

Agricultural and Agrarian Insurance Board – 2016

The audit of financial statements of the Agricultural and Agrarian Insurance Scheme for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 28 of the Agricultural and Agrarian Insurance Act, No. 20 of 1999. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14 (2) (c) of the Finance Act, appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme’s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Agricultural and Agrarian Insurance Scheme as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Sri Lanka Accounting Standard 01

- (i) The loan amounting to Rs.365,724,524 granted to the Farmers' Pension Scheme and the loans amounting to Rs.85,512,906 and Rs.21,842,502 granted to the Farmers' and the Fishermen's Pension Schemes respectively for incurring administration expenditure out of the funds of the Agricultural and Agrarian Insurance Scheme in the years 2010 and 2011 had not been settled within a period of 12 months. Nevertheless, it had been shown under the current assets in the statement of financial position.
- (ii) Although a sum of Rs.100,000,000 had been granted to the Fund of the Agricultural and Agrarian Insurance Scheme by the National Insurance Trust Fund to pay the compensation to the paddy farmers during the year under review, it had not been revealed by the notes to the accounts.

(b) Sri Lanka Accounting Standard 16

As the useful life of the non-current assets had not been reviewed annually, 14 motor vehicles costing Rs.20,999,567 were further being used despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of the Sri Lanka Accounting Standard 8.

(c) Sri Lanka Accounting Standard 24

The disclosures required to be made had not been made in terms of the Sections 17,18 and 19 of the Standard on the related party transactions with the Farmers' Pension Scheme and the Fishermen's Pension Scheme.

(d) Sri Lanka Accounting Standard 37

Although provisions amounting to Rs.14,907,330 had been made for the Farmers' Death Gratuity Fund during the year under review, an actuarial assessment had not been made on the actual farmer contributors.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Although the accrued expenditure of the year under review had been stated as Rs.3,950,634 in the account, it was established as Rs. 4,118,005 in the examination of the payment vouchers on the sample basis. Accordingly, the accrued expenditure had been understated by Rs.167,371.
- (b) As the audit fees amounting to Rs.925,074 paid for auditing the Farmers' Pension Scheme and the Fishermen's Pension Scheme had been debited to the Payable Audit Fees Account of the Agricultural and Agrarian Insurance Scheme, the payable audit fees had been understated by that amount.
- (c) Fuel advances, the balance of which was Rs.55,700 according to the schedule had been stated as Rs.95,920 under the current assets and as such current assets had been overstated by Rs.40,220.
- (d) Having computed the operating expenditure of 10 per cent in respect of compensation of Rs.16,693,960 not paid even by 12 June 2017 up on the approval granted to obtain 10 per cent in relation to the compensation paid out of the funds of the National Insurance Trust Fund as the operating expenditure of the Scheme, a sum of Rs. 1,669,396 had been brought to account as the income of the Scheme. Therefore, the surplus of the year had been overstated by that amount.

2.2.3 Lack of Evidence for Audit

The schedules for the establishment of the receivable insurance premium valued at Rs.10,839,821 and the payable sundry creditors valued at Rs.165,130 had not been furnished to Audit.

2.2.4 Accounts Receivable and Payable

The following observations are made.

- (a) Employees' loans and advances aggregating Rs. 676,104 had been brought forward in the accounts over a period from 5 to 25 years without being recovered. Action had not been taken to recover those loan balances from the employees' gratuity or the guarantors.
- (b) A receivable balance totalling Rs.708,347 had been brought forward over a period from 5 to 12 years without being settled. .

(c) In the recovery of contributions of the farmers' pensions by the Farmers' Pension Scheme, although the insurance premium collected at Rs.30 for a season for the insurance should be remitted to the Agricultural and Agrarian Insurance Scheme, it had not been so done. As a result, the insurance premiums totalling Rs.176,242,010 had remained receivable as at the end of the year under review, whereas action had not been taken to obtain that amount to the Scheme.

