

Agricultural and Agrarian Insurance Scheme – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Agricultural and Agrarian Insurance Scheme (“Board”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of comprehensive income, statement of income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the scheme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the scheme’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the scheme is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

1.4 Auditor's responsibility of auditing the financial statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the scheme, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the scheme has complied with applicable written law, or other general or special directions issued by the governing body of the Scheme;
- Whether the scheme has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Still using 24 motor vehicles with the cost of Rs. 31,732,585 which has been fully depreciated and in terms of Standard 16 steps has not been taken to revaluation the said vehicles considering the useful lifetime and include the same in the financial statements.	Accounting assets on the cost value is the policy of the Board when accounting fixed assets At present valuation reports has been obtained on all the vehicles based on the current market value and expecting to make the necessary adjustments in the next year	Should take steps to revaluation the said vehicles and include that in the financial statements.
(b) In terms of paragraph 59 of standard 37 although the actuarial valuation has to be done periodically to ascertain active contributors an allocation of Rs. 19,853,880 was shown in the financial statements as farmers mortality payment fund as at 31 st December 2018 without carrying out such actuarial valuation.	Allocations for Farmers Mortality and Feeble gratuity payments are calculated by the Farmer's Pensions Fund and credited to the Farmers Mortality and Feeble gratuity payment fund.	Periodical actuarial valuation should be done as per year of 2007.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The value of the land belonging to the scheme in extent of 76.6 perches within the official quarters situated in the districts of Mahiyanganaya, Embilipitiya and Anuradhapura and the building value of the Embilipitiya official quarters had not been evaluated and accounted.	Required steps have been started to get valuations in respect of the land value of the Mahiyanganaya, Embilipitiya and Anuradhapura official quarters and the value of the Embilipitiya official quarters and steps will be taken to conclude it quickly and account the valuation amount.	Should take steps to assess the value and to account the same
(b) The motor vehicles transferred from the Ministry of Finance and planning and Ministry of Agriculture in the years 2013 and 2014 had not been accounted after assessing the value.	Steps will be taken to account these vehicles in the next year under properties plant and equipment and the valuations has been already obtained	Should take steps to assess the values and to account the same.
(c) Employee loans and advances totaling to Rs. 857,406 which has been brought forward from 5 – 25 years continue to be brought forward in the accounts without recovering from Employees gratuity or from sureties periodically.	letter of demands has been sent to recover the interest and loan balances outstanding from officers who have left employment / retired and if not settled accordingly legal action will be taken in the future.	Should take steps to recover from gratuity or from sureties.
(d) Salary receivables, salary advances and mixed creditor balances totaling Rs. 708,337 which had been brought forward from 5 – 14 years continue to be brought forward in the accounts without settlement.	Steps are being taken from different parties amounting to recover the balance Rs. 708,347.	Should take steps to recover from the relevant parties.
(e) Although a provision of Rs. 2,200,000,000 has been approved by the Treasury in order to pay compensation for Yala and Maha seasons of	Rs. 2,200 million was allocated as term amounts for mandatory crop insurance When allocating Government Budget provisions for 2018 and request letters has been	As only Rs. 500 million has been received as at 15 th July 2019 out of a provision of Rs. 1.762 million approved by the treasury on 06 th June 2019, steps will

2018 Rs. 437,980,000 instead of actually received during the year under review. This total amount was accounted in the Statement of Comprehensive income as an income and the balance amount of Rs. 1,762,120,000 was shown in the Balance Sheet as a receivable. This amount has not been remitted up to the scheme until date of the audit and there was any confirmation letter that indicating this amount would be provided by the treasury. There is profit by increase of 1860 per cent in the present year when compared to the preceding year due to the accounting of this amount.

sent to the treasury asking for the balance term amount of Rs. 1,762,120,000 not yet received and the requested notifications has been forwarded to the treasury. The Treasury has orally informed that they are going to provide the said monies in the future.

have to be taken to obtain the balance money.

