

Farmers' Pension and Social Security Benefit Scheme - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the of Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive 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 (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 tabled in 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 2020, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 intends 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 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.
- 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 audit 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
<p>In terms of paragraph 59 of the Standard 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, it had been computed without carrying out such an actuarial assessment and the liability for the pension as at 31 December 2020 had been Rs.74,155,908,494. Further, adequate investments had not been made for settlement of those commitments.</p>	<p>The liability for pension has been brought to account based on the actuarial assessment carried out in the year 2007. As this pension scheme is not a self-financing scheme, action will be taken to restructure the Scheme in due course and thereby to assess the liability properly.</p>	<p>The liability for pension should be computed on actuarial assessment carried out in a timely manner.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Only the revenue amounting to Rs.96,476,139 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 in an updated manner including the date of enrollment into the Scheme and date of entitlement by contributors and value of contribution of active members and the register of contributors with the invalidate certificate of deed.</p>	<p>Ledger accounts are maintained properly for updating information relating to receipt of monies. Monthly updated register on pension can be referred to by the computer. Moreover, information on contributors who are the active members of the Scheme as well can be checked by the computer. As there were delays in computerization of defaulted installments, getting information on cancelled and inactive contributors from the system had become failure. As such, necessary action has been taken by State Commercial Banks to implement a special programme to recover defaulted installments and to connect those installments with our system so as to computerize them automatically. Total revenue from installments paid by contributors have been brought to account in the installment revenue.</p>	<p>Particulars on contributors should be maintained in an updated manner and contributions should be brought to account on accrued basis.</p>

1.5.3 Going Concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
<p>The net assets of the Scheme amounted to a negative balance of Rs. 78,198,513,683 as at the end of the year under review and the current liabilities over the current assets had been Rs. 5,028,075,667. Even though pension had been paid since 01 January 2014 in accordance with directives</p>	<p>Matters such as non-receipt of total initial capital of Rs.750 million, increase of benefits from 200 to 1000 from time to time without increasing installments, commencement of payment of pension to the spouse according to Government policies – 1995,</p>	<p>Action should be taken to activate the Scheme.</p>

published in the Gazette Extraordinary, No. 1853/49, dated 14 March 2014 relating to the Farmers' Pension and Social Security Benefit Scheme, recovery of contributions had been made according to the procedure published in the Gazette No. 452/12, dated 07 May 1987. Accordingly, the contribution of farmers for the years 2019 and 2020 had been Rs.21,495,773 and Rs.19,316,409 respectively whereas the payment of pension had been Rs.3,217,332,522 and Rs.4,502,560,108 respectively. Moreover, sums of Rs.3,065,000,000 and Rs.4,450,949,000 had been received from the Treasury in the years 2019 and 2020 respectively due to increase in the payment of pension. As such, it appears that the Scheme cannot be maintained without contributions from the Treasury.

etc, have affected therefor. Even though it had been decided to grant Treasury Bonds valued at Rs.5 million through the Budget -2015 for future commitments entered into, with the new Gazette issued in the year 2014, those funds had not been received to the Board and only annual liability of pension had been granted by the Treasury. It is intended to take action to obtain necessary funds by holding discussions with the General Treasury to make adequate investments.

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

Reference to Laws, Rules, Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a) Farmers' Pension And Social Security Benefit Scheme Act, No. 12 of 1987 (i) Section 04	This Scheme had been commenced with the objective of making a payment for the farmers who has the prescribed qualifications to join the Scheme, in case of a partial or	As benefits had been increased on Government policies and decisions without increasing installments, the fund of the Scheme which was commenced in the year 1987 had become zero by the year 2010. As such,	Action should be taken to activate the Scheme.

permanent disablement, as a financial assistance for their livelihood, paying a death gratuity, and paying a periodical pension after reaching the age of 60 years. However, no member had been enrolled into the Scheme during the period of 2012-2020.

enrollment into the Scheme had been discontinued and necessary action is being taken to make new enrollments. In terms of Gazette No.1853/49 of 2014, a Cabinet Paper was submitted to commence new enrollments and a committee of experts headed by a Deputy Secretary to the Treasury was appointed to provide further instructions thereon and according to the recommendation of that committee, new enrollments are due.

(ii)Section 6(1)

A contributor shall be entitled to a pension on reaching the age of sixty years. However, payments had been made from the date of preparation of pension instead of making payments from the date payable. Even though provision had been made for arrears in pension payable during the said period as well, action had not been taken to pay arrears in pension totalling Rs.3,745,948,105 provided for 125,828 farmers

A number of over 20,000 farmers who were in the waiting list for receiving pension, had to be listed. As such, a delay had occurred. As listing will be done at the instance of receiving entitlement for pension so as to avoid arrears in future, it is due to obtain provision from the Treasury in the payment of arrears payable in pension regularly.

