

National Insurance Trust Fund – 2018

1.1 Qualified Opinion

The audit of the financial statements of the of National Insurance Trust Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance , 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 tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund 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 based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 Fund'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 intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Fund 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 Fund.

1.4 Scope of Audit

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.
- 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 Fund'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 Fund'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 Fund 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 Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund 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 Standards

Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
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<p>(i.) In terms of Section 20 of Sri Lanka Accounting Standard 07, the net cash flow generated through the operating activities should be shown by indicating the changes of the period relating to the items of income, and expense, and the receivable and payable values of stocks and operating activities, disclosed in the statement of comprehensive income. Nevertheless, the net cash flow generated through the operating activities had been shown in the cash flow statement of the Fund by making adjustments for 02 items worth Rs. 627,653,598 which had not been adjusted for the pre-tax profit through the statement of comprehensive income</p>	<p>This is an error occurred during the presentation of financial statements. This issue does not cause any effect whatsoever either on the financial result or financial position. Details are as follows.</p> <p>Net Fair Value Changes – Rs. 399,633,151</p> <p>Action will be taken in due course to adjust this item to the net cash flow generated through the investment activities instead of being adjusted to the net cash flow generated through the operating activities.</p>	<p>Presentation should be made in accordance with the Standard.</p>

Prior Year Adjustment - Rs. 228,020,447.

Action will be taken in due course to make adjustments for this item as changes in the operating assets or operating liabilities instead of being adjusted to the pre-tax profit in the net cash flow generated through the operating activities.

- (ii.) According to Section 16 of the Sri Lanka Accounting Standard 16 relating to Property, Plant and Equipment, if an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognized in profit or loss. However, the decrease of Rs. 2,102,126 in the carrying amount of the assets with respect to the revaluation carried out by the Fund for the year 2018, had not been recognized as an expense when computing the profit of the Fund without a revaluation excess relating to the preceding years; instead, the said decrease had been shown after being deducted from the other comprehensive income.
- A profit had resulted in the revaluation process carried out in the year 2018. The net values, arisen out of the revaluation profit being brought to accounts in the wake of selling the vehicle on 2018/08/06 and the loss incurred when revaluing the other assets, had been adjusted in the comprehensive income.
- Presentation should be made in accordance with the Standard.
- (iii.) In terms of Section 114 (c) Of the LKAS 01 relating to the presentation of financial statements, supporting information for items presented in the statements of financial position, the statement of comprehensive income, statement of changes in equity, and cash flow statement in the order in which each statement and each line item is presented, should be provided in notes to assist users to understand
- Action will be taken in due course to make disclosures in terms of LKAS 12 relating to income tax.
- The Standard should be adhered to.

the financial statements and to compare them with financial statements of other entities. Furthermore, disclosures should further be made on the computation of income tax in accordance with LKAS 12. However, due to failure of the Fund in disclosing income tax liability through a note in the financial statements, it was not verified that such requirements had been complied with.

1.5.2 Accounting Deficiencies

----- Audit Observation -----	----- Comment of the Management -----	----- Recommendation -----
(i) A sum of Rs. 1,813,322,777 had been granted in the year 2018 for paying compensation to the Agricultural and Agrarian Insurance Board. The Fund maintains an account with allocations for paying compensation whilst an account for changes in liabilities are also maintained for compensation on the insurance of crops. Only the transactions performed in the month of November had been shown in both of the accounts whereas allocations for December had not been included. As such, the allocations totaling Rs. 62,761,857 made on the compensation for insurance on cultivations relating to November that had been paid to the Board on 14 and 26 December, were shown as the closing balance of the account.	The AAIB had not informed on the necessity of paying additional compensations in December 2018. Hence, action had been taken to maintain the allocations made in November unchanged.	Accounts should be prepared based on accurate information.
(ii) A credit balance of Rs. 20,444,071 relating to 03 Institutions had existed in the installment income receivable to the Reinsurance Division as at 31 December 2018, but no further action had been taken in that connection.	Such a credit balance could result in due to indemnity payments recoverable to them is higher than the receivable installment income. Action had been taken since 3 rd quarter of the year 20019 to compare the balances and take action accordingly.	Accounts should be settled with comparisons made constantly.

