

# **Agricultural and Agrarian Insurance Board**

## **1. Financial Statements**

### **1.1 Opinion**

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Agricultural and Agrarian Insurance Board had maintained proper accounting records for the year ended 31 December 2010 and except for the effects of the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, given a true and fair view of the state of affairs of the Agricultural and Agrarian Insurance Board as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

### **1.2 Comments on Financial Statements**

#### **1.2.1 Sri Lanka Accounting Standards**

Following observations are made.

- (a) Government Grant shall be recognized as income, over the periods necessary to match them with the related cost which they intended to compensate on a systematic basis in terms of SLAS 24. However, receipt of Government Grant for the capital expenditure amounting to Rs .110,672,184 for the year ended 31 December 2010, had been directly taken to the shareholders interest .
- (b) Although the depreciation policy on fixed assets had been revised in the year 2009, the adjustments relating to preceding year had not been made as per the new depreciation policy of fixed assets for the year 2010 in terms of SLAS 10.
- (c) The concept of Going Concern had not been disclosed in the financial statements.
- (d) Post employment benefit obligation should be made using a qualified actuary or using a Gratuity Formula Method in terms of SLAS Nos.16 and 42. However Gratuity Liability had not been computed in accordance with the above requirement.

### 1.2.2 Accounting Deficiencies

Over payment of Rs. 58,440 had been observed when indemnity payments made in respect of 15 Maize insurance during the year under review. Details are as follows

<u>Area</u>	<u>No. of payments</u>	<u>Amount to be paid</u> Rs.	<u>Amount paid</u> Rs.	<u>Over payment</u> Rs.
Kahatagasdigiliya	02	16,800	28,500	11,700
Mihintale	01	4,500	8,000	3,500
Galenbindunuwewa	01	11,700	20,250	8,550
Nochchiyagama	03	17,350	33,600	16,250
Horowpathana	<u>08</u>	<u>36,760</u>	<u>55,200</u>	<u>18,440</u>
Total	<u>15</u>	<u>87,110</u>	<u>145,550</u>	<u>58,440</u>

### 1.2.3 Unexplained Differences

Following observations are made

- (a) According to the progress reports, the income received from insurance premium amounted to Rs.105.484 million while as per the financial statements it had been Rs.105.063 million thus indicating a difference of Rs.0.421 million.
- (b) According to the financial statements for the year under review, EPF & ETF contributions charged to the income statement were Rs,3,885,009 and Rs.906,278 respectively. In arriving the above figures salary amount considered for the EPF calculation was Rs 32,375,079 and ETF calculation was Rs.30,209,271. The reasons for the different salaries taken for the calculation of EPF and ETF had not been furnished to audit.

### 1.2.4 Accounts Receivable and Payable

Following observations are made.

- (a) The total balances receivable from the employees loans and advances aggregating Rs.1,315,578 had been remained in the accounts as at 31 December 2010 without being recovered for a long period. Details are as follows.

	3
	Rs.
Distress loans	919,095
Festival advances	46,800
Special advance	9,300
Motor cycle loans	285,322
Special staff loans	4,800
Salary advances	<u>50,261</u>
	<u>1,315,578</u>

(b) The receivable balances of sundry debtors amounting to Rs. 51,543 remaining unsettled for over one year as at 31 December 2010.

### **1.2.5 Lack of Documentary Evidence for Audit**

Payment of indemnity for 09 insurees amounting to Rs. 432,950 could not be satisfactory vouched in audit in the absence of acknowledgements.

### **1.2.6 Non-compliance with Laws, Rules, Regulations, and Management Decisions**

Following instances of non-compliance were observed in audit .

