amortize this amount which was a financial donation granted by the United Nations Food and Agriculture Organization in the coming year | Should amortized against the income on a regular basis during the useful lifetime of the said asset in terms of the standard. |

- (c) In terms of paragraph 37 of standard 39 although the actuarial valuation has to be done periodically for pensions liability of active contributors and retired farmers, the pensions liability as at 31st December 2018 was shown as Rs. 66,508,205,596 in the financial statements without carrying out such actuarial valuation.
- Pensions liability had been accounted on the basis of the actuarial valuation of the Farmer's pensions scheme conducted in the year 2007. As this pensions scheme is not on a self finance basis, steps will be taken to restructure this scheme in the future and properly value the liability.
- Periodical actuarial valuation should be done to pension liability.

1.5.2 Gains concern of the Scheme

| Audit Observation (Issue) | Management Comment | Recommendation |
|--|---|--|
| <p>Farmers had been paid pensions in terms of the farmers pensions and community protection benefits scheme Extraordinary Gazette No. 1853/49 dated 14th March 2014 but contributions were not recovered under that. Therefore farmer contributions were Rs. 29,381,645 and Rs. 24,552,961 in the year of 2017 and 2018 respectively and the pension payments were Rs. 2,616,581,105 and Rs. 3,059,370,767 respectively. In the years of 2017 and 2018 the Treasury has granted Rs. 2,520,000,000 and Rs. 2,725,000,000 due to the increase of pension payments. Therefore the scheme is in a situation where it cannot continue without the contributions of the Treasury.</p> | <p>The Farmers pensions scheme was amended by Extraordinary Gazette bearing No. 1853/49 and a new farmers pensions scheme was introduced which can be continued on a self finance basis. Although the farmers pension fund was empty steps have taken to obtain treasury allocations to pay the pensions. Necessary reports have been forwarded to the Treasury to create the fund relative to the accumulated pensions liability and expecting to carry out necessary steps once the approval was granted by the Treasury.</p> | <p>Should take steps to formulate a new pensions scheme which can operate on a self finance basis without the contributions of the treasury.</p> |

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation | |
|--|-----------------------|--|--|--|
| Farmer's pension and social security benefit scheme Act No. 12 of 1987 | (a) Section 15(2),(3) | In instances where a contributor was prevented to the claims on the certificate issued to him a notice should be issued to the said contributor informing the same. in such a case a contributor should have to have a right to prefer an appeal to the Board in order to validate his certificate and due to the said non-communication the contributors loss the opportunity to re-validate a certificate which was invalidated. | Required notifications have been given to the farmers who have contributed the scheme that their contribution will be lapsed if they did not pay 05 installments continuously. Steps will be taken to reimburse the paid installments of the such farmers who lapsed the contribution when they reach the age of 60. | Should issue a notice on the contributor setting out the same in instances where a contributor has lose their claims |
| | (b) Section 20 | Even though the Board Advisory Committee has to be comprised of 12 members, there are 09 members only. They are appointed for the year 2018 and no meetings were held. | Expecting to properly held the meetings of the Board Advisory Committee after appointing vacant members | Steps should be taken to appoint the members and conduct the meetings properly. |
| | (c) Section 4 | Scheme objectives are to paying an allowance and giving economic support the farmers when they could not carry out their professional duties due to permanent partial disability or completely | Even though the pensions are paid in terms of farmers pensions and community protection benefits scheme Extraordinary Gazette No. 1853/49 dated 14 th March 2014 Board was instructed to introduce a new farmers | Should continue to enroll members according to the objective of the Pension Scheme. |

disability, In mortality pensions scheme because of payment of death gratuity the higher installments the and payment of a pension present scheme. It is expected when farmers reach 60 to create a new system for years periodically. But enrollment and collecting steps had not taken to installments after enroll members to the restructuring the pension Scheme after 2012. scheme according to the policy of the new government.

| | | | |
|------------------|--|---|--|
| (d) Section 6(1) | <p>Although entitled to the pensions after completing use of 60. Contrary to that, payments had been made from the date that processed the pensions. The arrears pensions of 19283 farmers for the period of April 2017 to December 2018 had accumulated to Rs. 451,324,111 and it had not been paid. Further Rs. 3,033,329,200 being the arrears pensions of 90573 farmers for the period of 2012 – 2013 had not been paid.</p> | <p>Steps have been taken to enter in to the pensions register at the same time they are entitled to the pensions. There are no any prospects to accumulate arrears in the future. Steps would be taken to pay the present arrears systematically according to the treasury allocations and liability of said arrears payments would be removed at the time of paying arrears.</p> | <p>Should take steps to pay the pensions from the date farmers completing age of 60 without forming any arrears.</p> |
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1.7 Finance Cash Management

| Audit Issue | Management Comment | Recommendation |
|---|---|--|
| <p>Steps had not been taken to investigate and rectify 117 Cheques amounting to Rs. 1,179624 which had been deposited but not realized pertaining to 03 bank accounts from of 1992.</p> | <p>These balances are 15-25 years old and these were investigated in 2003 and all the balances that could had been rectified the balances which could not be traced had been brought forward. Issuing two receipts for one cheques may have been the main reason for this situation. This has been forwarded to the approval of the treasury after these matters were continuously looked in to at the audit committee meetings and the special meetings held at the Treasury and once approval of the treasury is obtained expecting to write off these amounts from the accounts.</p> | <p>Should take steps to rectify after looking in to the matters pertaining to the issuing of two receipts for one cheque</p> |

1.8 General Controls methods of IT

| Audit Issue | Management Comment | Recommendation |
|---|--|--|
| At the end of 2012, there were 959,254 active farmers in the scheme 'but contributors' information had not been updated after 2012 because of that calculation of active members. Annual receivable contributors and the correct amount of pension payable could not be calculated. | Expecting to take necessary action to computerize all the information regarding the contributors and to upgrade the computer system. | Should take steps to maintain an updated information system. |

2. Financial Review

2.1 Financial Result

The operating result was deficit of Rs. 312,010,448 in the year under review and the preceding year deficit was amounting to Rs. 42,640,061. Therefore a deterioration of Rs. 269,370,387 of the financial result was observed. The main reason for the said deterioration is the increase in the payment of pensions.

3. Operational Review

3.1 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|--|--|
| The system was not updated yet although Rs. 1,726,875 were spent on the advertising, printing expenditure and incentives for the Agriculture Research and Production Assistants participated in the farmer information survey carried out to update the system by including the bio data of the Farmer contributors in the new pensions scheme which commenced from January 2014 | Although the number of farmers who forwarded information during the program conducted to update the contributor information of the Farmer's Pensions Scheme was less amount steps had been taken to computerize the information received on district basis and update the system. The relevant targets could not be achieved because the Farmers did not properly submitted information to the survey as expected by the Board and is expecting to use a suitable methodology to update this information in the future. | Should take steps to update the system by including the bio data of the farmers. |

4. Accountability and Good Governance

4.1 Annual Action Plan

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| The following activities contained in the Annual action plan prepared for the year 2018 was not achieved | | |
| (a) There are large number of files pertaining to farmer's pensions scheme from the year 1981 and as most out of them are decayed secure the same through the farmers pensions document managements system. | It is informed that required steps has been made to buy a new computer system at present. | Should take steps in accordance with the action plan. |
| (b) Enrollment of farmers to the Farmer's pensions scheme | Expecting to carry out new enrolments after drawing up a new farmer's pensions scheme forwarding that to an expert panel and on their advice restructuring it | ----- do ----- |