

Fishermen's Pension and Social Security Benefit Scheme - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Fishermen's Pension and Social Security Benefit Scheme for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in net assets 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 (3) 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. My comments and observations which I consider should be reported in 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 financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2021, 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

I expressed qualified opinion 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 Responsibility 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 determines 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 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 the Scheme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Scheme's financial reporting process.

As per sub Section 16(1) of the National Audit Act, No. 19 of 2018, the 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 for the Audit of 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 scepticism 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.
- Obtain 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 Scheme'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 Scheme'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 Scheme 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 Scheme, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Scheme has complied with applicable written law, or other general or special directions issued by the governing body of the Scheme ;
- Whether the Scheme has performed according to its powers, functions and duties; and
- Whether the resources of the Scheme had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) In terms of paragraph 51 of Sri Lanka Accounting Standard 16, the useful life of non-current assets had not been reviewed. Assets costing Rs.696,175 including furniture and fixtures, office equipment and computers had been fully depreciated but still in use. Accordingly, no action had been taken to revise the error in terms of Sri Lanka Accounting Standard 08.	Although furniture and fixtures, computer equipment and office equipment are used, cannot be valued and estimated useful life. Action will be taken to dispose equipment such as computers; those are in a condition that needs to be removed, due to the condition that cannot be updated and cannot be used with full efficiency.	Action should be taken to revalue fully depreciated assets.
(b) The liability for the pension of the active contributors and fishermen contributors and fishermen pensioners as at 31st December 2021	The liability has been brought to account based on the actuarial assessment	The liability for pension should be computed on

had been Rs.4,644,164,591. In terms of paragraph 59 of Sri Lanka Accounting Standard 37, the liability for the pension of the active contributors and fishermen pensioners should be computed based on the actuarial assessment carried out in a timely manner. However, after the year 2007, the liability for the pension had not been computed based on the actuarial assessment.

carried out in the year 2007. Action will be taken to carry out the actuarial assessment after action taken to restructure the schemes of the board.

actuarial assessment carried out in a timely manner.

1.5.2 Accounting Deficiencies

Audit Observation

Comments of the Management

Recommendation

(a) In terms of paragraph 43 of the Sri Lanka Accounting Standard 07, Investing and financing transactions that do not require the use of cash or cash equivalents shall be excluded from a statement of cash flows. However, the contribution allocated to death gratuity fund amounting to Rs.1,752,840 had been shown incorrectly under investing cash flows.

Since amount allocated to the fishermen's death gratuity fund has not been paid in cash, the allocation will be shown under operational activities from the year 2022.

Action should be taken to eliminate investments and transactions that do not require the use of cash or cash equivalents from cash flow statement.

(b) The total salary of three officers who are not performing any direct duty in fishermen's pension division amounting to Rs.1,979,712 had been bought to account as expenditure of the scheme.

These officers have been recruited to perform the duties of this scheme and are currently performing other duties. Since the duties of the scheme are indirectly performed by other officers, the salary of these officers has been included in the scheme. After recruited sufficient number of employees, action will be taken to absorb wages of the employees concerned under the scheme.

Action should be taken to account only expenses related to scheme.

(c) The commission charged Rs.11 in one installment by the District Fishery Project Officers of the Department of Fisheries and Aquatic Resources was not identified and accounted for as an expense of this scheme. The said commission was deducted from the fishermen's pension contribution and accounted for.

Amount received from the district fisheries offices has been accounted for under installments and action will be taken to account commission amount in future.

Total income and expenditure should be recognized and accounted for.

1.5.3 Un reconciled control account or reports

Item	Value as per the financial statements	Value as per the corresponding reports	Difference	Comment of management	Recommendation
	Rs.	Rs.	Rs.		
Contribution received from 121 fishery insured	146,707	117,648	29,059	All cheques received by the board have been recognized as revenue and unreconciled receipts would be reconciled expeditiously.	Adjustments should be made and difference identified.

1.5.4 Going concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
The liability for pension of the Scheme as at the end of the year under review had been Rs.4,644,164,591 and it was an increase of 9 per cent than the preceding year. Moreover, the position of net assets of the Accumulated Fund had become a negative value of Rs.4,103,708,674, that is, it had increased by 12 per cent than that of the preceding year. As such, said increase as well had adversely affected the going concern of the Scheme.	This situation has been arisen due to the scheme is not running on a self-financing basis. Accordingly, the annual pension liability will increase and hence the net asset value will also decrease. Due to those reasons, the scheme does not promote new enrolments.	Action should be taken to activate the Scheme.

