

Agricultural and Agrarian Insurance Board and group - 2023

1. Financial Statements

1.1 Opinion

The audit of the consolidated financial statements of the Agricultural and Agrarian Insurance Board (“Board”) and its Farmers’ Pension and Social Security Benefit Scheme and Fishermen’s pension and social security benefit schemes (“Group”) for the year ended 31 December 2023 comprising the statement of consolidated financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018, Agricultural and Agrarian Insurance Act No. 20 of 1999 and the Finance Act, No.38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

Group

Disclaimer of Opinion

I do not express an opinion on the accompanying financial statements of the group. Because of the significance of the matters discussed in the basis for group’s Disclaimer of Opinion section (1.2) of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Agricultural and Agrarian Insurance Board

Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.5.1 of this report, the accompanying financial statements give a true and fair view of the financial position of the board as at 31 December 2023, 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 Disclaimer of Opinion of the group’s financial statement

My opinion is qualified on the matters described in paragraph 1.5.1 of this report regarding the board’s financial statements.

My opinion is qualified on the matters described in paragraph 1.5.2 of this report regarding the group’s fishermen’s pension and social security benefit scheme.

My opinion is disclaimer on the matters described in paragraph 1.5.3 of this report regarding the group’s farmers’ pension and social security benefit scheme.

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 Board and the Group'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 board and the group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the board and the group's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the board 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 of the board and the group.

1.4 Audit Scope (Auditor's Responsibility for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the consolidated 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 scepticism 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.
- Obtain 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 board'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 group'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 group 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 board and the group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the board has complied with applicable written law, or other general or special directions issued by the governing body of the board;
- Whether the board has performed according to its powers, functions and duties; and
- Whether the resources of the board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the Preparation of Financial Statements

1.5.1 Financial Statements of the Board

1.5.1.1 Non-compliance with Sri Lanka Accounting Standards

Non-Compliance with reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Contrary to paragraph 04 of Sri Lanka Accounting Standard 07 in the preparation of the statement of cash flows,		
(i) Operating cash flow was understated by Rs.54,613,210 due to the adjustment of the difference between related party transaction balances of Rs.54,053,519 in accounts receivable and the non-recognition of actual cash inflows of Rs.206,225,000 and actual cash outflows of Rs.205,665,309 from current accounts maintained for social security benefit schemes.	Errors in the presentation will be corrected in the future.	Cash flow statements should be prepared as per Sri Lanka Accounting Standards.
(ii) Operating cash flow was over calculated by the amount due to non-disclosure of employee medical insurance premiums paid in cash amounting to Rs.2,181,826 in the cash flow statement.		
(iii) Due to reporting a balance difference of Rs.133,219,275 in the Farmers' Death Gratuity Fund account as cash flow from investing activities, while failing to report the actual cash		

flow of Rs.49,281,460 as cash flow from operating activities, the operating cash flow was understated by Rs.49,281,460, and the investment cash flow was overestimated by Rs.133,219,275.

- (iv) Due to the failure to record the repayment of a loan amounting to Rs.20,000,000 in the Farmers' Pension Scheme account as cash inflow from investing activities, the investment cash flow was understated by that amount.
- (v) Due to considering the balance differences of Rs.2,430,248 related to the Employees' Medical Insurance Fund and Rs.6,326,428 related to the Farmers' Death Gratuity Fund as cash flow from investing activities, the investment cash flow was understated by Rs.8,756,676.
- (vi) Due to reporting an increase of Rs.8,500,488 in the balance of the Employees' Medical Insurance Fund account as part of the investment cash flow, the investment cash flow was overstated by that amount.
- (vii) Due to the failure to present the interest of Rs.2,972,367 earned on investments of the Employees' Medical Insurance Fund as part of the investment cash flow, the investment cash flow was understated by that amount.

Errors in the presentation will be corrected in the future. Cash flow statements should be prepared as per Sri Lanka Accounting Standards.

1.5.1.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A difference of Rs.8,119,818 was observed between the value identified as third-party insurance income in March 2023 as per the financial statements and the income according to the computerized data of the district offices in 14 inspected district offices.	Due to certain agents submitting deposit receipts and temporary coverage certificates to the office in the first or second week of the following month, the district offices do not update the deposits for the relevant month. However, the finance division updates the income for each district based on the bank where the funds were deposited. Accordingly, the district offices are updated in line with this and at the end of each month, the income earned by each district is reported by finance division, which	Revenue related to the period should be properly accounted for.

is then used to calculate the commission payments.