1.6 Accounts Receivable and Payable

1.6.1 Payables

Audit Issue	Management Comment	Recommendation
Total payable audit fee of Rs. 1,540,444 as at 31 December 2018 Payable audit fee from 2004 to 2008 was also included in that Action had not been taken to paid so far.	Steps will be taken to pay the audit fees gradually. A letter has been sent on 04.10.2018 informing that we were not agreeable with the audit fees and because of increasing audit fees for the year 2016 compared to other years and requesting audit fees and There was no any yet.	Should take steps to pay the audit fees gradually.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Paragraph 4.2 of the Public Enterprise Circular No. 1/2015 dated 25 th May 2015	Rs. 3,083,490 has been paid during the year under review and the 03 preceding years as monthly allowance of Rs. 8,000 for a Divisional Head and Rs. 4,000 for an Executive Officer who are not entitled to the official vehicles and transport allowances	This allowance has been paid subject to the approval of the Board of Directors as usable vehicles of the Board is not sufficient to provide transport to the officers who are entitled to allowance in terms of Public Enterprise Circular No. PED 1/2015	Should company with the Circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 978,995,887 and the corresponding surplus in the preceding year amounted to Rs. 49,930,208. Therefore a improvement of Rs. 929,065,679 of the financial result was observed. The main reason for the said improvement is the accounting the receivable installment from the General Treasury as income for paying compensation for 2018 Yala and Maha seasons amounting to Rs. 1,762,120,000.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although the reinsurance value is Rs. 3,500,000,000 for the maximum insurance liability amount which is likely to be about Rs. 5,000,000,000 to provide free insurance for mandatory 06 crops for the period between 01 st April 2018 to 31 st March 2019 due to the incorrect application of the Central Bank	Compensation paid for an acre for Natural disasters has been increased from Rs. 10,000 to Rs. 40,000 and the insurance liability was also increased simultaneously. During this reinsurance process the government liability has been decided considering the gross cultivation area as 2,751,244 acres of the crop cultivation included in	Should estimate the liability according to the number of acres mentioned in the Central Bank Report.

Report the said insurance liability has been determined as Rs. 7,500,000,000 and the institution has entered in to a reinsurance liability of Rs. 5,315,000,000 thereby there was an over estimation of Rs. 1,815,000,000.

the mandatory crop insurance (paddy, corn, Soya, B Anion, Potatoes) during the year of 2018 and the government liability has been decided on calculating the expected crop damage area as 15% out of the total cultivation which is 412,686 acres in terms of the Central Bank Reports. Total liability for this number of acres has been considered as Rs. 82,537 million.

It was expected that 15% of this cultivation area would be damaged and the total insurance liability is considered as Rs. 7,500 million on the basis that generally all the damages might be caused on the second stage of the cultivation. According to Central Bank Report this is Rs. 15,000/-million. (82537x15%=12380x60%)

Total Liability Rs. million 82537.

Likely damage amount 15% Rs.Million 12,380

Damage stage on the assumption second stage 60%

Expected liability Rs. Million 7,500 (12,380x60%)

- (b) According to the above mentioned agreement relating to reinsurance the Board has to bear a compensation amount of up to Rs. 2,185,000,000 and is entitled to go for reinsurance after bearing the compensation amount of Rs. 1,500,000,000 by the National Insurance Trust Fund. Will bear Rs.4,360,760,000 for local compensations on the payment of reinsurance installment value of Rs. 675,760,000 by the Board. Up to 30th April 2019 the total compensation value paid for 2018 yala and 2018/19 maha seasons was Rs. 412,617,374 and therefore Rs. 473,032,000 which paid as foreign reinsurance installments has become a payment in vain.

Therefore there is no over estimation in the insurance liability.

