

Farmers' Pension and Social Security Benefit Scheme - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 and Farmers' pension and social security benefit scheme Act No. 12 of 1987. 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 2022, 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 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 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 fund 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 fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund 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

Audit Observation	Comments of the Management	Recommendation
<p>According to paragraph 59 of Sri Lanka Accounting Standards 37, the liability for the pension of the active contributors and farmer pensioners should be computed based on the actuarial assessment carried out in a timely manner. However, after the year 2007, the pension liability had been computed up to 31 December of the year under review without carrying out such an actuarial assessment and the calculated liability for the pension had been Rs.82,435,153,268 Further, adequate investments had not been made for settlement of those commitments by the fund.</p>	<p>The liability for pension has been brought to account based on the actuarial assessment in the year 2007 and no new recruitment will be made for old scheme. A new scheme will be installed and new enrolment will be done. At the time of getting the actuarial assessment of the new farmers' pension scheme, the actuarial assessment of the old scheme will also be done.</p>	<p>The pension liability should be calculated through periodic valuation of actuarial assessment and sufficient investment should be maintained to meet the commitments.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Revenue amounting to Rs.13,420,221 received from contributors for the year under review had been shown in financial statements on cash basis instead of accounting contributions on accrued basis due to failure in maintaining the register including premium receipts in an updated and completed manner including the date of enrolment into the Scheme and date of entitlement by contributors so as to identify the value of contribution due from active contributors for the accounting year.	The information of the contributors can be obtained through the computer system. As there were delays in computerization of post instalments, getting information on cancelled and inactive contributors from the system had failure. Therefore, necessary arrangements have been made to initiate a programme for automatic computerization of post instalments.	Register of contributors must be maintained up-to-date
(b) After paying Rs.3,918,881,123 out of Rs.3,968,000,000 received from the treasury for the payment of farmers' pension during the year under review, the remaining balance of Rs.49,118,877 was not remitted to the treasury and was not disclosed in the financial statements as a payable amount.	In the year 2022, the farmers' pension expenditure was Rs.4,053,000,000 and the amount received from the treasury was Rs.3,998,000,000 and it was paid. The income statement shows the total cost after deducting the unearned returned by the contributors. Thus there is no balance due to the treasury.	Amounts unpaid to contributors should be remitted to the treasury.
(c) During the year under review Rs.167,470,484 unclaimed from farmers' pension payments had been accounted as income of the scheme without being disclosed in the financial statements as a credit to be repaid to farmers.	The unclaimed pension amount of Rs.167,470,484 in the year 2022 has been deducted from the pension expense. Arrangements will be made to suspend the pensions of contributors who do not receive pensions for a long period of time. Therefore, this unclaimed amount has not been accounted for as pension receivable.	Unearned pensions should be disclosed in the financial statements as payable.
(d) During the period from January 2019 to December 2022, 612 cheques for unclaimed net premium and monthly disablement payments amounting to Rs.4,435,400 were not recorded as a liability payable under F.R.396(d)(iii) respectively and had been taken into income during the relevant years.	Expired cheques are recorded and taken as income and cheques are issued again upon request.	Unclaimed pension payments should be disclosed in the financial statements as payable credit balances.

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| (e) | During the year under review, Rs.190,000,000 received from the treasury for administration expenses of the farmers' pension fund was not credited to the bank account of the farmers' pension fund, but it was credited to the bank account of the Agricultural and Agrarian Insurance Scheme and expenses were incurred from it, and those transactions were recorded in the fund's ledger through a current account. | Account Number 164667 of Bank of Ceylon Union Place branch owned by the board is the account listed for disbursement of funds from the treasury to the Farmers' pension scheme. The respective money received in that account is transferred from the Agricultural insurance scheme to the farmers' pension scheme through the current account. | Treasury allocations should be credited to the bank account of the scheme. |
| (f) | As there were no legal transactions during the year under review related to this scheme, Rs.1,348,623 equal to 60 percent of the legal expenses of the Agricultural and Agrarian Insurance Board had been accounted as legal expenses of this scheme. The basis on which this percentage was determined was not disclosed. | 60 percent of the legal expenses of the board is accounted for by the farmers' pension scheme but as indicated by audit, the legal expenses will be re-reviewed and only the legal expenses of this scheme will be recorded. Action will be taken to revise all the expense accounts related to allocation of expenses and approved by the Board of Directors in the future. | Only expenses related to the scheme should be accounted for. |
| (g) | Although all the three entities of Accounts Namely Farmers' pension and social security benefit scheme, Fishermen pension and social security benefit scheme and Agricultural and Agrarian Insurance Board are functioning together, 50 percent of administration expenses of Agricultural and Agrarian Insurance Board and 20 percent of other expenses as high as 50 percent had been absorbed in to the farmers' pension scheme. The basis on which the rates were decided was not disclosed to check the reasonableness of those rates. | Since the staffs in the head office and the district office are working in common, the ratio has been determined as follows. But in the future, these rates will be reviewed with the approval of the Board of Directors. | Absorption rate of expenses should be disclosed. |