- (b) In the year 2023, the receivable of Rs.4,249,619,152 which was stated in the final accounts of the board as receivable from the treasury for crop damage insurance indemnity from the year 2018 to the year 2022, was written off. According to the Agricultural and Agrarian Insurance Board Act No. 20 of 1999, 5 percent of the operational income should be transferred to the Agrarian Insurance Fund, but Rs.212,480,957 which was to be transferred from the operational income to the Agrarian Insurance Fund, was instead removed from the Fund and not deposited into the accumulated Fund as required.
- For this, according to the decision of the cabinet, the Treasury took steps to provide funds to the Agricultural and Agrarian Insurance Board, and the amount of fund to be received by the Board from the Treasury was recorded in the Board's financial statements as receivables. Although the Cabinet of Ministers had approved from time to time to provide this fund to the Board, the relevant fund was not received by the Board. Accordingly, the amount due to the board was written off from the financial statements upon the approval of the Treasury.
- Upon writing off the income that was used as the basis for the transfer to the fund, the corresponding transfers from operational income to the Agrarian Insurance Fund should be reversed accordingly.
- (c) The value of 76.6 perches of land, which includes 3 quarters belonging to the Board located in Mahiyanganaya, Embilipitiya and Anuradhapura was not assessed and reflected in the financial statements.
- Necessary actions have been initiated to assess the value of the land associated with the quarters in Mahiyanganaya, Embilipitiya and Anuradhapura as well as the value of the quarters in Embilipitiya.
- The value should be assessed and recorded in the financial statements.

1.5.2 Financial Statements of Fishermen's Pension and Social Security Benefit Scheme

1.5.2.1 Non-compliance with Sri Lanka Accounting Standards

Audit Observation	Comments of the Management	Recommendation
(a) Operating activities in the cash flow statement were under stated by Rs.3,410,440 due to a deduction of Rs.98,000 for the prior year adjustment, the amount of Rs.1,746,720 allocated for the death gratuity fund should be added, but the deduction and the payment made from the death gratuity fund amounting to Rs.173,000 were not disclosed and inclusion of Rs.8,000 which was the difference of payable death gratuity balance as additions to changes in working capital contrary to paragraph 4 of Sri Lanka Accounting Standards 7. The investment cash flow was overstated due to the additions of Rs.3,410,440 to investing activities which was the sum of the	An amount of Rs.98,000 as an adjustment related to the preceding year has been included in the cash flow statement as the correction was made this year. Action will be taken to correct adjustments made to operating activities and adjustments made through investing activities.	Cash flow statements should be prepared according to Sri Lanka Accounting Standards.

difference in death gratuity fund account balance and provisions.

- (b) According to paragraph 59 of Sri Lanka Accounting Standards 37, The life actuarial assessment for the pension liability of Rs.5,532,349,026 had not been done after the year 2007.
- I would like to point out that life actuarial assessment is being done along with other newly started social security schemes of the board, and it has been included in the budget document of the year 2024 and the related activities are currently being carried out.
- Actuarial Valuation should be done in accordance with Sri Lanka Accounting Standards.

1.5.2.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
A total of Rs.1,332,218 was accounted for as salary expenses for two officers who were not directly involved in the respective duties while no carder had been approved by the Department of Management Services.	These officers who have been recruited to perform the duties of the scheme are currently performing other duties. As the duties of the scheme are indirectly performed by other officers, accordingly the salary of these officers has been included in the scheme. After recruiting an adequate number of employees, the salaries of the relevant employees will be integrated into the proposed scheme.	Recruitments should be done and carder must be approved by the Department of Management Services.

1.5.2.3 Going concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
(a) Even though the pension liability was Rs.5,532,349,026, the investment value on that day was Rs.793,808,692. Accordingly, sufficient investment was not made to settle these obligations.	No answers have been given.	Adequate investment should be made to settle the pension liability.
(b) Going concern of the scheme is disputed as the total net assets of the scheme continue to be negative and the total liabilities cannot be met by the total assets of the scheme.	This situation has arisen as a result of the scheme not being run on a self-financing basis and the inclusion of government subsidies in determining the premiums. Accordingly, the annual payable pension liability will increase and hence net asset value will also decrease. Due to those reasons, the scheme does not promote new enrolments.	Action should be taken to prevent the total net assets of the scheme from becoming continuously negative.

