

## **Farmers' Pension and Social Security Benefit Scheme – 2023**

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### **1. Financial Statements**

#### **1.1 Disclaimer of Opinion**

The audit of the financial statements of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information 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, 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 to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the fund. Because of the significance of the matters described in paragraph 1.5 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

#### **1.2 Basis for Disclaimer of Opinion**

I expressed an adverse opinion on the matters described in paragraph 1.5 of this report.

#### **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 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 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 Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Comments of the Management	Recommendation
(a) Contrary to paragraph 88 of Sri Lanka Accounting Standard 01, the sum of Rs.133,810,611 premium received from farmers and investment interest, was not accounted for as income during the period but was instead recorded as part of the cumulative fund. As a result, the profit was reduced by this amount.	Since the premiums collected from contributors are to be paid out as benefits at age 60 by the board, it is expected that the fund will be strengthened for future liabilities by adjusting the sum of the premiums and the related interest amount into the fund.	The premium and investment interest should be recognized as income for the period.
(b) According to paragraph 59 of Sri Lanka Accounting Standard 37, the accuracy of the pension liability of Rs.86,898,445,376 for the end of the year under review could not be confirmed due to the absence of an actuarial valuation.	Under the 2024 budget, steps have been initiated this year to obtain an actuarial valuation.	An actuarial valuation should be conducted in accordance with Sri Lanka Accounting Standards.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The cash flow statement inaccurately recorded the Rs. 10,585,145 paid by the board as a cash outflow, Rs.3,046,341,760 previous year's adjustment as a cash inflow in working capital, and incorrectly adjusted the Rs.470,320 differences in the board's current account twice. Moreover, the amount of Rs.20,730,787 received from farmers who contributed to the new fund was not included in the cash flow statement as a cash inflow, and the loan installment of Rs.20,000,000 that was settled was not recorded as a cash outflow in the cash flow statement.	Rs.10,585,145 gratuity amount paid in relation to the Farmer Pension Scheme. Adjustments have already been made to cash flow generated from operating activities as adjustments are made from changes in working capital.	Cash inflows and outflows must be properly adjusted in the cash flow statement.

### 1.5.3 Going Concern of the Scheme

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The scheme includes total assets of Rs.2,202,748,150 and total liabilities of Rs.89,457,327,488, resulting in liabilities exceeding assets by Rs.87,254,579,339, and has total current assets of Rs.1,092,503,529 and total current liabilities of Rs.2,527,354,554, leading to current liabilities exceeding current assets by Rs.1,434,851,025, making the going concern of the scheme problematic without the contribution from the treasury.	The agricultural pension liability increases annually, and the lack of investments within the scheme, coupled with several instances where state policies have led to increases without a corresponding increase in benefit premiums, has resulted in a situation where funds must be allocated every year through the government budget to pay the agricultural pensions.	Action should be taken to activate the Scheme.

### 1.5.4 Lack of Documentary Evidence for Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Due to the absence of a method for updating the accurate bio-data of farmers, pensions of deceased and non-claimed farmers are continuously sent to the postal department. Consequently, in 2023, the postal department returned Rs.259,373,191 in unclaimed pensions, leaving an outstanding balance of Rs.81,000,602 due from the postal department by the end of the reviewed year. The lack of updated records for farmers who did not collect their pensions resulted in the inability to verify the accuracy of the year-end balance and the funds received.	All records received at the head office are thoroughly examined and appropriately stored in a designated area or archive, and the information in these records is continuously updated in the computerized data system. Furthermore, unpaid pension records are provided to us online by the district accountants, and we ensure their proper maintenance.	Information regarding unclaimed pensions must be maintained and updated regularly.

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

<b>Reference to Laws, Rules, Regulations, etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Farmers' Pension and Social Security Benefit Scheme Act, No. 12 of 1987			