1.5.3 Going Concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
The total assets of the Scheme were Rs.1,516,033,327 and the total liabilities were Rs.87,508,723,633 and liabilities exceeded the assets by Rs.85,992,690,306. This unfavourable	This situation has arisen due to the Farmers' pension liability increases annually and the absence of investment in the scheme and the increase in benefits due to government policies in	Action should be taken to activate the Scheme.

situation had adversely affected the going concern of the Scheme.

several cases without increasing the premiums of the Scheme. And also Payment of Farmers' pension is done in every year through allocations of money by the Government budget.

1.5.4 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Management	Recommendation
The Board had not maintained the books in such a way as to verify the correctness of the unclaimed pension amount of Rs.47,102,835 as on 31 December of the year under review should be received from District Accounts Offices of Postal Department.	The payment process of Farmers' pension is done jointly with the Department of Postal. The unpaid pension should be sent to the Board before the 10 th day of the month following the relevant month. Although there have been some delays due to corona epidemic situation and the crisis situation, efforts have been made to avoid those delays by now. Necessary actions have been taken to inform District Accountants to send the unpaid pension documents to the Board within the stipulated dates.	Information on unclaimed money must be maintained completely and up-to-date.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
1.6.1 Farmers' Pension and Social Security Benefit Scheme Act, No. 12 of 1987	Though a contributor is entitled to a pension when he attains the Age of 60 years In this Scheme	The details of farmers who have completed 60 years will be forwarded to district offices, and it is expected to inform the farmers through e-mail and SMS messages in the future. Apart from this, action will be taken to	An easy system should be set up to receive pension applications.
(a) Sub Section 6(1)	(i) There was no system to receive pension applications and inform them about the due dates for applications and bring applications.		

awareness farmers at the Agrarian service level and at the District level.

- (ii) Due to non-availability of a system to identify farmers who have reached the prescribed age, the beneficiary has to submit the retirement benefit application from himself. Accordingly, He himself had to bear the loss due to the delay in not submitting the applications on the due date because some reasons like beneficiary in hospitalized or confined at home and receives treatment, contribution payment book is missing, inability to submit applications to the Board without the contribution payment book.
- In order to inform the farmers who have completed 60 years of age, postcards will be sent to the addresses given by them and newspaper advertisements will be used to inform the farmers.
- A system should be developed to identify farmers who reach the prescribed age.
- (iii) In the sample audit carried out in respect of 12 farmers in 4 districts during the year under review, there was a delay of 2 years to 10 years in repayment of premiums and delayed grant of pension for a period of 10 months to 9 years from the date of completion of prescribed age was observed.
- Necessary instructions have been given to the district directors to grant pension without delay to the applications submitted for the district offices. At the time of contributor handed over the documents to the district offices, instructions were given to give a number for that contributor and to update the information in Google Drive before sending it to the head office. At present the district offices are successfully doing that process.
- Farmers' pension should be paid from the date of completion of 60 years of age and net premiums should be paid without delay.
- (iv) 871,425 contributors are registered in the existing data system and have not paid pension benefits to
- The name lists of the farmers who reach the age of 60 years will be sent to the respective district offices and those documents will
- Farmers' pension should be paid from the date of completion of 60