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| <p>(iii) As for the recovery of premiums from the insurance companies in regard to the Strike, Riot, Civil commotion, and Terrorist Activities (SRCC & TR) Fund (as pointed out by internal audit reports of the Fund), a difference of Rs. 8,490,385 was observed during the audit conducted on the premiums of a certain company between the premiums paid to the Fund and the actual amount payable .</p> | <p>A systematic methodology exists for the recovery of SRCC & TR premiums. Methods for paying premiums are clearly stated in the register named “ Limits & Rates for SRCC & TR” issued annually. The internal audit also observes the necessity for the methodologies to be even accurate and efficient, and those observations are another methodology being used in the collection of premiums.</p> | <p>Premiums should be recovered by following a proper methodology.</p> |
| <p>(iv) A difference of Rs. 9,072,974 was observed between the age analysis of debtors and the balance of the ledger account of the Reinsurance Division relating to the receivable premium income</p> | <p>The following reasons were attributable to the difference between the age analysis and the ledger balance of the reinsurance premium receivable.</p> <p>(a) This AAI balance continued to exist from the year 2012. Often, the requests for compensation and receipts of premiums are settled by setting off the receivable balances and payable balance. Action has been taken to obtain approval of the Board of Directors in order to write off the said balance.</p> <p>(b) The sum of Rs. 2,101,338.06 repayable to the companies, AAI and MBSL, had been corrected in February 2019.</p> <p>(c) The unidentified balance of Rs. 19,610.19 had also continued to exist over an extensive period. Approval of the Board of Directors had been sought to write off.</p> | <p>Accounts should be settled with comparisons made constantly.</p> |
| <p>(v) Due to the considerable differences between the dates of receipts of daily cash deposits at the District Secretariats and the dates on the receipts issued by the system, a value</p> | <p>Action has already been taken to minimize such inefficiencies. The said weaknesses will be avoided in due course.</p> | <p>The correct income should be brought to accounts.</p> |

of Rs. 2,502,32 shown in the financial statements that should have been credited to the income of the year 2018, had been recognized as an income of the year 2019.

- (vi) According to the agreement entered into between the Fund and the reinsurance company with respect to the period from 2018.03.31 to 2019.03.31, annual premiums totaling Rs. 98,670,792 had been paid. Of that, the value of a premium per quarter amounted to Rs. 24,667,698, but a sum of Rs. 24,329,784 had been allocated as premiums not earned; as such, the unearned premiums had been understated by Rs. 337,914 in the cultivation reinsurance account and unearned premium reserve account.
- This is an error in the basis of computation. The 365 day basis had been followed in accounting the unearned premium income. It is noted to take measures to minimize such errors in due course.
- Accounts should be prepared based on accurate information.
- (vii) According to the confirmation of balances presented to the Audit by a certain reinsurance company, the amount payable to the Fund as at 31 December 2018 had been stated as nil. Nevertheless, a sum of Rs. 147,376,867 had been shown in the financial statements of the Fund as being receivable from that institution. Thus, a difference of Rs. 147,376,867 had been observed between the confirmation of balances and the financial statements.
- In the backdrop of floods occurred in the year 2016, the reinsurance compensation receivable from SIB amounted to Rs. 1,147,376,867. It was certified by the foreign reinsurance broker that the said amount had been remitted to the SIB by the relevant reinsurance companies. It is hence verified that the said balance was correct. It is informed that a sum of Rs. 19,993,473 still remains payable to us by the SIB.
- Accounts should be prepared based on accurate information.
- (viii) According to those confirmation of balances, the balance receivable from the Fund amounted to Rs. 309,562,947 as at 31 December 2018. Nevertheless, such an amount had not been shown as being payable in the financial statements of the Fund. As such, there existed a difference of Rs. 309,562,948 between the financial statements and the confirmation of balances.
- It is informed that, as at 2018.12.31, a sum of Rs. 309,562,948 had not remained payable as per our books of account.
- The issue should be resolved by making adjustments correctly.