1.6 Accounts receivable and payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
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Loans totalling Rs.518,000,000 has been granted in several instances by the fishermen's pension and social security benefit scheme to the farmers' pension and social security benefit scheme for the purposes of the said scheme since the year 2010 and the loan amount and interest thereon recoverable brought forward as at the end of the year 2021 under review totalled Rs.248,129,566.	As decided in the discussion held in the treasury regarding the financial crisis in the pension scheme, this money has been given to the farmers' pension scheme on the basis of reimbursement. A sum of Rs.248.1 million was recoverable from the farmers' pension and social security benefit scheme by now and the loan amount and the interest thereon are included in the said balance. Action will be taken to recover this amount regularly.	Action should be taken to recover the loan amount and interest thereon.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990 (i) Sections 5 and 6	This Scheme has been established with the motive of providing fishermen who are not less than eighteen years of age and not more than fifty nine years of age as eligible for being provided with an allowance as financial assistance in case of permanent partial disablement	Since it is expected to introduce a financially viable fishermen's pension scheme, It is expected to take necessary action for promotion of new enrolments for the Scheme.	Action should be taken to validate the Scheme.

or permanent total disablement, preventing engaging in their occupation, a death gratuity in case of death and a periodical pension on reaching 60 years of age. However, no member had been enrolled into the Scheme after the year 2018.

(ii) Section 7

A contributor shall be entitled to a pension on reaching the age of sixty years. However, payments had been made by the Scheme from the date of preparation of pension and arrears in pension had not been paid. As such, action had not been taken to pay arrears in pension amounting to Rs.4,863,160 for which provision was made for, to 178 fishermen who had applied for pensions relating to the period from January 2009 to December 2021.

This situation has created due to the temporary suspension of the payment of previous pension arrears, in the payment of pension arrears, until reasons for the lengthy delay of fishermen in the submission of applications for obtaining fishermen in the submission of applications for obtaining fishermen's pension were found. Action would be taken to pay the relevant amounts subsequent to getting confirmations for the reasons of such delays from the district public officers including Grama Niladaris and Divisional secretaries.

Payments should be made from the date of entitlement to pension.

(iii) Section 16

Where any contributor has forfeited the benefits under the policy issued to him on the failure to pay ten consecutive premiums, such contributor shall be issued a notice to that effect. However, on failure to issue the said notice, applications had been submitted by 58 persons in the year 2020 and 42 persons in the year 2021 implying that they are entitled to pension received after reaching the age

The board will be continue to give them the necessary instruction regarding the collection of premium by finding out whether the contributor, is a person whose contribution has been cancelled. However, in a situation where, such cancelled contributor has paid further contributions, he will be paid the relevant net

Where any contributor has forfeited the benefits under the policy issued to him on the failure to pay ten consecutive premiums, such contributor shall be issued a notice to that effect.

of sixty years. However, the benefit has been forfeited to said contributors on the failure to pay premiums correctly.

premium and interest when he attaining the age of 60 years. They are informed to take measures related to the matters mentioned in the audit query to the responsible authority related to the fishermen's pension scheme, the Department of Fisheries.

(iv) Section 20

Although the advisory committee should meet to exercise the powers conferred to implement the scheme by section 22 of the act, committee had not meet November 2010 up to now.

Necessary steps have been taken in consultation with the Ministry of Fisheries to restructure this scheme and start a pension scheme that can be run on a self-financing basis. According to the cabinet decision, a committee has been appointed by the ministry of fisheries to commence upcoming enrolments of the fishermen's pension scheme. Necessary action will be taken expeditiously to assemble the advisory committee according to the decisions to be made in the future.

The Advisory Committee should meet in terms of the Act.

Financial regulations –
1992 of the
Democratic Socialist
Republic of Sri Lanka
F.R. 177(1)

The amount collected on behalf of government should be remitted, daily or at the earliest possible opportunity. However, fishery district office Ampara had been spent 2 days to 88 days when

They have been informed to send the collected premium expeditiously and the matters pointed out this audit query will also be informed to them and necessary

Moneys so collected from fishermen should be deposited in banks daily or at the earliest possible opportunity.

banking the contribution arrangements will be collected from fishermen. made to bring the money expeditiously.

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a deficit of Rs.427,806,224 as compared with the corresponding deficit of Rs.386,869,108 of the preceding year, thus observing a decline of Rs.40,937,116 in the financial result. The increase of Rs.36,824,910 in the amount allocated for the year under review for pension payable to pensioners had mainly attributed to this decline.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation

Even though the total contribution received to the scheme for the year 2021 was Rs.146,707 and investment interest was Rs.15,623,234, a sum of Rs.60,571,159 paid from the scheme exceeding the contribution received since the total pension payments were Rs.75,337,898 and net installment payment and interest were Rs.715,202 and death and disabilities benefit payments were Rs.288,000. This unsatisfactory situation was continuously observed and the corresponding value in the year 2020 was Rs.68,710,450. The scheme had not been implemented any plan to achieve a satisfactory financial position.

Comments of the Management

There is an impossible situation to run the scheme on a self-financing basis due to the benefit of the fishermen's pension scheme has been increased on several instances without increasing the premiums of the contributors. After discussion with treasury, action will be taken to obtain the future cash requirements.

Recommendation

Action should be taken to prepare and implement necessary plans to bring the continuing unsatisfactory situation to satisfactory one.