	246,531 contributors out of 439,025 contributors who have attained the age of 60 years as on 31 December 2022.	be given to the Agrarian service centres and through that, the farmers will be informed. Actions will be taken to avoid this situation through newspaper advertisements and direct information in the future.	years of age.
	(v) Due to the non-payment of the amount related to the period from the date of entitlement to the pension benefits to the date of preparation of pension, from the year 2012 to the year 2022, the arrears of Farmers' pension amounting to Rs.3,914,947,932 were continuously being brought forward in the financial statements without settle.	Necessary actions are being made to include the pension register at the time of entitle to pension rights without any shortage in money in the future. The arrears of pension to be paid are paid gradually by obtaining treasury allocations in the future.	Farmers' pension should be paid from the date of completion of 60 years of age.
(b) Sub-section 12(c)	Although necessary financial and operational reports of the scheme should be maintained, they have not been maintained up to date.	The method had been established in the early stages of the scheme to identify contribution payments through contribution payment books without maintaining a computer system. F.S.B. 5 receipt records of contribution payments have also been maintained in the district office. To overcome these weaknesses, the necessary actions to establish a new computer system have been implemented.	Financial and operational reports on the scheme should be maintained.
(c) Sub-section 12(d)	Although the evaluation and review of the scheme and changes in the operating rules should be done,		

(i) Without any adopted rule, interest had been calculated on the net premium amount at a rate of 3.32 percent per half year.	According to the 13th order of Gazette No. 452/12 of 1987, contributors who do not pay their contribution properly will be paid the net premium amount and interest. The calculations have been done by a biologist.	A rule should be generated to calculate the interest on the net premium amount.	
(ii) An administrative cost of Rs.15 from each instalment paid by the beneficiary, an insurance fee of Rs.30 for each instalment duly paid by the farmer, and insurance of Rs.150 from the calculated net premium amount had been reduced in calculating the beneficiary's net premium amount without adopting a rule.	Insurance instalments are determined by absorbing a certain percentage of administrative and operational expenses. This is a common practice among insurance companies. Because the Farmers Pension Scheme was operated on the basis of state subsidies, no profit margin was included in the instalment. It is a common practice in the insurance system to deduct a certain percentage for the related expenses when resigning from the subscription or calculating the net instalment. Accordingly, the calculations have been done. Without that, self-financing schemes cannot be implemented.	Deductions that are not covered by the rules should not be made.	
(d) Section 15	Cases were observed where farmers were deprived of benefits because the Board violated conditions, such as not informing contributors about the violation of 5 instalments respectively as per sub-sections 15(2) to 15(5).	Under Section 15, the Board has the power to grant a grace period to contributors who have defaulted on premium payments. Accordingly, based on the observations made by the audit, it is expected that contributors who have paid their premiums in full would be allowed a grace period to activate their contributions and carry out the necessary operations to provide pension benefits.	Contributor should be informed of the risk of loss of benefits due to non-payment of premiums.

(e)Section 27(1)	The amount of loan taken by the Farmers Pension and Social Security Benefit Scheme should be decided upon the agreement of the Minister-in-Charge and the Minister-in-Charge of Finance, but without obtaining such an agreement, loans were taken from the Agricultural and Agrarian Insurance Board for the Farmers Pension and Social Security Benefit Scheme, and it was observed that the balance of the loan amounts to Rs.484,160,453 as of December 31, 2022.	By 2010, the Farmer Pension Fund had been depleted, and there was no money in the scheme to pay the Farmer Pension in 2010 and 2011. Payments have been made through the Agricultural Insurance and Fishery Pension Schemes in accordance with the Ministry of Finance's recommendations and instructions. This amount has been accounted for as a loan amount, and arrangements have been made to repay the loan amount gradually.	The amount of loan availed by the scheme shall be decided upon the concurrence of the Minister in charge and the Minister in charge of Finance.
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1.6.2	Farmers Pension certificate deed Section 6 of	Although if a Contributor pays 75 percent of the Subordinated Amount of the semi-annual Contributions, the contributor is entitled to a pension less than the prescribed pension as decided by the board at the end of the contributory period according to Section 6 of the certificate deed, without considering that there have been cases where contributors' pension benefits have been forfeited.	Section 15(1) of the Farmers Pension and Social Security Benefit Schemes Act No. 12 of 1987 provides that any contributor who defaults in payment of 5 instalments respectively shall forfeit the benefits under the certificate issued to him. Accordingly, these contributors have defaulted in paying the 05 subsequent instalments, so the subscription has been cancelled.	The contributor should be informed that benefits are forfeited due to non-payment of instalments properly.
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2. Financial Review
2.1 Financial Results