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

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulation etc.	Non-Compliance
(a) Public Finance Circular No. 03/2015 dated 14 July 2015 Regulation 371	(i) Even though the maximum limit of an ad-hoc imprest was Rs.100,000, it was observed that advances ranging from Rs.140,000 to Rs.198,000 had been granted irrespective of the above limit in 06 instances. (ii) As advances had been obtained without preparing an expenditure estimate, 10 instances were observed where an amount ranging from 36 per cent to 81 per cent out of the advance obtained had been retained idle in hand over a period from 10 to 28 days and settled thereafter.
(b) Management Services Circular No. DMS/34 (ii) dated 30 March 2010.	Contrary to the Circular, Subsistence Allowance subject to a maximum of Rs.2,500 per day had been paid to the Assistant/ Deputy Directors of the Board in engaging in the field duties upon the decision taken at the 414 th Board of Directors meeting held on 29 December 2009.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Scheme during the year under review had resulted in a surplus of Rs.355,825,300 as compared with the corresponding surplus of Rs.8,768,542 for the preceding year, thus showing an improvement of Rs.347,056,758 in the financial results of the year under review as compared with the preceding year. The above improvement was mainly attributed to the decrease in the payment of compensation of the Kethata Aruna Fertilizer Subsidy Programme by Rs.749,885,081 and increase in the investment income by Rs.26,609,567.

In analyzing the financial results of the year under review and 04 preceding years, the deficits were revealed in the years 2012 and 2013 and the financial surpluses were revealed in the other years. When taking into consideration the employees' remuneration and the depreciation for the non-current assets, the contribution of the Scheme amounting to Rs.36,411,337 in the year 2012 had become a negative value of Rs.25,696,859 in the year 2013 and thereafter a ceaseless increase was observed up to Rs.442,624,561 by the year 2016.

4 Operating Review

4.1 Performance

The main objectives of the Scheme shall be to establish and operate a comprehensive insurance scheme for the benefit of agriculturists, in respect of crops, including plantation crops, medicinal plants, fisheries, forestry and livestock, agricultural equipment, storage and preservation of agricultural and horticultural produce and the products of medicinal plants and fisheries and forest produce and to operate medical benefits and social security schemes for the benefit of agriculturists.

The following matters were observed on the achievement of these objectives.

(a) Physical and Financial Progress

- (i) The achievement of the physical and financial targets of the Livestock, Stocks, Agricultural Equipment, Suwasetha and the third party insurance schemes had been less than 50 per cent.
- (ii) Attention had not been drawn on facilitating benefits to the farmers through the establishment of insurance schemes for fisheries and forest products.
- (iii) Attention had not been focused on the identification of new competitive insurance schemes requirements and implementation of new insurance schemes.
- (iv) Action had not been taken to introduce more effective insurance schemes by studying the loan schemes granted to the agriculturists by the commercial banks and encourage the farmers to involve in insurance schemes.
- (v) Action should be taken to ensure the stability of the agriculturists by way of insuring storage. Although the expectation was to insure 275 storages during the year under review, only 1 storage had been insured. Hence, the service required to be rendered by the institution had not been properly accomplished.

(b) Third Party Insurance Schemes

Under the scheme of the fulfilment of the third party insurance needs of the agriculturists, although a targeted income of Rs.27,950,000 at Rs. 50,000 per month from each centre was expected from 559 Agrarian Services Centers through the representatives appointed to those centers, the actual income of the year was Rs.8,474,131. Nevertheless, due to the other operating expenditure being high, the net income had been Rs.1,957,342. Accordingly, it was observed that the benefits were not at an adequate level and the institution had failed to reach the expected targets.

(c) Special Maize Project

As the premium of Rs.1,350 of the Special Maize Project implemented in Anuradhapura District had been revised as Rs.750, the income expected for 5386 farmers had been deprived and the Scheme had to pay indemnity of Rs.3,346,619 exceeding the income.

4.2 Management Activities

Having repaired motor vehicles existed in 12 District Offices, 08 vehicles had been retained in the Head Office as the pool vehicles and only 04 drivers had been assigned therefor. Further, motor vehicles had been obtained on monthly hire basis of Rs.30,000 for the duties of the District Offices on the approval of the Board of Directors and a sum of Rs.4,020,000 had been paid thereon during the year under review.

4.3 Operating Activities

A sum of Rs.1,429,977 had been spent to obtain 1918 hotline to the Agricultural Workforce established in the Ministry of Agriculture in order to inform the hazardous caused to the cultivations of the farmers as a result of unfavourable weather conditions. The institution had received 276 calls during the year under review, whereas the institution had not taken action to maintain records on the steps taken thereon in an updated manner.

4.4 Uneconomic Transactions

The following observations are made.