#### **Reference to Laws, Rules, Regulations etc.**

#### **Non-Compliance**

- |   |  |
|---|--|
| (a) Value Added Tax Act No. 14 of 2002 as amended by Section 26(a)(i) of the VAT (Amendment) Act No. 14 of 2007.  | Withholding Tax of 1/3 of the Value Added Tax amounting to Rs. 452,928 had not been deducted from rent payments and remitted to the Department of Inland Revenue.  |
| (b) Government Procurement Guidelines of the National Procurement Agency Circular No.8 dated 25 January 2006 as amended by Circular No.06 dated 5 October 2006. | Although vehicle repairing cost over the value of Rs.100,000 should be made with the approval of the Secretary to the Line Ministry, such approval had not been obtained for repairing of a vehicle at a cost of Rs.135,000. |

## (c) Financial Regulations

- (i) F.R.104 (2) Accidents regarding 6 vehicle had not been reported to the Auditor General .
- (ii) F.R.110 A register of losses had not been maintained
- (iii) F.R- 371 (2) b Miscellaneous advances and fuel advances amounting to Rs.530,798 paid during the period 1999 to 2010 had not been settled even up to 31 March 2011.
- (iv) F.R 1645 Vehicle log books had not been updated as required.
- (v) F.R. 1646 Daily running charts and monthly performance summaries in respect of 36 vehicles had not been furnished to the Auditor General.
- (vi) F.R. 1647(a) Reports on annual survey of vehicles had not been furnished to the Auditor General.
- (d) Treasury Circular No. IAI/ 2002/2 of 28 November 2002 A Register of computers and accessories had not been maintained.
- (e) Agricultural and Agrarian Advances paid to the officers during the year under Insurance Board Circular review amounting to Rs. 233,900 had not been settled No.2/1/F/25 dated 14 February 2006. within 14 days.

**1.2.7 Transactions of Contentious Nature**

Following observations are made.

- (a) Indemnity payments aggregating Rs.262,900 had been made on forged documents in respect of 36 Maize insurance.
- (b) Indemnity payments aggregating to Rs.318,040 had been made on applications with incompleting information in respect of Paddy Insurance.

- (c) Indemnity payments in respect of Paddy Insurance aggregating Rs. 135,753 had been made. However, the dates of cultivation were the later dates of insurance.
- (d) Indemnity payments in respect of Paddy Insurance aggregating to Rs. 77,575 had been made on the days following the approved date of cultivation

## 2. **Financial and Operating Review**

### 2.1 **Financial Review**

#### 2.1.1 **Financial Results**

According to the financial statements presented, the operating deficit of the Board for the year ended 31 December 2010 before taking into account the Government Grant for administrative expenses, amounted to Rs.149,328,371 as compared with the corresponding operating surplus of Rs.73,276,670 for the preceding year. After taking into account the Government Grant and other income of Rs.86,141,294 received in respect of the year under review to meet the administrative and financial expenses amounted to Rs.86,589,528 , the overall deficit had become to Rs.149,776,605 as compared with the corresponding overall surplus of Rs.67,747,480 for the preceding year, thus indicating a deterioration of Rs.217,524,085 in the financial results.

#### 2.1.2 **Going concern of the Board**

Following observations are made.

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

<b>Insurance Scheme</b>	<b>Income</b>	<b>Total Operating Expenditure</b>	<b>Operating Expenditure as a percentage of Income</b>
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	<b>Rs.</b>	<b>Rs.</b>	<b>%</b>
(i) Paddy	53,009,967	179,229,396	338.0
(ii) Livestock	11,467,977	11,435,121	99.7
(iii) Suwasetha	9,724,658	1,418,054	14.6
(iv) Subsidiary Crops	26,521,732	81,236,620	306.3
(v) Agri Equipments	1,182,106	48,205	4.1

- (b) A sum of Rs.259 million has been provided for indemnity payments for the year ended 31 December 2010 for the disasters situation occurred early in the year 2011. However the funds available of the Board limited to Rs. 243 million only. This negative situation would have been prevented for payments of future liabilities arise on disasters.