1.5.3 Farmers' Pension and Social Security Benefit Scheme

1.5.3.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the Relevant Standard	Comments of the Management	Recommendation
(a) Contrary to paragraph 88 of Sri Lanka Accounting Standard 01, the sum of Rs.133,810,611 premium received from farmers and investment interest, was not accounted for as income during the period but was instead recorded as part of the cumulative fund. As a result, the profit was reduced by this amount.	As the installments collected from the farmers' pension contributors of the Board are to be paid as benefits when the contributors reach the age of 60 years, the sum of the installments collected and the related interest amount will be adjusted to the fund account of the Board and thereby strengthen the fund for future liabilities.	According to the Sri Lanka Accounting Standard, the amount should be recognized as income in the period in which it is incurred.
(b) According to paragraph 59 of Sri Lanka Accounting Standard 37, the accuracy of the pension liability of Rs.86,898,445,376 for the end of the year under review could not be confirmed due to the absence of an actuarial valuation.	Actions have been initiated this year to obtain an actuarial valuation for the Farmers' Pension Scheme and other Board-related schemes in accordance with the 2024 budget.	An actuarial valuation should be conducted in accordance with Sri Lanka Accounting Standards.

1.5.3.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
The cash flow statement inaccurately recorded the Rs.10,585,145 paid by the board as a cash outflow, Rs.3,046,341,760 previous year's adjustment as a cash inflow in working capital, and incorrectly adjusted the Rs.470,320 differences in the board's current account twice. Furthermore, the amount of Rs.20,730,787 received from farmers who have newly contributed to the fund was not included in the cash flow statement as a cash inflow, and the loan installment of Rs.20,000,000 settled with the cash was not recorded as a cash outflow.	Rs.10,585,145 gratuity amount paid in relation to the Farmer Pension Scheme. Adjustments have already been made to cash flow generated from operating activities as adjustments are made from changes in working capital.	Cash inflows and outflows must be properly adjusted in the cash flow statement.

1.5.3.3 Going Concern of the Scheme

Audit Observation	Comments of the Management	Recommendation
The scheme includes total assets of Rs.2,202,748,150 and total liabilities of	The agricultural pension liability increases annually, and the lack of	Action should be taken to activate

Rs.89,457,327,488, resulting in liabilities exceeding assets by Rs.87,254,579,339, and has total current assets of Rs.1,092,503,529 and total current liabilities of Rs.2,527,354,554, leading to current liabilities exceeding current assets by Rs.1,434,851,025, making the going concern of the scheme problematic without the contribution from the treasury.

investments within the scheme, coupled with several instances where state policies have led to increases without a corresponding increase in benefit premiums, has resulted in a situation where funds must be allocated every year through the government budget to pay the agricultural pensions.

1.5.3.4 Lack of Documentary Evidence for Audit

Audit Observation	Comments of the Management	Recommendation
Due to the absence of a method for updating the accurate bio-data of farmers, pensions of deceased and non-claimed farmers are continuously sent to the postal department. Consequently, in 2023, the postal department returned Rs.259,373,191 in unclaimed pensions, leaving an outstanding balance of Rs.81,000,602 due from the postal department by the end of the reviewed year. The lack of updated records for farmers who did not collect their pensions resulted in the inability to verify the accuracy of the year-end balance and the funds received.	All documents related to the Farmers' Pension Scheme received at the head office are being reviewed, properly stored either at the head office or in the archives, and the computer data system containing information from these documents is being continuously updated. The records of unpaid pension claims, provided to us by district accountants through the internet, are being systematically maintained.	Information regarding unclaimed funds should be updated and submitted to the Treasury.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) The Financial Regulations of the Democratic Socialist Republic of Sri Lanka. F.R 381	A total of 57 bank accounts of the Group, including 45 of the Board's bank accounts, have been opened and are being maintained without Treasury approval.	When opening operational accounts, the Board submitted a memorandum to the Board of Directors and obtained the necessary approval.	Approval from the Treasury must be obtained for bank accounts.

