

Fishermen's Pension and Social Security Benefit Scheme - 2019

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 2019 comprising the statement of financial position as at 31 December 2019 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 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 2019, 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 Public Sector 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 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 Audit Scope

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 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 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 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Comments of the Management	Recommendation
<p>Although the actuarial assessment should be done for the pension liability of active contributors and fishermen pensioners in a timely manner in terms of Paragraph 59 of Sri Lanka Accounting Standards 37, it had not been done subsequent to the year 2007. Even though the provisions for pension liability related to the year 2007 was Rs.1,242,006,539, provisions for pension liability had been stated as Rs.3,915,569,738 in financial statements without doing such an actuarial assessment as at 31 December 2019.</p>	<p>Pension liability had been brought to accounts on the basis of actuarial assessment conducted on the Fishermen's Pension Scheme in the year 2007. Since the Fishermen's Pension Scheme is not comprised of a self-financing basis, arrangements will be taken in the future to restructure this Scheme and to assess the liability properly.</p> <p>Discussions are still being held with the Ministry of Fisheries and the Board in relation to obtaining a fair contribution from the contributors to the pension by broadening the Pension Scheme. Accordingly, it is intended that a new Fishermen's Pension Scheme can be formulated in a systematic manner in the future.</p>	<p>Actuarial assessment for the pension liability should be done in a timely manner.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Unpaid pensions totalling to Rs.3,685,792, entitled by 121 fishermen, who had requested pensions for the period starting from January 2011 to December 2016 had been removed from the payable account considering that the amount had been paid. Owing to this, the payable account had reduced in this amount.	Necessary action has been taken to rectify the accounting error pointed out by the Audit. It is expected to implement technical and internal control methodologies required to avoid these errors in the preparation of the proposed new pensions Scheme.	Action should be taken to account accurately.

1.5.3 Going Concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
The Pension Liability of the Scheme as at the closing date of the year under review was Rs.3,915,569 and it was 9.04 per cent increase than that of in the previous year. Likely, the negative status of the Accumulated Fund had increased up to Rs. 3,288,940,708, viz. 11.58 per cent more than that of in the previous year and as a result, it had an unfavourable effect on Going Concern status of the Scheme. Moreover, the institution had not yet taken action to restructure the scheme and to implement it with a financial feasibility since this situation might develop further.	The committee of scholars, appointed for the introduction of a new pension scheme for the farmers and fishermen communities, had decided that it is appropriate to formulate a pension for the farmers and fishermen under the investment ratio of 9%. Further, it was decided to find methodologies for computing income for these schemes. It was fundamentally observed that cultivation tax fund and income earned from Govisetha Lottery can be used for this purpose. Since a new farmers' pension scheme has been introduced in the Visions of Prosperity and Splendour (Saubhagya Dakma), Manifesto of the new government, it is scheduled to function in accordance with that state policy in the future.	Action should be taken to formulate a new fishermen's Pension scheme in order to safeguard going concern basis of the Scheme in compliance with the state policies.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990 (a) Section 16</p>	<p>In terms of the provisions of the Act, action had not been taken to make the relevant members, who had defaulted the payment of membership fees by 31 December 2019, aware of the cancellation of their membership prior to the cancellation of their memberships. Thereby, a contributor had been deprived of the right entitled to him for revalidating a certificate that was cancelled. A sum of Rs.1,293,842 had been repaid as net instalments and interest in the year under review to the members, whose memberships were cancelled.</p>	<p>A prior information had been made to the fishermen at the moment of joining the Scheme that the contribution of the contributors, who had continuously defaulted the payment of 10 instalments would be cancelled. Moreover, the notice on the cancellation of the contribution in that manner is issued by the Department of Fisheries and the fishermen, whose contribution is cancelled in this manner, are allowed to contribute again to the Fishermen's Pension Scheme as new contributors through the District Offices of the Department of Fisheries. The Department of Fisheries, the Competent Authority in relation to the Fishermen's Pension Scheme is notified to take relevant action to prevent the re-occurrence of the issues pointed out in the audit query.</p>	<p>In case a contributor is disentitled to benefits, he should be notified of the disentanglement.</p>

(b) Section 20 Even though all the members of the Advisory Committee of the Board had been appointed for the year 2019, any meeting had not been conducted subsequent to 03 November 2016. It is expected to make necessary arrangements to appoint members of the Advisory Committee on Fishermen's Pension and to assemble the Advisory Committee expeditiously. Action should be taken to appoint members and to conduct meeting properly.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 16,207,069 and the corresponding profit in the preceding year amounted to Rs. 2,247,550. Therefore, a deterioration amounting to Rs. 18,454,619 of the financial result was observed. The reduction in the percentage of interest received for investments in the year under review was the major reason for the deterioration.

3. Operational Review

3.1 Operational Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
	-----	-----	-----
(a)	Even though the total contribution of the Scheme for the year under review was Rs. 340,189, a sum of Rs.64,668,352 had been paid from the Scheme exceeding the contribution received since the total pension payments were Rs. 63,346,699 and net instalment payments was Rs. 1,293,842 and death and disabilities benefit payments were Rs. 368,000.	Since the Fishermen's Pension Scheme existing currently is not a Scheme with a financial feasibility, new recruitments are not promoted. However, the fishermen, who provide contributions to the Scheme have completed 60 years of age and therefore, they are qualified to get pensions. As a result, payments of pension have increased in this manner and the funds flowing out have been increased.	Action should be taken to promote new recruitments by preparing a new scheme with financial feasibility.
(b)	Even though pensions should be paid from the date of completing the age of 60 years, pensions amounting to Rs.3,940,215 entitled by 129 fishermen had been accrued	This situation has created due to the temporary suspension of the payment of previous pension arrears, in the payment of pension arrears, until the reasons for the	Action should be taken to pay pensions from the date of completion of the age of 60

even by the end of the year under review as the Scheme had made payments from the date of its formation.

lengthy delay of fishermen in the submission of applications for obtaining Fishermen's Pension were found. Since significant delays were experienced by the farmers in the Districts where the war prevailed in applying for fishermen's pensions, 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 Niladharis and Divisional Secretaries.

years without leaving arrears.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
<p>Even though it had been scheduled to obtain contribution of Rs.307,000 through the recruitment of 100 contributors within the year under review, any members had not been recruited to the Scheme during the year under review and 96 contributors had been removed from the Scheme due to deaths and disabilities and non-payment of instalments duly.</p>	<p>This Scheme is being implemented in coordination with the Department of Fisheries and the performance including the recruitment of members is carried out by the Department of Fisheries. It is expected to restructure this Scheme as a new Scheme with a financial feasibility in the future in co-ordination with the Department of Fisheries and accordingly, it is anticipated to implement this Scheme in accordance with an action plan, which would be more effective.</p> <p>At the moment of recruiting fishermen as contributors, they had been made aware that fishermen, who do not duly pay instalments, would be removed from the Scheme. Moreover, it has been included in the Scheme that death gratuity or disability benefits should be granted to a member in case the member dies or becomes disabled.</p>	<p>Action should be taken to recruit the members continuously as per the Objective of the Pension Scheme.</p>

