

## **Agriculture and Agrarian Insurance Scheme – 2017**

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The audit of financial statements of the Agriculture and Agrarian Insurance Scheme for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017, 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 Agriculture 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. A detailed report in terms of Section 13 (7)(a) of the Finance Act was issued to the Chairman of the Board on 30 May 2018.

### **1.2 Management's Responsibility for the Financial Statements**

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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**

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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 risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks 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. Subsections (3) and (4) of 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 Basic for Qualified Opinion**

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

## **2. Financial statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effect 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 Agriculture and Agrarian Insurance Scheme as at 31 December 2017 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**

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#### **2.2.1 Non-compliance With Sri Lanka Accounting Standards**

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The following non-compliances were observed.

##### **(a) Sri Lanka Accounting Standard - 16**

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As the residual value and the useful life of non-current assets had not been reviewed annually 17 motor vehicles costing Rs.22,397,384 were being further used though they had been fully depreciated, in terms of paragraph 51 of the standard. Accordingly, action had not been taken to rectify the estimated error in accordance with Accounting Standard 08.

##### **(b) Sri Lanka Accounting Standard - 18**

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Even though, accounts balances in the final accounting statements should be separately recognized in terms of paragraph 13 of the Standard, the agriculture equipment insurance and the 3<sup>rd</sup> party insurance income amounting to Rs.7,757 and Rs.41,904,480 respectively had been shown under agricultural equipment insurance, as a total value of Rs.41,912,237.

##### **(c) Sri Lanka Accounting Standard - 37**

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Without carrying out an actuarial assessment, in respect of actual farmer contributors in order to identify the current best estimate in terms of paragraph 59 of the Standard, a provision of Rs.21,175,440 had been made in the year under review for farmers death gratuity fund.

### 2.2.2 Accounting Deficiencies

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The value of the motor vehicle transferred to the Agricultural and Agrarian Insurance Board by the Ministry of Finance and Planning in the year 2014 had not been assessed and brought to accounts.

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) Employees loans and advances totalling Rs.676,194 remained outstanding for the periods from 5 to 26 years had been brought forward in the accounts without being recovered from their gratuities or from sureties, periodically.
- (b) Action had not been taken to settle receivable balances totalling Rs.708,347 brought forward for the periods from 5 to 13 years, even during the year under review.
- (c) A total sum of Rs.124,340,973 given to the farmers and fisheries pensions schemes in the previous years for incurring administrative expenses had been continuously brought forward without being recovered.
- (d) Action had not been taken to settle accumulated payable audit fees totalling Rs.1,925,074 brought forward for periods from 2 to 14 years as at 31 December 2017, even in the year under review.

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

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The following non-compliances were observed in audit.

| Reference to Laws, Rules, Regulations etc.   | Non-compliance  |
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| (a) Establishments code of the Democratic Socialist Republic of Sri Lanka.               |   |
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| Sub-paragraph 6.3 of Chapter XLVII of the Volume II                                      | A charge sheet had not been issued to an officer who had been interdicted in the year 2002.   |
| (b) Circular No.DMS/34 (ii) dated 30 March 2010 of the Department of Management Services | Without the approval of the Department of Management Services, subsistence allowance at Rs.2,500 per day had been paid to executive officers of the Board who engage in field duties since the year 2009. |

- (c) Public Enterprises Circular No.1/2015 of 25 May 2015. In terms of the circular, group transport facilities are provided for the middle level managers who are not entitled for official vehicles, subject to a maximum distance of 100 km up and down from office. Nevertheless, a total sum of Rs.1,948,000 at Rs.8,000 and Rs.4,000 per month had been paid to a Divisional Head and an executive officer respectively during the year under review and the preceding 2 years, who were not entitled for a transport allowance.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial results of the Scheme for the year under review had been a surplus of Rs.49,930,208 as compared with the surplus of Rs.355,825,300 for the preceding year, thus indicating a deterioration of Rs.305,895,092 or 86 per cent in the financial results in the year under review as compared with the preceding year. Decrease of receipt of paddy cultivation insurance income by Rs.580,565,015 in the year under review as compared with the preceding year and increase of paddy cultivation indemnities, except the payment of “Kethata Aruna” compensation by Rs.198,433,350, had attributed to this deterioration.

In analysing the financial results of the year under review and the preceding 4 years, there was a deficit in the year 2013 but a surplus was recorded in the year 2014 and it had improved up to the year 2017 with fluctuations. However, after being readjusted the employees remunerations and depreciation on non-current assets to the financial results, the minus value of the Board’s contribution amounting to Rs.20,510,517 in the year 2013 had improved as Rs.89,041,275, Rs.93,025,769, Rs.450,004,279 and Rs.145,733,936 in the years 2014, 2015, 2016 and 2017 respectively.

### **4. Operating Review**

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#### **4.1 Performance**

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##### **4.1.1 Operations and Review**

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The following observations are made in respect of the achievement of main objectives of the scheme.