(b) Establishments Code of the Sri Lanka Democratic Socialist Republic

(ii) Section 13.4 of Chapter II

Although a fully qualified officer should have been appointed to act in the vacant position, it was observed that 9 unqualified officers were appointed to the acting position of Development Officer, and one officer was appointed to the acting position of Supply Officer and these individuals were continuously employed in these acting positions for periods ranging from 8 months to 6 years, with their terms being extended repeatedly.

Due to the inability to fill the vacant positions of the Board, arrangements were made to ensure the continuation of services through acting appointments in order to fulfill duties and responsibilities on behalf of the farmers spread across the island. Efforts will be made to correct this situation in the future.

An officer who is fully qualified in all respects should be appointed to hold the position of acting.

(ii)Section 7.5 of Chapter XII

Lieu leave is not admissible with leave spent abroad but the former Director General of the Board had taken compensatory leave to spend abroad for a period of 31 days from 10th September 2023 to 10th October 2023.

In dealing with the leave of board officers, the leave calculation is done according to the circulars and instruction letters approved by the board of directors from time to time and all the clauses and conditions included in the Establishments code are not applied to the leave of the board officers in the same way. Accordingly, the Ministry's Senior Assistant Secretary (Administration II) has approved leave for the Director General's time spent in the country.

It should be done in accordance with the procedures of the Establishment s code.

(c) The Agriculture and Agrarian Insurance Board's recruitment procedure for posts in the management service category

(i) sub-section 4.3.1(a)

Although an officer with 3 years of experience in insurance work in the public sector/ corporation/ board or recognised organisation should have been recruited for the position of assistant director of insurance division, an officer with 03 years of experience in field and administrative work was recruited.

According to the recruitment procedure, the assistant directors designated for each division were not approved for recruitment and qualified applicants did not appear for the vacant positions. After checking the qualifications of the recruited applicants and their subject knowledge to work in the relevant section, the relevant officers have been assigned to the relevant sections of the head office after a brief training.

It should be done in accordance with the recruitment procedure.

Although an officer with 3 years of experience in the field of planning or effective operation of a public sector/ corporation/ board or recognised institution should have been recruited for the position of assistant director of planning division, an officer with 03 years of experience in field and administrative work was recruited.

According to the recruitment procedure, the assistant directors designated for each division were not approved for recruitment and qualified applicants did not appear for the vacant positions. After checking the qualifications of the recruited applicants and their subject knowledge to work in the relevant section, the relevant officers have been assigned to the relevant sections of the head office after a brief training.

It should be done in accordance with the recruitment procedure.

(ii) Sub-Section 5.2.1 (a)

Although external applicants must have passed the General Certificate of Education (Ordinary Level) examination in six (06) subjects simultaneously with credit passes in two other subjects including Sinhala/Tamil Language and Mathematics, 12 officers who did not meet

During the period when the approval for the recruitment was not received, the officers were recruited on the basis of training and the board work was carried out efficiently. The management assistant officers working on a casual basis have been encouraged to meet the basic qualifications required for

Officers who do not meet the qualifications should not be recruited for positions on casual basis.

- the qualifications were recruited for the position of management assistant and retained as casual officers for a period of 03 years.
- their position and in the future those officers will be made permanent in the management assistant position after meeting the relevant qualifications.
- (d) Section 131 of Chapter IX of the Extraordinary Gazette for Procedural Rules No. 2310/29 dated 14 December 2022
- An acting appointment should be made when a regular Government officer serving in a post in the approved cadre is out of service in that post for a period of time with formal approval or as a temporary remedy until a permanent appointment is made to that post in the event of a vacancy in a post in the approved cadre. However, 26 officers for 07 posts were employed on the basis of acting on long-term from 08 months to 12 years.
- So far, permanent recruitments have been made for 02 acting posts and other vacant posts have been referred for approval to recruitment. After approval, recruitment for vacant posts will be done.
- As a temporary remedy until a permanent appointment is made, but should not be employed on a long-term acting basis.
- (e) Public Enterprise Circular No. PED 1/2015 dated May 25, 2015 Section 2
- Contrary to the Circular, Transport allowances of Rs.1,380,533 were paid to 19 officers belonging to the MM 1-1 service category with in the year 2022 and Rs.1,837,960 were paid during the year under review.
- As per the Act, the Board of Directors has been assigned with the appropriate power to take decisions for the continuity of the Board. As the audit had shown that a decision made by the Board of Directors in accordance with the powers of the Act should be followed by a circular, A request for approval was made to the Secretary of the Line Ministry by letter No.3/1/8/1 dated 10 May 2019 to obtain approval from the institution which has issued the relevant circular. The board of directors' decision will be in effect until
- Transport allowance should not be paid to the service category officers who are not entitled to transport allowance as per the circular.

a decision is made in this regard, and a request has been made to the Secretary of the Line Ministry again by letter No.3/1/8/1 dated 27 March 2023.