- (a) As the project for the construction of an office building to the Board had been abandoned, the payment of Rs.565,800 made to the Sri Lanka Land Reclamation Development Corporation on 04 June 2008 as the drainage charges had become an uneconomic expenditure. It had been further stated as capital advances under the current assets in the financial statements.
- (b) Two persons who were not the officers of the Scheme had been paid sums totalling Rs.100,000 on the Board of Directors Decision No.474/13 dated 08 July 2016 in respect of participated in the Malaysian tour on agricultural activities from 16 to 25 April 2016 that had been arranged under the sponsorship of a non-governmental organization.

4.5 Identified Losses

The following observations are made.

- (a) A sum totalling Rs.194,604 could not be recovered from the insurance in respect of 4 motor vehicle accidents caused in the year 2015 and 2016. For the damage caused to the road due to Van accident caused on 08 December 2015, a sum of Rs.282,461 had to be paid to the Road Development Authority.
- (b) In the computation of contribution to the Employees Provident Fund and the Employees Trust Fund according to Section 47 of the Employees Provident Fund Act No.15 of 1958 and Section 16 of the Employees Trust Fund Act No.46 of 1980, computations had been made without including the cost of living allowance. Hence, the arrears of the contribution of the employee and the employer from January 2006 to April 2013 amounting to Rs.29,409,723 and the surcharge of Rs.14,704,862 had been paid.

4.6 Idle and Underutilized Assets

An official quarters situated in Ambilipitiya had remained idle over a period of 30 years without carrying out the necessary repairs.

4.7 Staff Administration

The following observations are made.

- (a) There were 424 approved posts of the institution by the end of the year under review and out of that 113 vacancies of 12 designations had not been filled.
- (b) Action had not been taken to obtain the relevant approval of the Department of Management Services for the amended scheme of recruitment and promotion approved by the Scheme on 30 July 2015 by considering the future human resources needs even by 30 May 2017, the date of audit.
- (c) According to the scheme of recruitment approved by the Department of Management Services, the qualifications required for the post of permanent post of Assistant Director (Marketing) had been indicated as the possession of a degree and the age limit of not less than 25 years and not more than 45 years. Nevertheless, an officer of 54 years old had been recruited on contract basis upon the G.C.E. (O.L) results without publishing newspaper advertisements.
- (d) Without obtaining the approval of the Department of Management Services, four officers had been recruited on contract basis to the post of Business Development Manager which was not included in the approved cadre of the Board for the implementation of the Third Party Insurance Scheme. Payments totalling Rs.4,482,919 had been paid during the year under review comprising an allowance of Rs.40,000, vehicle allowance of Rs.35,000, a fuel allowance similar to 250 liters and 0.5 per cent commission of the collected income per month.

5. Accountability and Good Governance

5.1 Corporate Plan

Action had not been taken to consider the weaknesses identified according to the Corporate Plan, 2014-2016 of the Scheme prepared in accordance with the Paragraph 5.1(a) of the Circular No. PFD/RED/01/04 dated 17 February 2014 of the Ministry of Finance and Planning and to avoid those weaknesses and the Human Resources Development Plan had not been furnished to Audit as required by the Paragraph 5.2 (c).

5.2 Budgetary Control

A variance ranging from 23 per cent to 78 per cent was observed between the budgeted and actual figures of the year under review, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.3 Unresolved Audit Paragraphs

Although it had been informed by the Letter No. PE/IN/AAIB/COPE/2016 dated 31 August 2016 of the Department of Public Enterprises in terms of 13th minutes of the Committee on Public Enterprises held on 26 February 2016 that the officers of the Scheme cannot obtain other allowance in addition to the salaries and allowances entitled to the relevant post, contrary to that directive, a sum of Rs.521,928, Rs.772,550 and Rs.9,950,591 had been paid as Fishermen's Pension Special Allowance, Famers' Pension Special Allowance and insurance commission and incentives respectively in the year 2016.

6. Systems and Controls

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

Areas of System and Control	Observations
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(a) Accounting	Weaknesses in the recognition of income
(b) Control of Income	(i) Non-compliance of the methodology of collecting income with the approved system. (ii) Weaknesses in the recovery of receivable balances.
(c) Assets Management	Underutilization of assets.
(d) Staff Management	Unapproved appointments and the delays in filling vacancies.
(e) Financial Control	(i) Payment of advances exceeding the limits. (ii) Grant of advances without considering whether advances obtained had been settled.