- (a) Even though, it was targeted to earn a revenue of Rs.210,000,000 from all insurance systems in the year under review, the actual earnings was Rs.156,474,160 and as such the revenue had decreased by Rs.53,525,840 or 25 per cent.

- (b) Even though, the revenue earning target from 'Suwasetha' and Accident Insurance Schemes amounted to Rs.29,833,000, the achievement amounted to Rs.5,313,362, indicating its progress level less than 18 per cent. This had been a decrease of 66 per cent as compared with that of the previous year.
- (c) A revenue of Rs.2,343,000 from Agriculture equipment insurance had been planned to earn from 16 districts but only a sum of Rs.40,055 had been earned from 7 district in the year under review.
- (d) Even though, it was expected to insurance 490 paddy stores in 5 districts during the year under review, only one store had been insured.
- (e) An agreement had been entered into with the International Monetary Fund, affiliated to the World Bank by the Board on 05 May 2016 in order to implement an insurance scheme in 5 districts on the basis of indices for the payment of compensation having being assessed damages within a short period in avoiding inconvenience caused by peasantry in receiving compensation. Even though, the relevant project activities had to be completed on 04 May 2019, it had been implemented only in the Vauniya District by the date of this report.
- (f) Even though, the insurance schemes for red onions, kurakkan, uludu, ground-nut, pea-nut, mung bean, gingelly, beetle, pepper, ginger, cocoa, tea, coconut, vegetable, fruits, floriculture, cashew, sugar cane and aricanut had been included in the Corporate Plan, they had not been implemented.
- (g) Insurance schemes had not been introduced for fisheries and forestation products and the competitive new insurance schemes had not been implemented, having being identified the requirements. Action had not been to instigate farmers for various insurance methods by introducing more effective insurance schemes having being studied the loan schemes given to the farmers by Commercial Banks.

## 4.2 Management Activities

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The following observations are made.

- (a) The Mahaweli Authority of Sri Lanka had informed the Board in writing that the arrears of Rs.2,764,344 for 31 years had to be paid to the Mahaweli Authority for the land given to operate the Embilipitiya District Office and had it not been paid, a 10 per cent surcharge would be added after the date of 31 March 2017. However, no action whatsoever had been taken in that connection even by the end of the year under review.
- (b) Formal disciplinary inquiries in respect of two officers who had been sent on compulsory leave had not been initiated even by 30 June 2018 since a period of almost 13 years from 2005.

- (c) The Government had decided to pay a compensation of Rs.10,000 per farmer for providing concessions to the peasantry distressed by drought in the Maha season of 2016/ 2017. Even though, the payment had been made through inter banking transactions (SLIP-Transaction) on the basis of damage report sent through the electronic media by District Offices at Rs.8,650 after being deducted a sum of Rs.1,350 from the compensation amount as an insurance premium, the originals of these reports had not been re-examined by the Board. The following observations are made in this regard.
- (i) A sum of Rs.276,800 belonged to 32 farmers who had sustained losses by cultivating minor crops had been credited to one farmer's account in the People's Bank, Galgamuwa Branch in Kurunegala District and it had not been settled even up to 30 June 2018.
  - (ii) Even though, it was informed that when compensations were paid, duplication of National Identity Cards Numbers should be avoided, it was observed at an audit test check that the same name and the same Identity Cards Number had been indicated against 414 farmers in 10 districts in the Island and as such an overpayment of Rs.3,581,100 had been made.
  - (iii) A total sum of Rs.82,927,550 had been rejected by the Banks paid to 9,587 farmers due to change of names and the Identity Cards Numbers of compensation beneficiaries, out of which a sum of Rs.57,366,800 had to be further paid to 6,461 farmers by 30 June 2018.
- (d) One thousand insurance cards, the minimum saleable value of which amounted to Rs.470,000, 46 T-Shirts valued at Rs.31,970 and 2000 motor vehicle applications, which had been brought by the Director (Marketing) on 01 March 2017 to be handed over to the District Office, Matara for the distribution among farmers representatives had been misplaced.
- (e) Action had not been taken to recover farmers pensions insurance premiums totalling Rs.194,619,125, recovered from the Farmer's Pensions Scheme at Rs.30 during the period from 2008 to the end of the year under review to the Agricultural and Agrarian Insurance Scheme.
- (f) Even though, sums of Rs.137,640 and Rs.843,298 had been spent for newspaper advertisements and holding interview in the year 2015 for the recruitment of 44 management assistants, any recruitments had not been made up to 30 June 2018 and as such the total expenditure of Rs.980,938 had become a fruitless expenditure.
- (g) Even though, the following weaknesses had been identified as impediments existed to improve the performance of the Board since the year 2010, the management had failed to preclude them up to now.
- (i) Non-availability of a permanent officer with expertised knowledge in actuarial and researches.
  - (ii) Impediments to use the capabilities of existing staff with competence.
  - (iii) Dearth of staff to perform duties in accordance with modern technology.

- (iv) Insufficient buildings belonged to the Board and non-availability of a permanent building for the Head Office.
- (v) Office equipment belonged to the Board was not at a higher technological level and not with required standards as compared with other competitive institutions.