The operations for the year under review had resulted in a surplus of Rs.192,873,887 and the corresponding the surplus of Rs.249,530,974 of the preceding year, thus observing a decline of Rs.56,657,087 in the financial result. The increase in farmer pension payments by Rs.145,157,212 compared to the increase in interest income was mainly attributed to this decline.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The names of pensioners who had not obtained their pension for six months were removed from the pension payment list by pension division officials without verification of their deaths.	The payment of farmer pensions is done in collaboration with the Department of Posts. In the case of the contributor's death, the respective post offices send the information of the dead contributors. The study will be done on pensioners who do not get their pensions on a regular basis, and steps will be taken to remove those pensioners from the payroll.	Deceased names must be verified before they are removed from the pension roll.
(b) Although the treasury provides funds for the payment of farmer pensions and administrative expenses on a monthly basis, an insurance fund has been established by depositing an annual instalment in the Agricultural and Agrarian Insurance Scheme for the payment of disability and death gratuities to the farmers. For the year under review, instalments of Rs.17,197,260 were credited and death gratuity payments of Rs.1,173,625 were made, and at the end of the year, the balance of the fund was Rs.1,258,775,352. It has been observed that the benefit paid out each year is less than 5 to 10 percent of the premiums credited to this fund each year, implying that maintaining this insurance is ineffective.	At the beginning of the Farmers' Pension Scheme, a premium was paid to the Sri Lanka Insurance Corporation to implement the death and disability gratuity, and a fund was created by maintaining the paid premium in the Board. A review of the premium paid is expected as indicated by the audit.	The effectiveness of maintaining the insurance should be reviewed.
(c) The biodata information Of the farmer contributors who have received the contribution under the scheme was obtained, and with the Department of Agricultural Services' assistance in updating the information system on August 11, 2017, at a cost of Rs. 5,640,925, the information obtained was less than 20 percent of the expected information. The intended purpose was not achieved as the system was not updated based on that information.	Although arrangements were made to obtain copies of the information in the contribution payment books provided to farmers through the survey, it was not possible to obtain the information as expected due to the difficulty in obtaining the information through the related survey activities.	The information system should be updated to fulfil its intended purpose.

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Existing information on premiums paid by contributors was not entered into the system and maintained up to date, and receipts were discarded without being securely stored in an observable manner, which caused the following deficiencies.	In order to overcome these weaknesses, the necessary activities to establish a new computer data system have been implemented. Due to a lack of employees, post-installation computerization was unable to be completed, and arrangements have been made to resume post-installation computerization in 2022.	The Board should maintain an up-to-date premium receipt and arrange for prompt payment of benefits to contributors entitled to pension benefits.
(i). Inability to calculate "instalments duly paid".		
(ii). Inability to verify whether all instalments have been paid		
(iii). The date of payment of the contribution from the contribution payment books or copies of original receipts should be obtained from the contributors who requested the pension, and confirmation of the contribution receipt information.		
(iv). Failure to notify contributors of breach 5 instalments respectively.		
(v). Failure to verify the accuracy and completeness the contribution revenue reported in financial statements during accounting and auditing.		
(vi). Inability to account for premium revenues on accrual basis.		
(vii). The Board does not have information to calculate pensions until farmers who pay monthly and semi-annual premiums claim them after getting the age of 60.		
(viii). Inability to detect late premium remittances from agencies and district offices such as rural banks and various service cooperative societies.		

- (b) Although 1½ years have passed since the launch of the new farmers' pension benefit scheme and 485 new contributors have joined the scheme, no action has been taken to identify and inform contributors who have not paid instalments properly.
- New recruit data is entered into a temporarily prepared information system. In the future, necessary arrangements will be made for informing farmers who do not pay instalments via SMS messages.
- Contributors who have not paid their instalments properly should be identified and informed.