Reinsurance has been obtained as there was a high risk due to the prevailed climate condition and as there was a high risk when compared to past seasons under the same conditions. This reinsurance was done on the basis of liability predictions / forecasts according to insurance procedure. If damages caused as expected those could have been compensated using the reinsurance. When obtaining this reinsurance facility it has been done through a Tender board approved by the Cabinet of Ministers and a

Should go for local reinsurance as the payment made to foreign reinsurance was in vain when considering the Past damage data, data based on Central Bank Reports and compensation payments in the 2018 yala and 2018/19 maha seasons

technical committee comprising experts in this field according to the insurance procedure and therefore this installment should not be identified as a expense in vain.

- (c) Farmers calls of 16,466 have been recorded by the Board during 03rd January 2018 to 16th March 2018 using 43 officers of the Board taking them out of their regular services using office hours 15,587 and although they have recorded farmer's name, crop damage period, number of acres, area and identity card number in a document, that was not compared with the farmer's applications at the time of calculating compensation thereby it has become a time consumed in vain.
- Even though took steps to submit damage applications to farmers after comparing this data initially, after the receipt of records about heavy damages the said system was not used due to practical difficulties and received damage information was used to pay compensation.
- Should make payments based on the information obtained.
- (d) Kethata aruna compensation of Rs. 70,800,200 paid to 8185 farmers for the 2016/2017 maha season had been rejected by the banks due to the mismatch of the account numbers, farmer's name and the identity card number and said monies had been retained by the board till the end of the year under review without taking steps to pay the same after identifying farmers, informing them and finding out the information.
- Agrarian service centers and district offices were made aware to prepare amended documents of the farmers whose payments were rejected and as soon as the correct documents are received payments will be made.
- Should take steps to submit correct information to the bank.
- (e) Even though it is essential to create a data base containing farmers information to carry out the insurance procedure based on indexes, it is not created to date. Paper advertisements had been published by paying Rs. 64,400 in the year 2017 to purchase hardware and software it has become a expense made in vain due to the non-purchase of the required equipment.
- Creation of a Required data base has been completed to enter information about the farmers and to map out the lands and fields and a creation of a model is also completed to carry out the said functions using mobile phones.
- Should take steps to create the data base containing farmers information.

- (f) Without formal planning to computerize scanned applications of farmers obtaining fertilizers Island wide 281,250 farmer applications of only 5 districts had been scanned and computerized. Although a expense of Rs. 2,757,809 had been made for this during August 2017 to July 2018 the said expense can be identified as a expense made in vain due to the utilization of the officers of the board to relevant district offices to calculate compensation without using the said data in the compensation payment procedure.
- Farmer information has been used to create the data base relevant to calculate compensation based on this data and the registry of farmers who were given the fertilizer subsidy
- Should use the said information to calculate compensation in the future because it was stated during the discussion had with the insurance section that the said information was not used

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
a) Compensation of Rs. 276,800 entitled to 32 farmers in the Kurunegala District who cultivated interim crops under kethata aruna in the 2016/2017 maha season and damaged their crops was inadvertently credited to one farmer's account thereby the remaining 31 farmers were deprived of their payment opportunity.	The monies credited to single account concerning this 32 farmers has been retained by the bank and the ministry has conducted an investigation about these payments and had recovered the said money. Agrarian service centers and district offices have been notified to submit the corrected account numbers of the farmers whose payments were rejected. As soon as the receipt of this information payments will be made.	Should take steps to obtain correct information of the relevant parties.
b) In the 2016/2017 maha season although the compensation should be paid only up to Rs. 10,000 to one farmer Rs. 3,148,600 has been paid to 364 farmers in 07 districts who bears the same name and identity card number and Rs. 432,500 has been twice paid to 50 farmers in 05 districts who	Relevant to this compensation document when examining DO serial number which is the primary document used to identify the farm land, farmer, land ownership and bank by the agrarian service centers it was confirmed that there are separate primary documents. The said situation was arisen because of	Should take steps to obtain correct information of the relevant parties.

bears the same name and different identity card numbers contrary to the circular directives and steps has not been taken to recover the said monies over paid.

there were minor discrepancies in the national identity card numbers when payments were made to these farmers and as per the circulars the same procedure was used to pay fertilizer subsidies and the payments have been made using the same data system.