#### **4.3 Operating Inefficiencies**

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Two hundred and eighty two T-shirts valued at Rs.157,920 purchased in May 2017 for the distribution among the farmers agents had not been distributed even by 30 June 2018.

#### **4.4 Idle and Under-utilized Assets**

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The following observations are made.

- (a) Even though, 7 reserved vehicles with running condition had existed in the Board, only 3 drivers were employed and as such those vehicles had been under-utilized.
- (b) Action had not been taken to repair and use an official bungalow existed at Embilipitiya and remained idle for more than 30 years even in the year under review.

#### **4.5 Uneconomical Transactions**

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The following observations are made.

- (a) Sums of Rs.115,115 and Rs.32,000 had been spent for newspaper advertisements, calling for bids to purchase 1000 items of mobile Technological equipment for field officers in the Ministry to obtain information on cultivated land and the cultivation and to select a re-insurer in respect of cultivation losses respectively. However, it had not been performed and as such the amount spent for newspaper advertisement had become fruitless expenditure.
- (b) As the cost of living allowance had not been taken into consideration in calculating Employees Provident Fund contributions, the arrears of employees and employers contributions totalling Rs.29,409,723 and the surcharges thereon totalling Rs.14,704,862 for the period January 2006 to April 2013 had to be paid.
- (c) Even though, a sum of Rs.565,800 had been paid to the Sri Lanka Land Reclamation and Development Board on 04 June 2008 for the supply of water for the construction of an office building to the Board, it had become an uneconomical expenditure as the project had been abandoned. However, that value had been still shown in the financial statements under current assets as capital advances.

#### **4.6 Personnel Administration**

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The following observations are made.

- (a) One hundred and nineteen vacancies in 12 posts had not been filled up to the end of the year under review. Furthermore, as 9 officers had retired during the year 2018 and 49 officers had been employed on contract and casual basis it was observed that the overall performance level of the recruitment process had been at a minimum position.
- (b) Without the approval of the Department of Management Services and not included in the approved cadre, 4 officers had been recruited on contract basis for the Business Development Manager Post and deployed for the implementation of the 3<sup>rd</sup> party insurance scheme. Without the approval of the Treasury, a total sum of Rs.8,071,022 had been paid to them in the years 2015 and 2016 at a monthly allowance of Rs.40,000 vehicle allowance of Rs.35,000 and fuel allowance, equal to the value of 250 liters. A sum of Rs.3,769,660 had been paid in the year under review only to two officers thereof.

#### **5. Achievement of Sustainable Development Goals**

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According to the United Nations year 2030 on Sustainable Development, every Public entity should act in accordance with its agenda, and the Board was aware how it would perform its functions within the scope of the Agricultural and Agrarian Insurance Scheme relating to the year under review.

The following observations are made in this regard.

- (a) Even though, it is essential that there would be an accurate data base in order to measure the actual performance of any function, it was observed that action had not been taken to create a correct data base in respect of insured farmers and cultivated lands to measure the reaching of Sustainable Development targets.
- (b) The year 2017 had been identified as the year of “Poverty Alleviation”. The Agricultural and Agrarian Insurance Scheme had stated as its objectives that the priority would be given for publicity programs and projects through Manner, Mullithivu, Kilinochchi, Batticalowa, Badulla and Monaragala districts, named as districts which have drastic poverty level. However, the priority had been given to promote the 3<sup>rd</sup> party insurance revenue in publicity programs.
- (c) Even though, the plan for the payment of compensation efficiently had been identified by introducing the insurance scheme based on indices as a recognized target in order to take action expeditiously against climatic changes and effects thereof under the Sustainable Development objectives, it had been implemented only in the Vauniya District by now.



## **6. Accountability and Good Governance**

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### **6.1 Budgetary Control**

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As variations ranging from 68 per cent to 419 per cent were observed between the budget and the actual figures in the year under review, the Budget had not been made use of as an effective instrument of management control.

### **6.2 Non-implementation of recommendations made by the COPE**

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According to the minutes of the 13<sup>th</sup> meeting of the Committee on Public Enterprises held on 26 February 2016, officers of the Board are not entitled for any additional allowance in addition to salaries and allowances of the relevant post. Nevertheless, contrary that directive, fisheries pensions special allowance of Rs.438,428, farmers pensions special allowance of Rs.812,250 and insurance commissions and incentives of Rs.11,995,426 had been paid during the year 2017.

## **7. Systems and Control**

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

| <b>Areas of Systems and Control</b> | <b>Observations</b>  |
|-------------------------------------|--|
| -----                               | -----  |
| (a) Human Resources Management      | Action had not taken to fill the existing vacancies.   |
| (b) Payment of compensation         | (i) Action had not taken to pay compensation without delay.<br>(ii) Persons not correctly identified in paying compensation.                                     |
| (c) Insurance                       | (i) Not taking action for insurance at the beginning of the season.<br>(ii) Action not taken to launch programs in order to persuade farmers for crop insurance. |
| (d) Accounts Receivable             | Not taking action to recover outstanding loans and advances.   |