- (i) Section 6(1) Although farmers are The office has been informed to Pension payments entitled to receive their submit the applications and all must be promptly pension upon reaching the relevant records of pension made to individuals age of 60, they have not beneficiaries who have reached the who have reached the been identified or paid their age of 60 and have not yet received eligible age pension. their agricultural pensions to the head office.
- (ii)Section 12(c) Although an information The E.R.P software system will The biodata system containing biodata have the capability to directly information system of was maintained in relation to interface with the banking system the scheme must be the scheme, the failure to for data entry. Due to the shortage regularly updated and regularly update and enter of employees, it was not possible to maintained. data resulted in the inability computerize post-installments, but to obtain the necessary the necessary arrangements have financial and operational been made to resume post-reports. installment computerization starting from the year 2022.
- (iii)Section 12(d) Although the scheme According to the 13th order of A formal regulation requires evaluation, review, Gazette No. 452/12 of 1987, must be established to and modifications to its contributors who do not pay their calculate interest on operational rules, an interest contribution properly will be paid the net premium rate of 3.32 percent per half the net premium amount and amount. year was applied to the interest. The calculations have been refund of unclaimed done by a biologist. pensions, in addition to the net premium amount, without any established law, rule, or regulation.
- (iv) Section 15(1) Although the board has the According to Section 15(1) of the The contributor must authority to notify Agricultural Pension and Social be informed that contributors of the loss of Security Scheme Act No. 12 of failure to make proper benefits under the certificate 1987, the benefits of farmers who installment payments if they fail to make 5 have missed 5 installments will be will result in the consecutive payments, in forfeited. When considering forfeiture of benefits. practice, the beneficiary did installment payments, it is assessed whether the payment is made within not miss 5 consecutive whether the payment is made within installments, those who the required period. Therefore, if failed to pay 5 installments any installment is delayed by more intermittently were still than 5 installments or more than 2½ considered to have breached years, the benefits specified in the the agreement, resulting in certificate will be forfeited. the loss of pension benefits.
- (v) Section 27(1) Although the amount of loan Due to the lack of funds in the The scheme should be obtained by the scheme scheme for paying farmer's obtain a loan with the should have been decided pensions in 2010 and 2011, agreement of both the

with the agreement of both payments were made using funds Minister in charge and the Minister in charge and obtained from the Agricultural the Minister of the Minister of Finance, a Insurance and Fisheries Pension Finance. loan of Rs.290,800,755 was Schemes, as per the obtained from the recommendations provided by the Agricultural and Agrarian Ministry of Finance. This loan Insurance Board without amount is being gradually repaid. such an agreement. As of December 31, 2023, the total loan balance, including the interest to be paid, was Rs.518,782,124.

- (b) Section 6 of Farmers Pension certificate deed If 75 percent of the required semi-annual contribution amount has been paid, the more than 75 percent of the contribution of contributors are entitled to a required installment amount without pension lower than the invalidating their contribution, they specified amount determined will be eligible to receive the by the board. However, reduced pension. benefits were forfeited for these contributors. For the adjustment of a reduced Information regarding semi-annual pension, if a contributor has paid semi-annual receipts more than 75 percent of the contribution must be properly maintained. must be properly maintained. reduced pension.

## 2. Financial Review

### 2.1 Financial Results

The operations for the year under review had resulted in a surplus of Rs.21,428,256 and the corresponding the surplus of Rs.192,873,887 of the preceding year, thus observing a deterioration of Rs.171,445,631 in the financial result. This decline was mainly due to the fact that the contribution income received from the farmers and investment interest of Rs.133,810,611 was adjusted to the accumulated fund without being accounted as income of the period and the farmers' pension payments was increased.

## 3. Operating Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) There is no approved carder related to the scheme and 50 percent of the total salary expenses and other administrative expenses of the board have been debited as expenses of the scheme. Even though Rs.15 from every instalment received from the beneficiary in repayment of unclaimed pension as administrative expenses, an insurance fee of Rs.30 per instalment properly paid by the farmer and again Rs.150 as insurance fee had	Farmers who contribute to the farmers' pension scheme should be given a death gratuity and a full and partial disability allowance in addition to their pension as per sections 4 b, c and d of the farmers' pension act. An insurance fee of Rs.30 per person is charged for the insurance coverage provided.	No other charges should be made from the contribution amount without an approved rule.

been decided and deducted from the amount refunded to the farmer. Accordingly, no rule had been approved for this.

