

Agricultural and Agrarian Insurance Board-2011

1. Financial Statements

1.1 Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Agriculture and Agrarian Insurance Board as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Going Concern of the Board.

Following observations are made

- (a) A reconciliation of the income, payment of indemnity and the expenditure incurred thereon for the preceding 05 years are given below. It was indicated a uncertainty over the going concern of the Board.

Year	Premiums Received	Claims Paid	Operational Expenditure	Administrative Expenditure	Total Expenditure	Expenditure Exceeding the Premiums Received
	Rs.mn	Rs.mn	Rs.mn	Rs.mn	Rs.mn	Rs.mn
2007	37.5	21.3	1.5	27.5	50.3	(12.8)
2008	70.5	27.0	4.2	78.7	109.9	(39.4)
2009	83.4	31.0	5.7	84.1	120.8	(37.4)
2010	105.1	268.7	5.6	86.3	360.6	(255.5)
2011	157.4	57.3	10.1	82.3	149.7	7.7

- (b) It was observed that heavy expenditure had been incurred in respect of Paddy and Subsidiary Crops insurance schemes for the year under review which adversely affected the operating results of the Board. Details are as follows.

Insurance Scheme	Income	Total Operating Expenditure	Operating Expenditure as a percentage of Income
	Rs.	Rs.	%
(i) Paddy	94,437,031	173,924,975	184.0
(ii) Livestock	18,235,472	7,454,577	40.0
(iii) Suwasetha	6,953,530	572,340	8.0
(iv) Subsidiary Crops	25,548,995	67,420,410	263.0
(v) Agri Equipments	5,881,549	74,850	1.0

1.2.2 Sri Lanka Accounting Standards

A cash flow Statement had been prepared but it had not been presented as specified in terms of Sri Lanka Accounting Standard No.9 .

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1.2.3 Accounts Receivable and Payable

Following observations are made.

- (a) Following loan and advance balances of employees aggregating Rs. 2,186,726 had remained in the accounts without being recovered for a long period of time.

	Rs.
Distress loans	1,385,858
Festival advances	51,300
Special advances	14,800
Fuel advances	160,601
Motor cycle loans	245,072
Special staff loans	4,800
Miscellanies advances	<u>324,293</u>
	<u>2,186,724</u>

- (b) The outstanding Staff Loan balances aggregating to Rs. 1,257,416 were remained as unrecovered for long period of time.
- (c) A sum of Rs. 149,044,122 had been given to the Farmers Pensions and Social Security Benefit Scheme for the payment of farmers pensions. However it had not been reimbursed up to 31 July 2012.

1.2.4 Non-compliance with Laws, Rules, Regulations, and Management Decisions

Following instances of non-compliance were observed in audit .

Establishments Cord

- (i) Section (7)(v) of Chapter xxiv Vehicles registration details had not been submitted to the authorized officer to prove the ownership of motorcycles purchased, under the motor cycle loans granted to 10 employees.
- (ii) Section (3)(i) of Chapter xxiv Motor cycle loans obtained by 3 employees amounting to Rs.150,000 each had not been used for the intended purposes.

1.2.5 Un authorized Transactions

Following observations are made.

- (a) According to the internal Circular No.427 dated 01 September 2009 , the enrollment should be done only the persons who were carried out agricultural activities. It was observed that the enrollments had been made with persons who were not involved in agricultural activities.

- (b) Audit test check revealed that claims for dead animals had been paid without obtaining animal tags as per instruction of internal circular No. 424 dated on 24 April 2009, examples are given below.

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<u>Tag No:</u>	<u>Value</u> (Rs.)
TCI-2010/12	26,800
21/33/139/3	44,800
503	17,800
ND589	44,800
TCI505	22,800

	156,500
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- (c) Instances were observed that the insurance cover had been granted to farmers prior to obtaining the medical certificate as directed in the internal circular No. 424 dated 24 April 2009. Example as follows.

<u>Insurance Period</u>	<u>Certificate date</u>
04-08-2009/03-08-2012	20-08-2009
24-08-2009/22-08-2012	02-09-2009
27-04-2010/26-04-2011	06-05-2010
22-06-2010/21-06-2011	23-06-2010

1.2.6 Transactions of Contentious Nature

Following observations are made.

- (a) Indemnity payments aggregating Rs. 948,429 had been made on which, the dates of assessment had been altered.
- (b) Indemnity payments aggregating Rs. 10,271,559 had been made on incompleting applications in respect of Paddy Insurance.
- (c) Indemnity payments amounting to Rs. 1,099,780 had been made twice to 49 farmers during 2010/2011 maha season in Batticaloa District. Out of this payment, only Rs. 809,140 had been recovered up to 31 July 2012.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating surplus of the Board for the year ended 31 December 2011 before taking into account the Government Grant for administrative expenses, amounted to Rs. 101,215,444 as against the operating deficit of Rs. 149,328,370 for the preceding year. After the adjustments of the Government Grant and other income of Rs. 68,998,243 received during the year under review, the overall surplus amounted to Rs. 87,675,318 as against with the overall deficit of Rs.147,406,522

after the adjustments of the Government Grant and other income of Rs.88,511,376 for the preceding year. Thus indicating an improvement of Rs. 235,081,840 in the overall surplus

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The following table gives a summary of financial results for the year under review and the preceding year.