- (ix) The gross income should be shown in the financial statements as the investment income of the Fund ,but the net income had been shown in the accounts. Due to failure in making adjustments at the end of the year in regard thereto, the investment income had been understated by a sum of Rs. 128,781,294 in the financial statements. Not replied. Accounts should be prepared based on accurate information.
- (x) The distress loan balance of Rs. 33,593,020 shown in the financial statements had been shown as Rs. 34,364,395 as per the schedules presented to the Audit. As such, a difference of Rs. 771,375 was observed. The difference between the balances of financial statements and the registers continued to exist from the preceding year. Remedial action will be taken in due course. The issue should be resolved by making adjustments correctly.
- (xi) The festival advance balance of Rs. 773,506 shown in the other non-financial assets had been shown as Rs. 616,702 as per the schedules presented to the Audit. Thus, a difference of Rs. 156,804 had existed between the financial statements and the schedules. The difference between the balances of financial statements and the registers continued to exist over several years. Remedial action will be taken in due course. The issue should be resolved by making adjustments correctly.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence Made Available	not	Comment of the Management	Recommendation
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	Rs.				
(i) Sum receivable to the reinsurance companies.	1,321,391,889	Letters confirmation balances.	of	After being queried by you in this connection, action has been taken to obtain confirmation of balances from the relevant parties.	Letters of confirmation of balances should be presented.
(ii) Sums receivable – reinsurance.	9,053,364	Detailed schedules.		Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, a paper was presented to the	The issue should be resolved formally.

			Board of Directors in order to write them off. Action will be taken accordingly.		
(iii)	Inter-department transactions – distress loan balance.	3,462,112	Evidence for the settlement.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, such balance could not be presented to the Audit. A paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.
(iv)	Cheque return – Car ACC Motor.	585,481	Source documents.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, such balance could not be presented to the Audit. A paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.
(v)	Payable deposits.	270,049	Detailed information.	Those balances continued to exist from the year 2012 and the years prior. Due to non-availability of any document or evidence, such balance could not be presented to the Audit. A paper was presented to the Board of Directors in order to write them off. Action will be taken accordingly.	The issue should be resolved formally.

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

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
(a) Public Administration Circular, No. 07/2015	The maximum amount that can be granted as festival advance is Rs. 10,000. However, the Fund had paid a sum totaling Rs. 3,229,139 as festival advance to 117 employees based on the basic salary.	The festival advance equivalent to the monthly basic salary had been given since the inception of the Institution. Likewise, festival advance had also been given in the year 2018 under the approval of the Board of Directors.	It is necessary to follow the instructions of the Circular.
(b) Financial Regulation 371 of the Democratic Socialist Republic of Sri Lanka.	The ad hoc Sub-Imprestis obtained should be settled immediately after completion of the intended purpose. However, 13 Sub-Imprestis issued in the year 2018 totaling Rs. 448,000 had been settled after a period of 01 – 4 ½ months.	Even though the ad hoc Sub-Imprestis obtained should be settled immediately after completion of the intended purpose, the settlement of 13 Sub-Imprestis obtained had been delayed. Action will be taken in due course to minimize delays.	Action should be taken in accordance with the Financial Regulations.
(c) Financial Regulation 396.	The value of cheques that should have been paid in the year 2008 but not presented amounted to Rs. 60,752,249. That indicated an increase by Rs. 53,891,837 equivalent to 786 per cent as compared to the year 2017. That amount included Rs. 57,436,510 being the value of cheques not presented despite	In order to revalidate the non-presented and expired cheques issued to NNDIS, the Divisional Secretariats were informed that those cheques be sent to us promptly. Accordingly, they are already taking measures in that connection. Furthermore, the cheques sent to the Institute for extending the period were promptly dispatched to the Divisional Secretariats after being extended. However, as those cheques were not	The Financial Regulations should be followed.

being issued in the year 2017 with respect to the National Natural Disaster Insurance Scheme. A period of one year elapsed since the date of issuing those cheques. received by the insurees., the balance of this account increased.