- (f) Public Enterprise Circular No. 06/2022 dated 06 October 2022
- Eventhough Government Owned Enterprises who are in service beyond the age of 60 years and attain the age of 60 years on or before 31 December 2022 should be retired on or before 31 December 2022 and should be obtain prior approval from the Department of Management Services for recruitment on contract basis. However, 5 officers who completed 60 years of age on that day and over 60 years of age were employed and Rs.4,389,535 were paid as salaries and allowances without approval.
- A shortage of employees has arisen in the board due to the vacancies not being filled for a long time. Island wide promotion was started by starting the recruitment of new farmers' pension scheme. The ERP system was implemented in the board which was in dire need of the board. Projects like new training center, AIMS project, insurance promotion activities, over 4000 post offices, all divisional secretariats, start of expansion of animal insurance related to livestock insurance scheme, new recruitment procedure and work procedure have been prepared and implemented. Therefore, arrangements were made to get the services of these experienced officers until the respective vacancies are filled. Accordingly, Board of Directors paper 531/18 has approved the recruitment of development officers and management officers on contract basis. New recruitments will be made after getting the approval in the future. I would like to kindly inform you that then the relevant officers will be terminated.
- A prior approval of the Department of Management Services is required for all employees who have completed the age of 60 years.

- (g) Ministry of Finance, Economic Stabilization and National Policy Circular No. 01/2023 dated 18 January 2023
- Information about the existing buildings of the Board as on 31 December 2022 was not sent to the Comptroller General's Office on or before 15 March 2023 to documentation of the non-financial assets of the Government.
- Currently, the information available to the Board has been sent to the Comptroller General's Office, and arrangements are being made to obtain the relevant assessment reports from the district offices of Anuradhapura, Mahiyanganaya and Embilipitiya and after receiving the correct records, the relevant information will be sent to the Comptroller General's Office.
- Information about all buildings should be sent to the Comptroller General's office.

2. Financial Review

2.1 Financial Results

The operation result of the Board for the year under review had been a surplus of Rs.982,500,036 as compared with the corresponding surplus of Rs.2,440,680,754 for the preceding year, thus observing a deterioration of Rs.1,458,180,718 in the financial result. This decline was mainly due to increase in indemnity payments.

The operation result of the Group for the year under review had been a deficit of Rs.3,884,548,662 as compared with the corresponding deficit of Rs.2,135,968,851 for the preceding year, thus observing a deterioration of Rs.1,748,579,811 in the financial result. This decline was mainly due to increase in indemnity payments and decrease in the contribution from Treasury for that.

3. Operating Review

3.1 Identified losses

Audit Observation	Comments of the Management	Recommendation
The board had to bear a loss of Rs.40,869,072 as late interest due to the tax amount of Rs.299,354,489 from April 1, 2018 to December 31, 2023 was not paid on the due dates and due to non-registration for income taxes as per the Inland Revenue Act No. 24 of 2017.	Since the Board carries out agricultural insurance and social security activities, all profits and income of the Board were exempted from income tax by the Inland Revenue Acts No. 28 of 1979 and No. 10 of 2006 which came into effect thereafter. But the board has to pay income tax because it was not exempted by Act No. 24 of 2017. In calculating the income tax, the board had to pay tax according to the 30 percent tax rates for normal companies and after long discussions with the Inland Revenue Department, the board has arranged to pay the 14 percent tax income to be paid. Thus, the Board has not incurred any financial loss. Thus, from the year 2024/25, arrangements	From the year 2024/25, arrangements should be made to settle the tax liability correctly.

