

National Insurance Trust Fund - 2012

1. Financial Statements

1.1 Qualified 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 National Insurance Trust Fund as at 31 December 2012 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 Accounting Deficiencies

The following observations are made.

- (a) The monthly rent payable for the year under review amounting to Rs.250,333 had not been brought to account.
- (b) Stocks valued at Rs.23,060 belonging to the Strikes, Riots, Civil Commotions and Terrorism Fund had been brought to account as an asset of the National Insurance Trust Fund.
- (c) Even though the direct expenses, indirect expenses and overhead expenses of the Strikes, Riots, Civil Commotions and Terrorism Fund and the Agrahara and the other Division (National Insurance Trust Fund) should be apportioned on a fair basis and included in the financial statements of the Fund, instances in which it had not been so done are given below.
 - (i) Out of the annual rent on the office building amounting to Rs.19,627,418 , a sum of Rs.18,000,000 or 91.7 per cent had been shown as the expenditure of the Strikes, Riots, Civil Commotions and Terrorism Fund. Nevertheless, space less than 10 per cent of the five storeyed office building had been used for the staff.

- (ii) The entire expenditure on the Nation Building Tax amounting to Rs.12,923,461 had been shown in the consolidated financial statements as an expenditure of the Strikes, Riots, Civil Commotions and Terrorism Fund.
- (iii) Even though expenditure on employees amounting to Rs.7,278,799 can be apportioned between Agrahara Division and the Strikes, Riots, Civil Commotions and Terrorism Fund, the total expenditure had been shown as expenditure of the Agrahara Division without doing so.
- (iv) In addition, expenditure of Rs.28,598,307 incurred generally had been shown under the Agrahara Division instead of being apportioned between the above two divisions according to a suitable basis.
- (v) Even though sum of Rs.1,977,405 and Rs.1,432,050 had been shown as expenditure of the Agrahara Division and the Strikes, Riots, Civil Commotions and Terrorism Fund respectively, the basis of apportionment of the expenditure between the two divisions had not been disclosed in the financial statements.

1.2.2 Unexplained Differences

Even though the cash book balance of Bank Account as at 31 December of the year under review amounted to Rs.7,215,904 the Bank Reconciliation Statement had been prepared by considering the cash book balance as Rs.1,251,008. As such the balances in the Bank Account and the Bank Reconciliation Statement did not agree with each other. In response to the further enquiries made in this connection, the Chairman of the Fund informed the audit that the difference had arisen due to the errors in the computer systems in the year 2012 and the prior years and that the rectification of that in the year 2013 will be confirmed.

1.2.3 Lack of Evidence for Audit

The evidence indicated against each of the following items had not been furnished to audit.

	Item	Value	Evidence not made available
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		Rs. Millions	
(a)	Additional Loans granted to an Institution under Relief Loans	56.78	(i) Loan Agreement (ii) Approval
(b)	Bank Account Balances of the National Insurance Trust Fund	1.11	Confirmation of Balances
(c)	Depreciation Expenditure	7.53	} Particulars of Computation of Depreciation
	- Agrahara Division	3.29	
	- Strikes, Riots, Civil Commotions and Terrorism Fund		

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

The following instances of non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Procurement Guidelines – 2006	
(i) Sections 4.3.1 and 4.3.2	The cost estimates had not been prepared for the contract for Rs.6,645,584 for the partitioning of office rooms and attention had not been paid to the level of procurement action to be taken in accordance with the cost.

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| (ii) Section 5.2.1 | The conditions for the acceptance of the validity and the response to a bid had not been clearly stated in the documents calling for bids. |
| (iii) Section 5.6 | The specifications and bills of quantities had not been prepared for the contract. |
| (b) Public Enterprises Circular No. 95 of 14 June 1994 | The annual bonus amounting to Rs.2,963,334 and other allowance amounting to Rs.3,234,449 had been paid in the year under review to the employees of the Fund without the Treasury approval. |
| (c) Paragraph 02 of the Public Administration Circular No. 30/2008 of 31 December 2008 and Paragraph 04 of the National Budget Circular No. 157 of 28 December 2012. | Even though the 10 month basic salary of an officer or Rs.250,000 whichever is less, can be paid as the maximum distress loan, contrary to that 07 officers had been paid distress loans exceeding that limit by Rs.635,000. |
| (d) Chapter 7 of the Public Enterprises Circular No. PED/12 of 02 June 2003 | The Manual on Administration had not been prepared and approval obtained even by 21 July 2014. |

1.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Two officers deployed as Branch Managers of two Branches without obtaining approval of the posts or obtaining the approval of the Treasury had been paid Rs.720,000 in the year under review at Rs.30,000 per month.

