

Fishermen's Pension and Social Security Benefit Scheme - 2020

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 2020 comprising the statement of financial position as at 31 December 2020 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 the Fishermen's Pension and Social Security Benefit Scheme Act, No.23 of 1990. My comments and observations which I consider should be reported 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 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 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
In terms of paragraph 59 of the 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 been shown in financial statements without carrying out such an actuarial assessment. The said balance as at 31 December 2020 had been Rs.4,261,454,710.	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. Discussions are being held by now with the Ministry of Fisheries and the Board relating to obtaining a fair contribution from contributors for pension through the expansion of the Pension Scheme. Accordingly, it is	The liability for pension should be computed on actuarial assessment carried out in a timely manner.

intended that a new Fishermen's Pension Scheme could be formulated in a systematic manner. Accordingly, a Cabinet Paper has already been submitted by the Ministry of Fisheries.

1.5.2 Accounting Deficiencies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
<p>(a) The arrears in pension amounting to Rs.3,685,792 payable to 121 fishermen relating to the period from January 2009 to December 2016, had been indicated in financial statements as an expenditure of the year under review instead of adjusting to the preceding year.</p>	<p>Allocating provision for arrears in pension relating to 121 fishermen who are entitled to pension, has been adjusted and rectified through accounts of the year 2020.</p>	<p>Pension relating to prior years should be adjusted to the said years.</p>
<p>(b) In accounting the opening balance amounting to Rs.98,000 of the death gratuity fund payable, in the year under review, it had been brought to account as the opening balance of net premium expenditure account, thus understating the deficit and death gratuity fund of the year under review by the same amount.</p>	<p>Action has been taken to rectify the said position in the year 2021.</p>	<p>Action should be taken to account accurately.</p>

1.5.3 Going Concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
<p>The liability for pension of the Scheme as at the end of the year under review had been Rs.4,261,454,710 and it was an increase of 8.83 per cent than the preceding year. Moreover,</p>	<p>The amount of Government subsidies entitled to the contributor has increased due to providing benefits on Government policies without increasing premiums. As such, the negative balance of the</p>	<p>Action should be taken to activate the Scheme.</p>

the position of net assets of the Accumulated Fund had become a negative value of Rs.3,675,902,450, that is, it had increased by 11.76 per cent than that of the preceding year. As such, the said increase as well had adversely affected the going concern of the Scheme. As the said situation may further worsen in ensuing years, the Scheme has not taken action so far to restructure the Scheme and to implement it with financial feasibility.

Fund is increasing and Government subsidies have to be obtained for settling it. Necessary action will be taken to obtain necessary funds through the annual budget in future.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation -----	Comments of the Management -----	Recommendation -----
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 since the year 2010 and the loan amount and interest thereon recoverable as at the end of the year under review totalled Rs.338,949,572.	A sum of Rs.338.9 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. It is expected to recover the remaining loan 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 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.	It is expected to take necessary action for promotion of new enrolments after receiving approval for the Cabinet Paper submitted for commencement of a new pension scheme.	Action should be taken to validate the Scheme.
(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.4,828,177 for which provision was made for, to 176 fishermen who had applied for pensions relating to the period from January 2009 to December 2016.	This situation has arisen due to payment of old arrears in pension being suspended and action will be taken to pay relevant monies after obtaining confirmation.	Payments should be made from the date of entitlement to pension.

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| (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 implying that they are entitled to pension received after reaching the age of sixty years. | Recovery of premiums is carried out by District Fishery Extension Officers and monies of contributors who had been disentitled, will be paid back with interest on reaching the age of 60 years. It was relevantly briefed to avoid re-occurrence of matters pointed out by Audit. | 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. |
| (iv) Section 20 | The Advisory Committee which has been established, may exercise powers conferred by Section 22 of the Act for the implementation of the Scheme and should be met therefor. However, the Committee had not met after November 2016 up to now. | As it is planned to commence upcoming enrolments, necessary action will be taken expeditiously to assemble the Advisory Committee. | The Advisory Committee should meet in terms of the Act. |

2. Financial Review

2.1 Financial Results

The operations of the year under review had resulted in a loss of Rs.40,281,891 as compared with the corresponding loss of Rs.16,207,069 of the preceding year, thus observing a decline of Rs.24,074,822 in the financial result. The decrease in interest income and contributions of fishermen in the year under review had mainly attributed to this decline.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) As per the implemented plan of the Fishermen’s Pension and Social Security Benefit Scheme relating to the year 2020, it had been planned to categorize fishery pension cards according to Districts for the safety of pension cards, scanning of cards as well as storing them and protecting the data of fishery pensioners’ through “Document Management System”. However, that plan had not been implemented.	Necessary action is being taken by now to arrange a record room and to install a new computer system for the safety of documents.	Action should be taken in terms of plans.

(b) In the Corporate Plan 2016 – 2020, it had been planned to update the prevailing social security schemes and to introduce new social security schemes for providing stability to the local agriculturist. However, revision of the prevailing Fishermen's Pension Scheme according to current requirements and introducing a new Fishermen's Pension Scheme or enrolment of contributors to the prevailing Fishermen's Pension Scheme was not evident during the past few years.

As a new pension scheme is mentioned in the Vistas of Prosperity and Splendour of the new Government, necessary action has been taken by now according to the said state policy.

Action should be taken in terms of plans.