

National Insurance Trust Fund - 2013

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the income statement, and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 17 of the National Insurance Trust Fund Act, No. 28 of 2006. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the extent of the audit.

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

1.4 Basis for Adverse Opinion

Had the matters described in paragraphs 2.2.3 (a),(b) and 2.2.5 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) Although the financial statements for the year 2013 should be prepared in compliance with the new Sri Lanka Accounting Standards in terms of the Sri Lanka Accounting and Auditing standards Act No. 15 of 1995, financial statements had not been prepared in accordance with such requirements. As a transition to Sri Lanka Accounting Standards had not taken place, financial assets or financial liabilities had neither been classified under fair value, nor disclosed in the financial statements based on carrying value
- (b) In terms of Sri Lanka Accounting Standards No.1, an entity should not set off assets against liabilities, unless it is required or permitted by a standard. Nevertheless, Bank balances totalling Rs.360,514,789 in 13 Bank Current Accounts had been set off against Bank overdrafts in 02 Bank Current Accounts totalling Rs.55,162,561.
- (c) Even though property, plant and Equipment owned by the Fund should be revalued in terms of Sri Lanka Accounting Standard No.16, two motor vehicles, costing Rs.9,578,750 of which useful life has expired, but lapsed, had been used at present, had not been revalued and shown in the financial statements at revalued amount.

2.2.2 Accounting Policies

Even though Gratuity provision had been made in the year 2012 only for officers who had completed 05 years of continuous service, gratuity provision had been made in the year 2013 for officers with a service of 01 year. Owing to this, an increase of Rs.5,072,504 in the gratuity provision was observed in the year 2013 as compared with the year 2012. None of the information that should be disclosed on the provisions for gratuity in terms of Paragraph 28 of Sri Lanka Accounting Standard No. 08, had been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the insurance scheme introduced by the Fund for those employed in employment abroad had been terminated with effect from 28 April 2012 compensation totalling Rs.219,928,591 claimed under the said insurance scheme from May 2012 to August 2014 had been paid by utilizing the income received as premiums for other insurance schemes.

(b) A difference of Rs. 5,964,896 between the balance appearing in the cash book as the Bank Account balance amounting to Rs.7,215,904 as at 31 December 2012, and the balance appear cash book mentioned in the bank reconciliation statement amounting to Rs.1,251,008 as at that date. As the difference had been adjusted with the accumulated fund in the year under review , the accumulated fund had been understated by a sum of Rs.5,964,896.

2.2.4 Unreconciled Control Accounts

There were differences of creditor and debtor balances amounting Rs. 38,500,000 and Rs.26,288,162 respectively between bank balances stated in the trial balance / financial statements and the balances in Bank Reconciliation Statements of 04 Bank Current Accounts.

2.2.5 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to the non-submission of evidence indication against each item.

	<u>Subject</u>	<u>Value</u> <u>Rs.</u>	<u>Evidence not made available</u>
(i)	Other receivable cash	871,139,458	Letters of Confirmation of Balances
(ii)	Other payable cash	31,174,057	Detailed Schedules
(iii)	Insurance indemnity Payable	273,060,335	Age Analysis
(iv)	<u>Savings Accounts</u>		
	People's Bank	20,404,203	Account Passbook
	Pan Asia Bank	1,191,137	Account Passbook and Letters of confirmation of Balances
(v)	<u>Current Accounts</u>		
	People's Bank	22,913,768	Bank Reconciliation Statements
	People's Bank	(54,516,844)	
	People's Bank	137,478,867	Letters of confirmation of Balances and Bank Reconciliation Statements

2.3 Accounts Receivable and Payable

Commission on profit amounting to Rs. 12,287,375 payable to Sri Lanka Insurance Corporation for the year 2008 by the Strike , Riot , Civil Commotion, and Terrorism Fund implemented under the Fund remained without being settled since the year 2010 up to the dated of audit , 31 October 2014.