Item	Current Year (2011)	Previous Year (2010)	Percentage of Change over previous year
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	Rs.(000)	Rs.(000)	%
Insurance-Premium	157,417	105,062	50
Interest	<u>11,268</u>	<u>19,923</u>	(43)
Total Operating Income	168,685	124,985	35
Operating Expenditure	<u>67,470</u>	<u>274,313</u>	(75)
Operating Surplus/(Deficit)	101,215	(149,328)	168
Government Grant for Administrative Expenditure	62,750	85,500	(27)
Other income	6,248	3,011	108
Administrative, Finance and Other Expenditure	<u>(82,538)</u>	<u>(86,589)</u>	<u>(5)</u>
Net Surplus/ (Deficit)	87,675	(147,406)	159
Provision for A.A.I.B Reserve Fund	<u>5,060</u>	=	=
Net Surplus/ (Deficit) after Provision	82,615	(147,406)	156

Following are main reasons attributed for the above improvement.

- (i) The insurance premium had been increased by 50% as compared with the previous year due to increase of paddy insurance.
- (ii) Operating expenditure had been decreased by 75% as compared with the previous year due to disaster situation had not arisen.
- (iii) Other income had been increased by 108 % as compared with the previous year due to disposal of fixed assets.

2.2 Analytical Financial Review

According to the Financial Result for the year under review and preceding 4 years, the net surplus before Government Grant had decreased gradually. Details are as follows.

	<u>2011</u> Rs. mn	<u>2010</u> Rs. mn	<u>2009</u> Rs. mn	<u>2008</u> Rs. mn	<u>2007</u> Rs. mn
Total Income	175	128	114	96	48
Total Expenditure	<u>150</u>	<u>361</u>	<u>121</u>	<u>134</u>	<u>50</u>

Net surplus/(Deficit)	25	(233)	(7)	(38)	(2)
Government Grant	<u>63</u>	<u>85</u>	<u>75</u>	<u>42</u>	<u>12</u>
Net surplus/(Deficit) after Government Grant	<u>88</u>	<u>(148)</u>	<u>68</u>	<u>4</u>	<u>10</u>

It was observed that the Board depends on Government Grant during the period of 2007 to 2010.

3. Operational Review

3.1 Performance

Administration of Insurance Schemes

According to the information made available, the following statement shows the physical and financial performance of the Insurance Schemes for the year under review and the previous year .

Item	Measurment	Target				Achievement				Achievement as a percentage (%)			
		Physical		Financial		Physical		Financial		Physical		Financial	
		2010	2011	2010 Rs.(000)	2011 Rs.(000)	2010	2011	2010 Rs.(000)	2011 Rs.(000)	2010 %	2011 %	2010 Rs.(000)	2011 Rs.(000)
1. Crop Insurance													
(a) Paddy	Acre	60,000	90,519	48,000	71,371	65,572	101,741	53,010	94,437	109.2	112.40	110.44	132.32
(b) Chilies	Acre	500	823	700	1,411	194	431	364	826	38.80	52.00	52.00	58.54
(c) Big Onion	Acre	600	341	1,920	3,386	1,021	998	2,719	2,744	170.1	292.67	141.61	81.04
(d) Coconut	Acre	975	130	1,053	140	10	5	11	11	1.03	3.85	1.04	7.86
(e) Sugar Cane	Acre	1,300	1,040	3,055	2,570	63	30	377	28	4.85	2.88	12.34	1.09
(f) Maize	Acre	15,500	12,065	17,050	18,583	11,101	9,788	17,977	16,263	71.62	81.13	105.44	87.52
(g) Export and Perennial Crop	Acre	600	1,376	1,680	3,759	107	14	239	49	17.83	1.02	14.23	1.30
(h) Flower Plant	Plant		64,752	400	261		-	6	-		-	1.50	-
(i) Plantation Crop	Acre	416	222	832	444	16	756	42	709	3.85	340.54	5.05	159.68
(j) Potato	Acre	200	600	1,000	3,037	518	817	2,095	2,919	259.0	136.17	209.5	96.11
(k) Other Crop	Acre	900	5,236	450	3,751	2,756	1,076	1,985	1,130	306.2	20.55	441.11	30.13
(l) Vegetables	Acre	300	375	900	1,273	521	889	807	869	173.6	237.07	89.67	68.26
2. Livestocks													
Cattle	Nos	11,000	11,200	27,500	25,928	5,631	12,982	11,334	16,729	51.19	115.91	41.21	64.52
Goat	Nos	8,000	11,646	2,500	6,140	3,219	2,837	1,436	1,506	40.24	24.36	57.44	24.53
3. Stores	Nos	1,000	1,063	5,000	4,897	10	5	178	44	1.00	0.47	3.56	0.9
4. Agri Equipment	Nos	2,000	3,645	7,000	13,600	454	402	3,225	5,881	22.70	11.03	46.07	43.24
5. Suwasetha	Nos	40,000	36,085	16,000	15,478	20,618	13,181	8,456	6,953	51.54	36.53	52.85	44.92
6. Life Insurance	Nos	15,000	12,069	45,000	10,189	-	8,105	-	7,272	0	67.16	0	71.37

The following observations are made in this regard.