- (d) Financial Regulation and 187. 139
- When payments are made for the vouchers through cheques, the paying officer should ensure that the bank balance is sufficient for all the payments. However, as cheques had been issued without considering the bank balance in that manner, the value of cheques not presented despite being issued as at 31 December 2018, totaled Rs. 9,837,431 whereas the bank balance amounted to Rs. 6,224,696 as at that date. Had the cheques been cleared as at that date, it was observed that an overdraft would have been resulted in .
- As for the Current Account, No. 82727165 being maintained at the Bank of Ceylon, a difference in the balance existed between the cash book and the bank account as at 31 December 2018. Although this balance was unfavorable in accordance with the cash book, the actual bank balance was a favorable one. This is only a nominal bank overdraft.
- Risk should be mitigated in accordance with the Financial Regulations.
- (e) Paragraph 04 of the Gazette Extraordinary, No. 1542/11 of the Democratic Socialist Republic of Sri Lanka, dated 25
- The funds in the special account maintained on the Strike, Riot, Civil commotion, and Terrorist Activities (SRCC) Fund could be utilized only for
- It is pointed out that the funds of SRCC had been used on : payment of compensation, payment of reinsurance premiums, salaries and wages of employees, administrative expenses, maintenance, other expenses, and building rents.
- Action should be taken in accordance with instructions of the Gazette Extraordinary.

March 2008. the expenses mentioned in the Paragraph. However, without doing so, it was observed that a sum totaling Rs. 69,708,220 had been utilized in the years 2018 and 2019 on the expenses not relevant thereto.

- (f) Guidelines for presenting applications to claim rights of NNDIS. The following instances were observed in which the Guidelines on the National Natural Disaster Insurance Scheme implemented by the Fund to provide protection against natural disasters, had not been followed.
- (i) The applications to claim rights had been presented sans the signature and rubber stamp of the Divisional Secretariat. Signature or the rubber stamp had not been placed on a very few number of applications. However, those applications were similar to the ones with signature and the rubber stamp, and it was necessary to efficiently make payments with respect to a large number of applications during that period. As such, only the signature and the rubber stamp were examined comparatively before making payments. Payments should be made based on formal Guidelines.
- (ii) As for the applications to claim rights in excess of Rs. 500,000, the risks should be assessed by an engineer. However, the Fund had not done so. Assessments had been made by the relevant housing committee with respect to applications claiming rights in excess of Rs. 500,000. 00. So far, before making payments for the applications with higher values, a risk engineer has been referred. The Guidelines should be followed.

- (iii) The dully filled applications had been presented without providing sufficient documents. When the ownership was ascertained in regard to the properties affected, it was not restricted only to the deeds. Instead, the documents approved by the officers of the housing committee and the Divisional Secretariat were taken into consideration, and the payments were made. Payments were also made for some of the applications of which photographs could not be obtained, with knowledge of the relevant officers on humanitarian grounds. However, as of now, all the documents are properly examined before making payments. The Guidelines should be followed.
- (iv) No compensation had been paid under the National Natural Disaster Insurance Scheme for the temporary shelters, cottages, or other non-permanent constructions. However, the Fund had not paid in that manner. Those payments had been made only for the residences with Assessment Numbers under the Assessment divisions. It is the main objective of this insurance scheme to protect the civilians living in areas with economical risks. Payments should be made in accordance with Laws, and Rules.