### 2.1.3 Analytical Financial Review

- (a) According to the Financial Results of preceding 5 years net surplus before Government Grant had decreased gradually except 2009 and become a net deficit of Rs 150 million as at 31 December 2010. Details are as follows.

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
	Rs. mn	Rs. mn	Rs. mn	Rs. mn	Rs. mn
Total Income	126	114	96	48	43
Total Expenditure	<u>361</u>	<u>121</u>	<u>134</u>	<u>50</u>	<u>37</u>
Net surplus/(Deficit)	(235)	( 7)	(38)	(2)	6
Government Grant	<u>85</u>	<u>75</u>	<u>42</u>	<u>12</u>	<u>12</u>
Net surplus/(Deficit) after Government Grant	<u>(150)</u>	<u>68</u>	<u>4</u>	<u>10</u>	<u>18</u>

It shows that the Board depending on the Government Grants for its operations.

- (b) A reconciliation of the income, payment of indemnity and the expenditure incurred thereon for the year under review and preceding 04 years are given below which indicated an uncertainty over the going concern of the Board.

Year	Premiums Received	Claims Paid	Operational Expenditure	Administrative Expenditure	Total Expenditure	Expenditure Exceeding the Premiums Received
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	Rs.mn	Rs.mn	Rs.mn	Rs.mn	Rs.mn	Rs.mn
2006	34.3	8.9	3.0	24.9	36.8	(2.5)
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)

## 2.2 Operating Review

### 2.2.1 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	Measu rement	Target				Achievement				Achievement as a percentage (%)			
		Physical		Financial		Physical		Financial		Physical		Financial	
		2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
				Rs.(000)	Rs.(000)			Rs.(000)	Rs.(000)	%	%	Rs.(000)	Rs.(000)
1. Crop Insurance													
(a) Paddy	Acr	65,000	60,000	49,800	48,000	46,236	65,572	33,058	53,010	71.13	109.29	66.38	110.44
(b) Chilies	Acr	500	500	700	700	742	194	693	364	148.40	38.80	99.00	52.00
(c) Big Onion	Acr	600	600	1,920	1,920	479	1,021	1,626	2,719	79.83	170.17	84.69	141.61
(d) Coconut	Acr	1,500	975	1,620	1,053	6	10	20	11	0.40	1.03	1.23	1.04
(e) Sugar Cane	Acr	500	1,300	400	3,055	29	63	25	377	5.80	4.85	6.25	12.34
(f) Maize	Acr	15,000	15,500	11,250	17,050	9,542	11,101	17,089	17,977	63.61	71.62	151.90	105.44
(g) Export and Perennial Crop	Acr	1,000	600	2,800	1,680	159	107	384	239	15.90	17.83	13.71	14.23
(h) Flower Plant	Plant	280,000		1,120	400	1,000		2	6	0.36		0.18	1.50
(i) Plantation Crop	Acr	1,000	416	2,000	832	2	16	5	42	0.20	3.85	0.25	5.05
(j) Potato	Acr	200	200	1,000	1,000	416	518	1,873	2,095	208.00	259.00	187.30	209.5
(k) Other Crop	Acr	1,700	900	1,300	450	461	2,756	360	1,985	27.12	306.22	27.69	441.11
(l) Vegetable	Acr	-	300	-	900	147	521	294	807	-	173.67	-	89.67
2. Livestock													
Cattle	Nos	11,000	11,000	26,950	27,500	4,708	5,631	12,134	11,334	42.80	51.19	45.02	41.21
Goat	Nos	8,000	8,000	2,640	2,500	3,895	3,219	1,509	1,436	48.69	40.24	57.16	57.44
3. Stores	Nos	150	1,000	1,313	5,000	96	10	508	178	64.00	1.00	38.69	3.56
4. Agri Equipment	Nos	2,000	2,000	6,000	7,000	165	454	1,036	3,225	8.25	22.70	17.26	46.07
5. Suwasetha	Nos	50,000	40,000	17,500	16,000	23,325	20,618	9,012	8,456	46.65	51.54	51.50	52.85
6. Life Insurance	Nos	15,000	15,000	45,000	45,000	6	-	7	-	0.04	0	0.02	0

The following observations are made in this regard.