- (a) The physical targets regarding insurance activities in respect of Coconut, Sugar Cane, Export and Perennial Crop, Other Crops, Goat, Stores, Agri Equipment and Suwasetha had not achieved even up to 50 per cent. The physical targets in respect of Coconut, Sugar Cane, Export and Perennial Crop and Stores insurance had achieved only below 5 per cent.
- (b) The financial targets regarding insurance activities in respect of Coconut, Sugar Cane, Export and Perennial Crop, Flower Plant, Other Crop, Goat, Stores, Agri Equipment and Suwasetha had not achieved even up to 50 per cent. The financial targets in respect of Coconut, Sugar Cane, Export and Perennial Crop, Flower Plant and Stores insurance had achieved only below 10 per cent.
- (c) The achievement of targets in respect of Big Onion, Sugar Cane, Maize, Export and Perennial Crop, Potato, Other Crop, Vegetable, Goat, Stores, Agri Equipment and Suwasetha insurance had decreased when compared with the preceding year.
- (d) Even though the physical and financial targets in respect of Flower Plant insurance had estimated as 64,752 nos and Rs. 0.261 million respectively, no any single plant had insured during the year under review.

3.2 Assets Management

Following observations are made.

- (a) According to the information made available 09 vehicles had remained idle at the Head Office premises of the board for a long period.
- (b) Unused printing material stock valued at Rs. 382,111 and equipments valued at Rs. 451,509 which was fully depreciated had remained idle since 1982.

3.3 Delay in Projects

A sum of Rs.585,800 had been incurred for the development of a land in the year 2008 to construct a building and, shown as an advance in the financial statements of 2011. However the land remained as idle for a long period.

3.4 Human Resource Management

1. According to the information made available, the approved cadre, the actual cadre and vacancies for the three years ended

Category of Staff	Approved Cadre as at			Actual Cadre as at			Vacant Cadre as at		
	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2011	31 Dec 2010	31 Dec 2009	31 Dec 2011	31 Dec 2010	31 Dec 2009
Executives	56	45	45	38	39	41	18	06	04
Non Executives	285	264	263	235	176	193	50	88	70
Minor Employees	80	69	70	60	60	53	20	09	17
Casuals	-	-	-	07	68	144	-	-	-
Total	421	378	378	340	343	431	88	103	91

31 December 2011 are given below.

Following observation is made.

It was observed that 91, 103 and 88 vacancies were existed in the year 2009, 2010 and 2011 respectively against the approved cadre and action had not been taken to fill the vacancies.

3.5 Fund for Gratuity.

A Gratuity fund had not been created to cover the gratuity provision of Rs.31,214,220 as at the end of the year under review.

3.6 Utilization of Vehicles

Nine jeeps and one cab, used by the Board, of which ownership had not been transferred to the Board for a long period of time. Out of this vehicles certain vehicles were used by the Board without obtaining revenue licenses and insurance.

4. Accountability and Good Governance

4.1 Corporate Plan

Though the Board had prepared a Corporate Plan for the period 2009 – 2012, it had not been updated for the year 2011 in terms of Section 5.1.3 of Circular No. PED/ 12 dated 02 June 2003 issued by the Department of Public Enterprises.

4.2 Action Plan

It was observed that certain targets set out in the Action Plan for the year 2011 regarding the insurance of Chilies, Coconut, Sugar Cane, Maize, Flower Plant, Other Crop, Vegetable, Cattle, Goat, Stores, Agri Equipment, Suwasetha and Life Insurance had not been achieved and it had not been used as an effective instrument of good governance .

4.3 Internal Audit

Following observations are made with regard to the establishment and operation of the Internal Audit.

(a) Internal Auditing Standards and Code of Ethics

The Board had not planned Internal Audit Charter and annual Internal Audit Programme in terms of Circular No. DMA/ 2009(3) issued by the Department of Management Audit on 07 October 2009. The following Internal Audit Standards had not been applied when preparing Audit Programme.

Appendix 2 – Performance Standards – No. 2201 – Planning Consideration.

(b) The following areas and activities scheduled in the Annual Audit Programme for the year 2010 had not been carried out.

(i) Liabilities

(ii) Overall Performance of the Board.

4.4 Budgetary Control

Significant variances were observed between the budget and the actuals, thus indicating that the budget had not been made use of as an effective instrument of internal control.

5. Systems and Controls

Deficiencies observed in system and controls during the course of audit were brought to the notice of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Insurance Schemes
- (b) Payment of Indemnity
- (c) Compliance with Laws, Rules and Regulations
- (d) Corporate Plan and Action Plan
- (e) Budget
- (f) Settlement of Staff Loans and Advances
- (g) Internal Audit