will be made to settle the tax liability correctly.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(a) According to the Sub-section 7(a) the Agricultural and Agrarian Insurance Act, No. 20 of 1999, Indemnity amounting to Rs.70,800,200 paid to 8,185 farmers in the years 2017 and 2018, has been returned by commercial banks due to mismatch of account numbers, farmers' names and identity card numbers. For 6 years no action was taken to identify the farmers and settle the amount or remit it back to the treasury.</p>	<p>Agricultural Service Centres and District Offices have been instructed to prepare and send revised documents for farmers who have been rejected payment, and payments have been made for the revised documents that were received. The farmers who did not reclaim the indemnity amount of Rs.70,800,200 were presented to the Board of Directors for transfer to the Agricultural Insurance Fund due to continued unclaimed by the farmers, and the said amount has been approved for the development of the Agricultural Information Management System. However, since the money was not used for that purpose, it will be presented to the Board of Directors again, and further action will be taken.</p>	<p>Arrangements should be made to remit the unclaimed indemnity money to the Treasury.</p>
<p>(b) According to Ministry of Agriculture, Rural Economic Affairs, Irrigation and Fisheries and Aquatic Resources Development Circular No. 07/2017 (Amendment II) dated September 02, 2019, although an amount of Rs.9,244,450 from 23,351 farmers was recognized as the income of the board for accident insurance coverage in relation to the 2021/2022 Maha season in the 17 offices where the information was reported. but the deeds were not given to 15,491 farmers and it was observed that deeds were given to 7,851 farmers after a period of 07 months to 10 months of the one year reserve period.</p>	<p>This is due to the shortage of officers and the busyness of the officers in the district offices, arrangements are being made to issue accident certificates for the crop insurance policies to be issued in the future.</p>	<p>Insurance certificates should be provided at the time of enrolment for accident insurance coverage.</p>

- (c) According to the Section 6 of Farmers Pension certificate of deed, If 75 percent of the required semi-annual contribution amount has been paid, the contributors are entitled to a pension lower than the specified amount determined by the board. However, benefits were forfeited for these contributors. Any contributor who has paid more than 75 percent of the premiums due without cancellation will be treated with a reduced pension. For processing the reduced pension, the contribution must have been paid more than 75 percent without cancellation. Pensions are payable to contributors who have paid 75 percent of the half-yearly contribution.
- (d) According to Section 4 of Section 24 of the Agricultural and Agrarian Insurance Act No. 20 of 1990, a reserve fund to be used at its discretion to pay for claims arising from unexpected events had been built since 2002 and as of December 31, 2023, its balance was Rs.498,536,253. This fund has not been used in the 21 years from 2002 until now because the rules were not defined and established regarding the unexpected events that should be used. Section 24 of the Agricultural and Agrarian Insurance Board Act No. 20 of 1999 provides that the Board shall have a fund called the "Agricultural and Agrarian Insurance Fund". Accordingly, this fund has been built by allocating 5 percent of the operating profit every year. This fund is expected to be used after getting approval of the Board of Directors for the initial capital and additional capital requirements (requirements arising after obtaining the actuarial valuation reports) arising for other insurance schemes including the Life Insurance Scheme which the Board is expected to start with the contribution of the agriculturists. Attention should be paid to the need and use of the start of the fund.
- (e) The district offices are currently using the Access application system to maintain the data system in order to carry out the third-party insurance activities. Relevant information can be obtained through analysis in this system, and I point out that the district office officials have been informed to correctly enter the relevant information into the data system. The board has introduced the ERP system for the execution of third-party insurance activities in several district offices, and I point out that the relevant information can be obtained accurately using this data system. Income and information should be kept complete.