- (a) The physical targets regarding insurance activities in respect of Chilies, Coconut, Sugar Cane, Export and Perennial Crop, Plantation Crop, Cattle, Stores and Agri Equipment had not been achieved even up to 50 per cent. The physical targets in respect of Coconut, Sugar Cane, Plantation Crop and Stores insurance had achieved below 5 per cent only.
- (b) The financial targets regarding insurance activities in respect of Coconut, Sugar Cane, Export and Perennial Crop, Flower Plant, Plantation Crop, Cattle, Stores and Agri Equipment had not been achieved even up to 50 per cent. The financial targets in respect of Coconut, Flower Plant, Plantation Crop and Stores insurance had achieved below 10 per cent only.
- (c) The achievement of physical targets in respect of Chilies, Goat and Stores insurance had decreased by 109.6 per cent 8.5 per cent and 63 per cent when compared with the preceding year.
- (d) Even though the physical and financial targets in respect of Life insurance had been estimated as 15,000 nos and Rs. 45 million, no any single person had been insured during the year under review.



### 2.2.2 Human Resource Management

According to the information made available, the approved cadre, the actual cadre and vacant position for the year under review compared with the preceding two years are given below.

Category of Staff	Approved Cadre			Actual Cadre			Vacant Cadre		
	31.12.2008	31.12.2009	31.12.2010	31.12.2008	31.12.2009	31.12.2010	31.12.2008	31.12.2009	31.12.2010
Executives	107	45	45	81	41	39	26	04	06
Non Executives	200	263	264	157	193	176	43	70	88
Minor Employees	71	70	69	57	53	60	14	17	09
Casual	-	-	-	95	144	68	-	-	-
Total	378	378	378	390	431	343	83	91	103

It was observed that actions had not been taken to fill the 83 , 91 and 103 vacancies existed in the years 2008, 2009 and 2010 respectively.

### **2.2.3 Assets Management**

Following observations are made.

- (a) According to the information made available 07 vehicles had remained idle at the Head Office premises without being used for a long period.
- (b) Stocks of unused printing material amounting to Rs. 382,111 and equipment amounting to Rs. 451,509 which were fully depreciated, had remained idle since 1982.

### **2.2.4 Corporate Plan and Annual Action Plan**

Though the Board had prepared a Corporate Plan for the period 2009 – 2012, it had not been updated for the year 2010 in terms of Section 5.1.3 of Circular No. PED/ 12 of 02 June 2003 issued by the Department of Public Enterprises. It was observed that certain targets set out in the Action Plan for the year 2010 had not been achieved and it had not been used as an instrument of good governance of the Board.

### **2.2.5 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 its Internal Audit Charter and annual Internal Audit Programme in terms of Circular No. DMA/ 2009(3) of 07 October 2009 issued by the Department of Management Audit of the General Treasury. The following Internal Audit Standards had not been applied when preparing Audit Programme.

- (i) Appendix 2 – Performance Standards – No. 2110 – Risk Management.
- (ii) 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) Assets
- (ii) Liabilities
- (iii) Human Resource Management
- (iv) Vehicles of the Board.
- (v) Insurance Commission.
- (vi) Overall performance of the Board.

### **2.2.6 Budgetary Control**

Significant variances were observed between the budgeted income and expenditure with the actual income and expenditure for the year 2010, thus indicating that the budget had not been made use of as an effective instrument of management control.

### **3. Systems and Controls**

Observations made in systems 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) Payments of Indemnity
- (c) Internal Audit
- (d) Corporate Plan and Action Plan
- (e) Budget
- (f) Settlement of Staff Loans and Advances
- (g) Compliance with Laws, Rules and Regulations