2. Operating Review

2.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
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(i) A sum of Rs. 290,000,000 had been requested by the Agricultural and Agrarian Insurance Board on 02 February 2018. A fixed deposit in which a sum of Rs. 780,000,000 had been invested at the interest rate of 7.15 per cent was credited to the Crop Levy Current Account by the Fund before reaching maturity. Of that a sum of Rs. 149,134,697 was withheld and only Rs. 140,865,303 was released.	As there were no short-term deposits, the said deposit was transferred before reaching maturity to the account, thus taking action to pay compensation promptly.	A formal methodology should be followed.
(ii) Furthermore, the Agricultural and Agrarian Insurance Board had again requested a sum of Rs. 250,380,277 . A fixed deposit in which a sum of Rs. 97,000,000 had been invested at the interest rate of 8.55 per cent was credited to the Crop Levy Current Account by the Fu on 01 November 2018 by the Fund before reaching maturity. Of that a sum of Rs. 21,675,815 was withheld and only a sum of Rs. 75,324,185 was released to the Agricultural and Agrarian Insurance Board.		A formal methodology should be followed.
(iii) According to the Agreement entered into between the Union of Post and Telecommunication Officers and the National Insurance Trust Fund, the Fund retains a deposit valued at Rs. 39,600,000 for the Union. Thus, the Fund lost the opportunity to earn benefits by investing those monies.	As a building can not be retained without an initial deposit as per the Agreement, the deposit was released to the Union of Post and Telecommunication Officers under the approval of Cabinet.	The funds should be utilized optimally.

2.2 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
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(i) The sum of Rs. 42,434,299 being the commission payable on the sales invoices of the Reinsurance Division of the Fund for the year 2015, had not been settled even by 06 May 2016.	As the premiums receivable for the invoices of the Reinsurance Division had not been received from the relevant institutions, the said commissions payable could not be settled. This has been forwarded to the Board of Directors in order to be written off.	Action should be taken to settle the balances.
(ii) As revealed in the examination conducted on the receipts after the date of balance sheet relating to premium income receivable to the General Insurance - Non-motor Division as at 31 December 2018, outstanding balances totaling Rs. 5,730,959 existed even by March 2019.	A sum of Rs. 31,474,963.35 had been recovered by 2019.03.31. The relevant insurees are informed on the receivable balances with respect to the rest of the receivable income. Action will be taken further in due course to recover those balances.	Action should be taken to settle the balances.
(iii) It was observed that the payment of unsettled claims (non motor) totaling Rs. 18,509,275 relating to the Strike, Riot, Civil commotion, and Terrorist Activities (SRCC) Fund during the period 2007 – 2015, had remained without being settled even by 31 July 2019.	A paper has been presented before the meeting of the Board of Directors in order to write off from books the payment of claims not settled so far. Action will be taken in due course accordingly.	Action should be taken to properly settle the balances.
(iv) Due to reasons such as, failure of the Fund in maintaining a database containing information of the members of the Agrahara insurance, and deficiencies in the methodology used to settle the claims to the relevant applicants, balances totaling Rs. 8,319,124 existed without being settled even by May 2019.	A sum of about Rs. 5,500 million per year is directly credited to the accounts through inter-bank payments (SLIPS). Of that, 0.1 per cent is returned without being credited. Action will be taken in that connection following the approval of the Board of Directors.	A formal methodology should be followed.