3.3 Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) With the help of officials of the Department of Agricultural Development, Indemnity for crop damage should be paid within 2 months, but for the 39,455 applications recommended and received for the 2022/2023 Maha season ending in March 2023, Rs.914,574,064 were paid starting on June 09, 2023 and ending on September 02, 2024.	I would like to point out that such delays occur due to the existing practical conditions and the busyness of the officials, and discuss with the Development Officers of the Agricultural Service Centers to minimize the related delays.	Delays in payment of indemnity should be minimized.
(b) According to the Section 6(1) of Farmers' Pension and Social Security Benefit Scheme Act, No. 12 of 1987, Non-payment of pension by identifying farmers who have completed 60 years of age and are entitled to pension by contributing to the scheme, According to the Section 15(1) of the Act, Failure to notify a contributor of default in payment of 5 installments respectively, The beneficiary party had not defaulted in the payment of 5 installments respectively but the pension benefits had been considered as a breach of the deed in the case of intermittent or non-payment of 5 installments respectively.	All district office has been informed to submit the applications and all relevant records of pension beneficiaries who have reached the age of 60 to the head office. Farmers who have reached the age of 60 and have not yet received farmer pension have been informed so far. According to Section 15(1) of the Agricultural Pension and Social Security Scheme Act, the benefits of farmers who have default in payment of 5 installments will be forfeited. When considering installment payments, it is assessed whether the payment is made within the required period. Therefore, if any installment is delayed by more than 5 installments or more than 2½ years, the benefits specified in the certificate will be forfeited.	Payment of pension should be made on completion of 60 years of age and the Board should verify monthly that premiums are collected properly.
(c) Out of the 871,425 registered farmers in the Farmers' Pension and Social Security Benefit Scheme, 474,803 farmers aged between 61 and 93 years as on December 31, 2023, but 264,227 of them have not been paid pension.	Farmers who have reached the age of 60 years and have not yet received farmers' pension have been informed, and Assistant Directors of all district offices have been considered this matter as a priority task.	Action should be taken to pay Pension on completion of 60 years of age.
(d) As per the Section 5(1) of Fishermen's Pension and Social Security Benefit Scheme Act, No. 23 of 1990, Any fisherman between the ages of 18 and 59 is eligible to join the Fishermen's Pension Scheme, however no Fishermen's	Arrangements have been made to implement the Fishermen's Pension and Social Security Benefit Scheme with financial viability. A full computerized data system is	Necessary arrangements should be made to grant pension on completion of 60

Pension members have enrolled in the scheme after 2018, As per the Section 7 of the Act, Although pensions should have been provided to fishermen who contributed to the scheme upon reaching the age of 60 years, a total of Rs.5,537,581 was recorded as pension arrears in the financial statements, including Rs.4,159,063 for 139 fishermen who were granted pensions between January 2007 and December 2016, and Rs.1,378,518 for 45 fishermen who were granted pensions in 2022 and 2023, but payments were not made to the fishermen.

currently being prepared to carry out those activities in a computerized environment. Accordingly, necessary steps are being taken to introduce a new Fisherman's Pension Scheme jointly with the Ministry of Fisheries in 2024 to attract fishermen for this scheme. Lists of contributors who have reached 60 years of age have been obtained from the district offices wise and sent to the respective district offices, and based on these lists, a program has been started to inform the fishermen who are entitled to pensions. As the Operational activities related to Fisherman's Pension Scheme are carried out by the Department of Fisheries and Aquatic Resources, this situation is also communicated to the department. Further, in addition to the awareness conducted by the District Fisheries Offices, necessary actions will be taken to inform the fishermen through a newspaper advertisement.

- (e) The number of fishermen contributing to the scheme was 64,117 and had not done grant of Fishermen's pension benefit to 24,187 (including 5,549 Contributors who have paid lump sum contributions) out of 31,146 fishermen who reached the retirement age of 60 years as on December 31 of the year under review.
- Payment of the outstanding pension arrears was withheld until the reasons for the delays in processing the applications were clarified. Currently, retirement pensions, including the arrears, are being paid.
- Action should be taken to made pension payments when contributors reach the age of 60.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
An amount of Rs. 20,391,089 was received to the board in the year 2022 by the United Nations Food and Agriculture Organization for the construction of the agricultural management information system in	The Agricultural Management Information System is managed by the Ministry of Agriculture and related expenses are reimbursed through the Ministry of Agriculture. All transactions related thereto are	The objectives of establishing the Agricultural Management Information System should be

conjunction with the International Finance Corporation (IFC) and although properly accounted for and disclosed fulfilled. In that year, Rs.23,009,698 was spent in the accounting records. for it, but by the year 2024, the information system was not used for indemnity calculation and indemnity payment process.

3.5 Defects in Contract Administration

Audit Observation

Contracted for Rs.79,000,000 the purchase of Enterprise Resource Planning (ERP) System for the board's management information system and procurement of hardware should be started on 1 March 2023 and completed by 20 August 2023, but those activities were not finished by 31 July 2024.

Comments of the Management

Arrangements have been made to extend the contract period.

Recommendation

Tasks should be performed as per the agreement.