Farmers' pensions should be paid from the date of reaching the age of sixty years.

relating to 8 years from the year 2012 to the year 2020.

- (iii) Sections 15(2) and (3) Where any contributor has forfeited the benefits on failure to pay the installments, a notice to that effect shall be issued to such contributor for making an appeal. However, on failure to issue the said notice, applications had been submitted by 1,451 persons implying that they are entitled to pension received after reaching the age of sixty years.
- In case of contributors defaulting on 05 consecutive installments payable to the Farmers' Pension Scheme, their entitlement to the Scheme will be cancelled, and the farmers are apprised in that connection at the time of their entitlement. This is also clearly stated in the notebook given to them to record the installments and the certificate of deed as well. As for the installments already paid by the farmers whose entitlement has been cancelled, action will be taken to reimburse such monies to them together with the interest when they turn 60 years of age.
- In the instance of forfeit of benefits on failure in due payment of instalments, the contributor should be notified thereof.
- (iv) Section 20 In the exercise of powers, the Advisory Committee established, should be met to exercise those powers. However, the Committee had not met after November 2016 up to now.
- Action necessary for activating commencement of enrolment for the Pension Scheme is currently in progress and accordingly, it is expected to take prompt action to assemble the Advisory Committee.
- The Advisory Committee should assemble in terms of the Act.

2. Financial Review

2.1 Financial Results

The operations for the year under review had resulted in a surplus of Rs.67,897,112 as against the deficit of Rs.58,984,104 of the preceding year, thus observing an improvement of Rs.126,881,216 in the financial result. The increase in Treasury grants by Rs.1,397,949,000 in relation to the preceding year had mainly attributed to this improvement.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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(a) In comparison of the new scheme commenced in the year 2014 with the old scheme, the benefits received by farmers from the new scheme was at a very low level. As such, plans had been made to update the new scheme and to introduce new social security schemes in the Corporate Plan 2016-2020. However, this purpose had not been achieved even by the end of the year under review.	It had been planned to commence new enrolments by updating the Farmers' Pension Scheme during the year 2021 and to use modern technological methods in the implementation thereof and the said activities are being implemented presently.	Action should be taken according to plans.
(b) A sum of approximately Rs.3,809,491,790 had been issued to 14 District Accounts Offices of the Agricultural and Agrarian Insurance Board for 161,000 farmer pensioners from January to October of the year under review and a pension amounting to Rs.76,019,485 unpaid had been returned to the Board by the time of audit. The Board had not taken action to look into the reasons for failure in obtaining pension and to strike off names from the Pensions Register if not living, by calling for information on pensioners who are not entitled.	This situation has arisen due to inability of obtaining pensions as pensioners had to remain in distant areas to which they have travelled, for a long period without being able to return home due to the Corona pandemic. Action has been taken to strike off the names of pensioners who do not obtain pensions for about a period of 06 months from the Register of Payment of Pensions by comparing their details.	The Pensions Register should be maintained in an updated manner.

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| <p>(c) A number of 117 deposited but unrealized cheques valued at Rs.1,179,624 brought forward during a period from 1992- 2002 relating to 3 bank accounts could not be settled even by the end of the year under review.</p> | <p>In terms of Public Finance Circular No.01/2020 issued by the General Treasury, action has been taken to correct this situation after obtaining approval through the Board of Directors' Paper No.509/04 submitted at the meeting of the Board of Directors held on 22 January 2021.</p> | <p>Unrealized cheques should be settled, after looking into matters.</p> |
| <p>(d) Only 08 Districts had been subjected to survey activities by spending a sum of Rs.1,726,875 with the motive of entering and updating bio data of farmer contributors included in the new pension scheme implemented from January 2014. Moreover, the Board had not taken action to carry out survey activities in the other Districts and to update the data base. As such, the expenditure incurred therefor had become fruitless and entering bio data of farmer contributors included in the new pension scheme had been discontinued towards the end of the year 2020.</p> | <p>The number of farmers who had submitted information for the programme of updating contributors' information in the Farmers' Pension Scheme had taken a low number. However, steps have been taken to computerize and update the information received at District level. As response of the farmers for the survey was at a minimum level, the constant conduct of survey was discontinued.</p> | <p>The system should be updated by entering bio data of farmer contributors included in the new pension scheme.</p> |

3.2 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>A number of 7,402 applications had been submitted for process of pensions by the end of the year under review and providing benefits had failed relating to 1,837 applications out of them.</p>	<p>A number of 7,402 applications were received for process of pensions by the end of the year under review and it was carried out with maximum efficiency. As such, the number of applications could be decreased to a number less than 1,000. Action will be taken in future to pay pensions without delay and it is expected to provide a prompt service to the farmer community by connecting the computer system with District offices using modern technological methods.</p>	<p>Benefits should be speedily provided to the farmer community.</p>