- (v) The repayable premium balance of Rs. 3,843,488 continued to exist from the year 2007 with respect to the SRCC Division of the Fund, had not been settled even by 31 May 2019. A paper has been presented to the Board of Directors for writing off this balance continuing over several years. Action will be taken in the future accordingly. Action should be taken to settle the balances.
- (vi) As the cheques issued on the payment of compensation for Agrahara had been cancelled, the sum of Rs. 2,632,770 recognized as a balance receivable as at 31 December 2018, had remained unsettled even as at the date of audit on 08 May 2019. It is informed that measures have been taken to recover the balances efficiently, and the state institutions have been apprised for the ensuing year. The balances should be settled by following a proper methodology .
- (vii) The balance of Rs. 1,073,351 payable by the Fund to the insurees as at the end of the year 2015, had remained unchanged reaching Rs. 1,513,897 by the end of the years 2016, 2017, and 2018. As such, the Fund had not taken action to settle that balance continued to exist over 04 years. A paper has already been presented to the Board of Directors in regard of the future action to be taken on the balance of Slip Return Control Crop Insurance account. Action will be taken based on the decision of the Board of Directors. Action should be taken to settle the balances.
- (viii) A balance of Rs. 1,640,828,796 should have existed in the crop insurance account of the Fund as at 31 December 2018. However, according to the report furnished to the Audit by the financial manager of the Fund, the remaining balance of the Fund amounted to Rs. 1,641,687,854 as at 31 December 2018. The Audit queried as to the assets on which those funds were utilized, and as per the information made available in that connection, it was observed that a net value of Rs. 1,462,969,344 therefrom were the monies issued to other insurance divisions. Nevertheless, instructions had been given in the Instructions, No. IBSL/DG/SUP/17/06/233 The said value was included in the funds released to other insurance divisions. It is the generally accepted methodology for all the institutions to exchange funds between divisions in regard to temporary requirements of funds. Our institution too has granted funds to other divisions for the payment of indemnities from the Crop Levy Fund. Payments should be made in accordance with Laws, and Rules.

issued by the Insurance Regulatory Commission of Sri Lanka on 28 June 2017 that the funds of each division should be utilized on the objectives of their establishment.

- (ix) The Fund gives a Format on quarter an annual basis to the institutions liable to pay tax on crops whilst reminders are also sent informing on the penalties to those delaying payments. However, apart from the penalties recovered being shown in the crop insurance-tax income account, no action had been taken with respect to account the recovered penalties in a separate account, compute and account the penalties receivable, and formulate a methodology as to the action to be taken on the institutions delaying / defaulting on the payment of tax.
- Although a separate account had not been maintained for the penalties recovered, the penalties received had been brought to accounts. Nevertheless, a separate ledger account has been opened since the year 2019 in order to account the penalties. Action will be taken in due course to properly account the penalties receivable.
- A proper methodology should be followed.
- (x) The facts that 06 institutions had not recovered the crop insurance tax amounting to Rs. 2,386,165 for the year 2017/18 along with the penalties thereon amounting to Rs. 270,313 even by the date of audit on 30 August 2019, and no further action had been taken by the Fund for the recovery of those penalties, were observed in the audit test check.
- The institutions mentioned in the query had not recovered the crop insurance tax for the year 2017/2018 and the penalties thereon even by the date of audit on 30 August 2019. The Board had taken measures to send reminders to those institutions.
- A methodology should be followed for the efficient recovery of income.
- (xi) As at 31 December 2018, there existed 189 unresolved cases relating to the Fund. The total value of consideration requested therefor amounted to Rs. 773,579,952. It was observed that certain cases were continuing over many years.
- There are many steps to be followed from the date of filing a case until the verdict is returned by the court. Our Legal Division is not capable of concluding the cases by neglecting those steps.
- Special attention should be drawn on the unresolved cases.

xii) Performance as per the Action Plan.

The performance of each division in accordance with the Action Plan, is as follows.

I. Reinsurance Division

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| (i) | It was planned in the Action Plan to obtain reinsurance coverage for the motor and non-motor general insurances in the year 2018. However, the Fund had failed to conclude that task even by the date of audit. | Procurement activities are taking place in order to obtain reinsurance coverage for the motor and non-motor general insurances for the year 2019/2020. | Tasks mentioned in the Action Plan should be executed properly. |
| (ii) | It had been planned to automate the process of reinsurance and payment of indemnities including the generation of system report. However, that task had not been commenced even by the date of audit. | The process of reinsurance and payment of indemnities has been automated up to 75 per cent. Due to diversity in paying indemnities and complexity, certain payments are made manually. It is confirmed that following the said manual system for those payments is easy and accurate as compared to the existing system. | Tasks mentioned in the Action Plan should be executed. |
| (iii) | It had been planned to conduct one awareness programme on reinsurance coverage at international level and 04 awareness programs (one for each quarter) locally for the year 2018. Nevertheless, it was observed that at least one such programme had not been conducted even up to the date of audit on 14 May 2019. | Four types of procurements had been made in the year 2018 with respect to reinsurance. Maximum contribution had to be made in that connection in a broader and practical manner with every possible expertise, and considering the necessity thereof, it was not possible to spend much time on such awareness programs. | Tasks mentioned in the Action Plan should be completed. |