- (b) Even though the commercial institutions damaged by the terrorist bomb blast in the Colombo Fort area in the years 1996 and 1997 which should be granted loans on concessionary terms for their upliftment and the amount of loans to be granted are stated in the Cabinet Paper loans amounting to Rs.355.1 million had been granted to 05 institutions not included therein. The approval of the Cabinet of Ministers or the Treasury had not been obtained for those loans.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year ended 31 December 2012 amounted to a surplus of Rs.2,083,023,167 as compared with the corresponding surplus of Rs.2,314,699,707 for the preceding year. The decrease of the financial results by a sum of Rs.231,676,540 as compared with the preceding year had been mainly due to the decrease in the investment income and the loan interest income and the increase in the payment insurance indemnities and benefits.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

- (a) Even though the old library building of the Hambanthota Urban Council had been taken on rent in the year under review for the establishment of the Regional Office, Hambanthota, an agreement in this connection had not been entered into between the Urban Council and the Fund. Even though the Fund had spent a sum of Rs.1,489,269 for modernizing the building, it had not been beneficial as the building had been vacated within a short period of 08 months.
- (b) Even though it was stated that accommodation of 500 square feet was adequate for this Regional Office, the Office had been shifted to a more spacious location of 1,472 square feet in the Ruhunu Administration Complex by the end of the year 2011. As such an overpayment of Rs.991,440 had been made for 972 square feet of accommodation.

3.2 Transactions of Contentious Nature

The following observations are made.

- (a) Quotations had been called for a building for the Branch at Anuradhapura and without considering the lowest quotation of Rs.16,000 received, a sum of Rs.11,540 had been spent for the valuation of a building, of a rent higher than. Without considering the building of the lowest rent or the building valued, another building had been taken on rent for a monthly rental of Rs.25,000.

- (b) Fixed assets of which the cost and net value amounting to Rs.5,063,700 and Rs.2,201,761 respectively had been sold for Rs.500,000 without being compared with the current market value or carrying out a valuation.

3.3 Identified Losses

A surcharge of Rs.5,689 had been paid for the failure to pay the contributions to the Employees' Trust Fund for November 2011 amounting to Rs.113,774 on the specified date.

3.4 Uneconomic Transactions

The advertisement for the recruitment of officers for 8 vacancies of the Fund had been published in January 2012 only in the Ceylon Daily News without paying attention to the trilingual policy. As the officers had not been recruited under that advertisement, the payment of Rs.70,200 for the publication of the advertisement had become an uneconomic transaction.

3.5 Personnel Administration

The following observations are made.

- (a) Action for the filling of the posts of the General Manager and the Assistant General Manager had not been taken since the date of approval of the posts up to 14 November 2014.

- (b) The following matters were observed on the approved an the actual cadre as at the end of the year under review.
- (i) Even though 9 approved posts of Manager and 14 posts of Assistant Manager existed, recruitment and had not been made for 7 posts of Manager and 3 posts of Assistant Manager.
 - (ii) Nine officers had been recruited for 6 posts without approval.
 - (iii) Action had not been taken in the year under review for making recruitments for the approved posts of Technology Assistant, Telephone Operator, Receptionist and 3 posts of labourers.
 - (iv) Forty two officers had been recruited on contract basis for the posts of Management Assistant, Driver and Office Aide for which appointment on permanent basis had been approved by the Department of Management Services.

4. Accountability and Good Governance

4.1 Internal Audit

Action had not been taken for the appointment of a Manager for the Internal Audit Division.

5. Systems and Controls

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

- (a) Accounting
- (b) Debtors Control
- (c) Procurement
- (d) Human Resources Management