3.3 **Idle or underutilized Property, Plant and Equipment**

Audit Issue	Management Comment	Recommendation
(a) Official quarters situated at Mahiyanganaya and Embilipitiya were in idling for more than 10-20 years without carrying out necessary repairs.	Necessary steps will be taken to repair and use of the said assets.	Should take necessary steps to repair and use the idle assets.
(b) Although lands had been acquired by the respective divisional secretariats to construct district offices of agrarian insurance board in the districts of Kandy, Ampara, Manampitiya and Mahawa without taking steps to construct buildings in those lands, the officers had been maintained in the rented out buildings for 1 -11 years from the said date.	Will be taking steps to construct after taking over the ownership of these lands properly and procuring funds to construct district offices.	Should take steps to construct district offices quickly and to vacate from rented buildings.
(c) Without identifying the requirement purchased forms and compensation applications worth Rs. 1,790,956 was lying idle in the Stores without being used.	With the change of government policies some documents had to be changed but all usable documents are being used.	Should take steps to remove the unnecessary forms.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Steps had not been taken to recruit for the vacancies in the approved carder for several years 5 director posts, 7 deputy assistant director posts, 2 administrative officer posts, 16 development officer posts, 65 management assistant posts and 12 driver posts were vacant and any steps have not been taken during the under review to fill these vacancies even though this is hampering the functions of the institution.	Approval of the Management SDervices department had been sought to recruit the required employees and once the approval is obtained recruitment would be done following the proper procedure.	Should take steps to fill the vacancies with the approval of the Management Services Department.
(b) Although plans are made to amend the recruitment procedure in the year 2018 suitable to the present requirements and to prepare a salary structure inherent to the board in accordance with the qualifications set out in the said procedure it had not been done.	A committee is going to be appointed to discuss the suggestions received regarding the proposed amendments to the recruitment procedure and after the said process is completed hoping to conclude the amendments.	Should take steps to amend the recruitment procedure to the current requirements.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
(a) insurance income of Rs. 12,109,000 was expected from cultivation of 13,154 acres of Urad Dal, Cowpea and Mung Beans under other crop insurance according to the action plan of 2018 but actual earnings was Rs. 2,223,095 only and it is only 18% of the expected amount.	Although a high installment income was targeted by giving Insurance policies to farmers who are seeking cultivation loans through government banks therefor expected progress could not achieved over the demand of the farmer community and limitations of granting cultivation loans.	Should take steps given achievable targets.

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| (b) The intentions was to start the Insurance scheme Pilot project second stage primarily on the Polonnaruwa, Ampara and Kurunegala districts based on whether indices according to that it had not proceeded. | Hoping to carry out the Pilot planned project second stage in Polonnaruwa, Ampara and Kurunegala districts after obtaining the required initial data | Should take steps to obtain the required data for the second stage of the Pilot project quickly. |
| (c) Although expected to purchase the received technological equipment and purchase the computer software for implementing Insurance Scheme that based on Indices the said action had been interrupted. | The Technical Evaluation Committee has advices to appoint a procumbent committee to purchase the required hardware and software. | Should take steps to purchase the required equipment in order to success of insurance procedure. |

4.2 Sustainable Development Goals

Audit Issue	Management Comment	Recommendation
Although it is essential to have a correct data base to measure the correct performance it is observed that no steps has been taken up to now to create a correct data base about the insured farmers and farm lands.	Creation of the data base which includes farmers information has already started and a data base has been already designed to include farmers information and to map out the lands and fields and also a model has been already designed to carry out the above using mobile phones.	As the required data for the model has not been inputted it should be done expeditiously.