II. General Insurance – Non-motor

- (i) It had been planned to enhance the existing insurance policy to a consolidated foreign insurance policy within the year 2017. However, it had not been implemented even in the year 2018; instead, the timeframe had been extended up to the year 2019.
- A reinsurance cover could not be obtained in the year 2017 to enhance the foreign insurance policy planned for the year 2017. Procurement activities are taking place in that connection.
- Tasks mentioned in the Action Plan should be completed.
- (ii) It had been planned to establish a general health insurance scheme for every sector under the Agraphara insurance, but it had been implemented only in the semi-Government sector whereas contribution of the private sector had not been obtained.
- Priority was given in the year 2018 to provide Agraphara insurance for the pensioners retired prior to 2016. At present, Cabinet approval is sought in that connection. This will be implemented once the funds are allocated in the budget.
- Tasks mentioned in the Action Plan should be completed.
- III. Finance Division
- It had been planned in the year 2017 to divide the Fund as reinsurance and general insurance. However, the activities in that regard had not been completed even by the year 2019.
- As the restructuring of public finance is done with the cooperation of representatives of the World Bank, the plans could not be completed on time as expected since the plans of the World Bank representatives had to be adhered to.
- Tasks mentioned in the Action Plan should be completed.
- IV. Natural Disasters
- This division had planned to establish a disaster pool for the insurance industry thereby expecting to execute the activities such as, presenting the Chief Executive Officer with a report of information, apprising the insurance industry of the benefits
- Albeit proposed to maintain an insurance finance pool relating to the natural disasters, it could not be implemented in the wake of negative response from the insurance industry. Attempts are further made in this connection.
- Tasks mentioned in the Action Plan should be completed.

gained through that pool, preparing ranks, preparation of a framework for disaster pool, and establishment of a Technical Evaluation Committee. Nevertheless, no activity whatsoever had been carried out in that connection even up to the date of audit, 14 May 2019.

V. Agrarian Insurance and Micro Insurance.

It had been planned in line with one of the main objectives mentioned in the National Insurance Trust Fund Act, No. 28 of 2006 to introduce insurance policies through micro insurance covering migrant workers, persons employed in livestock, self-employed persons, estate workers, and farmers. However, no action had been taken in that connection even up to the date of audit.

As insurance policies are provided for the migrant works by the Sri Lanka Bureau of Foreign Employment, quotations should be called from that institution.

The insurance policy named “*Govi Divi Aruna*” had been introduced for the farmers and this is implemented by the Anuradhapura Branch as a pilot project. Action will be taken in due course to implement this policy through the other branches as well.

By making use of the crop levy, Provision is granted to the Agrarian Insurance Board as well in order to make payments for the farmers on the damages to the crops.

Tasks mentioned in the Action Plan should be completed.

VI. Information Technology Division.

It had been planned to establish a new system for the Information Technology Division in accordance with the annual Action Plan. It was scheduled to conduct a review, decide on the inefficiencies, and carry

The University of Moratuwa agreed to present a proposal to us to provide consultancy services. Accordingly, the proposals given by them will be forwarded to the Board of Directors thereby taking further action.

Tasks mentioned in the Action Plan should be completed.

out an evaluation by using external resources in that connection. However, no further action was taken thereon.