- (b) Rs.5,640,925 had been spent to collect data for an information system in the year 2017 but the information system had not been built due to not collecting the expected information
- The instalments of the scheme started in the year 1987 are recorded in the instalment record books which are given to the farmer and the information of these instalment record books which are arranged in such a way that they can be identified through the survey that are carried out to obtain copies, but it is very difficult to get the information through the related survey activities. It was not possible to get the information as expected.
- Information should be collected and relevant system should be built, updated and maintained.
- (c) The balance of Rs.251,547,146 in group life insurance fund of farmers' pension scheme as on 31 December 2007 and its related investment had been transferred to the account of Agricultural and Agrarian Insurance Board. A loan amount of Rs.295,230,442 had been obtained from group insurance fund in the years 2010, 2011 and 2012 for the need of cash for the scheme and the accumulated interest for that was Rs.422,547,571 up to year 2023. An amount of Rs.7,980,276 from the amount of Rs.206,225,000 received from the treasury for the administrative expenses of the scheme in the year under review and Rs.20,000,000 from the contribution income received from the farmers had been used to recover part of the loan amount. Accordingly, the investment in the life insurance fund had become a loan amount.
- Insurance, premium collection, fund raising and payments are done by Agricultural Insurance Scheme. At the beginning of this scheme, this life insurance cover was obtained from the Sri Lanka Insurance Corporation and the contribution amount for a farmer was Rs.60 each paid to that institute. In the year 1994, the Board undertook to bear the life insurance risk and the fund was built within the Board. Since the maximum coverage here is Rs.50,000 and there is a possibility that a large amount of compensation will be released if an unexpected situation occurs. Arrangements have been made to obtain the actuarial assessment reports and actions will be taken according to the report provided there.
- Correct decisions should be taken so as to provide economic benefits to the scheme.
- (d) More than 7 million rupees had been paid in the previous years to the farmers for compensate the crop damages due to the closure of the Mavil Aru sluice and the
- No answers have been given.
- follow up should be done regarding the filed cases.

case filed in this regard was referred to the Attorney General for advice on 30 November 2007, but follow up had not been done in that regard as of the date of this report.

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| (e) | Out of the unclaimed balance of Rs.4,254,932,613 since the year 2012, an amount of Rs.3,033,329,200 was transferred to the pension fund without making any payment to the relevant farmers. Accordingly, the disadvantageous position of the scheme had been reduced. | An amount of Rs.3,033,329,200 was the pension payable for the years 2012 and 2013 and approval was taken to write off this value from the board of directors in the board meeting No. 535/04. | Action should be taken to traced and paid the unclaimed pension by farmers. |
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### 3.2 Operating Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Out of the 871,425 farmers registered in the scheme, 474,803 farmers aged between 61 and 93 as at 31 December 2023, but 264,227 of them have not been paid pension. Although the letter No. 6/FPS/33/2 addressed to all Deputy/Assistant directors on 23 June 2023 has been informed to find the contributors and take actions to provide pension to those who have not sent the applications and have completed 60 years in the year 2022 who are entitled to pension, but when checking a sample of 12 district offices 6 of them had not done so.	Farmers who have reached the age of 60 years and have not yet received farmers' pension have been informed, and Assistant Directors of all district offices have been considered this matter as a priority task.	Necessary actions should be taken to identify the contributors who completed 60 years of age and who have not applied for the pension.
(b) As the inability to provide necessary facilities to activate the deed when 5 consecutive instalments were breached, 1127 contributors in the year 2021, 2226 contributors in the year 2022 and 715 contributors during the year under review had been paid net contribution without pension out of the contributors who have applied for pension after completing the prescribed age.	According to the 13 <sup>th</sup> order of the Gazette No. 452/12 of 2014, net contribution and interest payments will be made to the contributors who have not paid their contributions properly. Accordingly, I point out that the net contributions have been paid to the relevant farmers.	When 5 consecutive instalments are breached, the same should be informed and necessary facilities should be provided for activation of the deed.



(c) The following weaknesses were observed in the enrolment after the year 2021.

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| (i) Failure to identify the farmers whose deed has become inactive after defaulting on payment and not introducing methods to suspend the account so that they do not accept their installments.  | The following activities have been carried out in respect of post instalment checks of contributors. <ul style="list-style-type: none"><li>• Reports should be maintained about instalments received from bank standing orders.</li><li>• Contributors have been informed to pay instalments through SMS. Accordingly, in the first season of October 2023, the contributors were informed to confirm by the bank that the deed number is referred to the board during the payment of your farmers' pension premium through standing orders. Thus, awareness was started to prevent instalment payment default through SMS messages. Necessary arrangements will be done to inform the contributors by telephone by 1918 service in the future.</li></ul> | Mechanisms should be introduced to detect breach of deed.             |
| (ii) Planned 3 activities according to the strategy of enhancing effectiveness of pension and social security scheme in the action plan of year 2023. Accordingly, Not Introduction of programmes to keep contributors active, awareness through short messages (SMS) and web applications to check account balance had not been implemented. | The technical work to notify the premium payment through SMS and to inform the contributors has been completed now. After the completion of the technical work, the SMS messages received by the IT department will be sent to the contributors.  | Action should be taken to maintained contributors active.             |
| (iii) Although the competing insurance companies would inform and guide contributors regarding premium payments and delays, the Board had not been introduced a system for that.  | The Board has arranged to use the SMS message system as informing the contributors through the agent network will incur additional costs,   | Promotional conditions prevailing in the industry should be followed. |