2.3 Management of Procurement

Audit Observation	Comment of the Management	Recommendation
(i.) A reinsurance agreement had been entered into between the Fund and the reinsurance institution with effect from 2018.03.31 until 2019.03.31 and a sum of Rs. 98,670,792 had been paid during the year. Nevertheless, procurement information relating to the selection of reinsurer and the said reinsurance agreement, was not available with the Fund.	Having obtained a reinsurance under the Cabinet Paper, No. 18/0524/728/017/TBR following the Cabinet Decision, dated 27 March 2018, thirty per cent of the liability has been transferred to the National Insurance Trust Fund. The procurement files relating to the selection of said reinsurer and the reinsurance agreement are in the possession of Agricultural and Agrarian Insurance Board. Accordingly, such information could be obtained from that institution.	All of the important documents should be maintained.
(ii.) A physical inspection and a revaluation had been done on the fixed assets in the year 2018 by incurring a cost of Rs. 1,838,208, but this had not been mentioned in the Procurement Plans for the years 2017 and 2018. According to the information in the bid document, letters had been sent to 05 institution calling for quotations. However, the basis for selecting those institutions, was not certain in audit. Quotations had been called for this procurement on 10 July 2017, but it was observed that a bidder had been selected after 06 months on 23 January 2018.	It is vital to revalue the assets and update the Register of Fixed Assets. As such, this was done albeit not mentioned in the Procurement Plan. Proposals had been called from 05 auditors well-known in Sri Lanka. Due to bids not received on time, the period for accepting bids had to be extended. It was informed to submit bids again in regard to preparing a "Coding System" and a Register of Fixed Assets that had been recommended by the Technical Evaluation Committee. As such, action was taken accordingly.	Laws, and Rules should be followed.

2.4 Human Resource Management

Audit Observation	Comment of the Management	Recommendation
(i.) Five posts in the senior level had remained vacant as at 31 December 2018, and that included a post of Assistant General Manager, 03 posts of Management Assistant, and a post of Internal Auditor. It was pointed out in the audit queries for the years 2016 and 2017 that action had not been taken to appoint permanent officers to the said posts including the approved post of Internal Auditor. However, without doing so, the Fund had taken action to fill those vacancies on acting basis from September 2018 up to the present day.	All of those officers have met the educational qualifications and subject experience required for the managers. They have been positioned in the post of Acting Manager solely due to lack of 15 year experience mentioned in the Scheme of Recruitment. However, action will be taken to refer to the Department of Management Services, and Salaries and Cadre Commission in order to revise the period of service required for the appointment of a manger in the insurance sector.	Action should be taken to appoint permanent officers.
(ii.) According to Paragraph 13.3 of Chapter II of the Establishments Code, an acting appointment should be made as a temporary measure only and until a substantive appointment is made. If the post continues to require the services of a full-time officer, the substantive appointment should be made without delay. However, acting appointments had been made to 04 posts since September 2018 up to the present day thus, contradicting the requirements of Establishments Code.		Action should be taken to appoint permanent officers.
(iii.) Thirty one posts in the secondary and tertiary levels remained vacant. Action was not taken to fill those vacancies even up to the date of audit on 31 July 2019.	Appointment was made to the post of Assistant Manager with effect from 2019.09.02. Interviews have been held for the post of Risk Management Engineer. Newspaper	Action should be taken to appoint permanent officers.

advertisements have been published calling applications for the post of Actuarial Manager.

Action will be taken to make appointments to the rest of the posts with qualified officers based on the institutional requirements.

- (iv.) As for the 04 vacant posts in the tertiary level, the post of Actuarial Manager, and the post of Engineer in the Risk Division that had been approved in the Scheme of Recruitment in the year 2017, were essentially necessary for the functions of the Fund. The Fund involved in the insurance sector since the year 2006, has not taken action so far to fill those vacancies.
- We have published newspaper advertisements for the post of Risk Management Engineer, and a qualified applicant has been selected. Furthermore, newspaper advertisements have been published calling applications for the post of Actuarial Manager.
- Prompt action should be taken to fill the vacancies of approved posts.