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

The following non-compliances were observed in audit.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliance</u>
(a) Section 6(1) of National Insurance Trust Fund Act, No. 28 of 2006	An officer from the Ministry of the Minister, in charge of the health subject required to be appointed had not been appointed up to 15 January 2015.
(b) Paragraph 9.14 of Public Enterprises Circular No. PED/12 of 02 June 2003	The Fund had not prepared and obtained approval for a Handbook on Administration.
(c) Public Finance Circular No. 441 dated 09 December 2009 as amended by the letter No. PF/Board of Survey /01 dated 17 December 2010 of Director General of Public Finance.	Although the Annual Board of Survey for the year should be conducted and the reports should be submitted to the Auditor General prior to 15 March of the ensuing year, the report had been submitted only on 29 December 2014.
(d) Section 3.1 of Public Enterprises Circular No. 58(2) dated 15 September 2011	Even though such a deduction had not been made from the allowance paid to a member of the Board of Directors withholding Tax of 10 per cent should be deducted from the allowances are paid to the members of the Board of Directors.
(e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka -----	
(i) Financial Regulations 102 and 104	Action had not been taken in terms of Financial Regulations on shortages of 69 items revealed in the Board of Survey conducted on 15 July 2013.
(ii) Financial Regulation 371 (2) (b)	Even though sub imprest granted should be settled as immediately after the completion of the purpose, settlement of advances totalling Rs.23,000 granted in 04 instances , had been delayed for a period of about 30 days.
(iii) Financial Regulation 371(5)	Even though the settlement of sub-imprest balance should not be delayed beyond 31

December of the financial year in which the imprest was granted sub imprest balances totalling Rs.86,000 granted in 07 instances had not been settled even by 31 December 2013.

(iv) Financial Regulation 396 (d)

Action had not been taken in terms of Financial Regulations on 20 cheques valued at Rs. 44,541,842 not presented for more than 06 months since the date of issue as at 31 December of the year under review

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review amounted to a surplus of Rs.4,240,847,242 as compared with the corresponding surplus of Rs.2,083,023,166 for the preceding year. An improvement of Rs.2,157,824,076 in the financial result as compared with the preceding year had been indicated. The improvement had been mainly contributed by the increase of the net income through insurance premiums, receipts of "Agrahara" contributions, and crop insurance income by sums of Rs. 1,048,026,316, Rs. 543,271,321, and Rs. 440,836,600.

3.2 Analytical Financial Review

The income generated by the Strike , Riot , Civil Commotion, and Terrorism Fund being functioned under the Fund, is the main source of income of the Fund. With the war ended, premium income received by the Fund amounting to Rs. 3,926,469,856 in the year 2010 had decreased to Rs.2,543,930,179 in the year 2013 due to the decline in the demand for insurance cover on terrorist acts and the revision of percentage charged relating to terrorist acts.

As the Fund had functioned without Share Capital, the balance of the Accumulated Fund had decreased owing to the contribution of the Fund to the Consolidated Fund. It had been decided at the 58th meeting of the Board of Directors held on 11 March 2011 to separately maintain a reserve of Rs. 10 billion as remedy for the decrease of the balance of the Accumulated Fund. However, the Fund had failed to maintain either the reserve, or the minimum balance of the Accumulated Fund in the preceding years. The balance of the Accumulated Fund in the year 2010 amounting to Rs.9,695,467,155 had decreased to Rs.6,942,528,728 by the year under review.

3.3 Transactions of Contentious Nature

A person over 68 years of age had been appointed as an Assistant Manager (Discipline and Investigations on Compensation) on contract basis for a period of 06 months on 27 July 2010. The said person had been appointed as an Investigation Officer on the recommendation of the Board of Interview made on 22 June 2010 in such a manner that he would not be entitled to any leave, and allowances would be paid based on assignments. However, this person had been appointed to a post of Administrative and Human Resources Instructor without formal

approval by providing him with a monthly salary of Rs. 27,500 and fringe benefits. His contract period had been extended by periods of 06 months from the date of appointment to 31 December 2014 on his request.

4. Operating Review

4.1 Performance

The progress of activities carried out by each Division of the Fund is as follows.

- (a) The Fund had introduced an insurance scheme for the Sri Lankans who proceed abroad by registering under Sri Lanka Bureau of Foreign Employment. The insurance scheme had been maintained by the Fund from 01 June 2008 to 28 April 2012 in accordance with a Memorandum of Understanding entered into between the Fund and the Sri Lanka Bureau of Foreign Employment by earning a total net income of Rs.247,378,731. The insurance scheme had been ceased by then on the ground that the Fund had been informed by Sri Lanka Bureau of Foreign Employment, being a party involved in the agreement, on 30 March 2012 that the agreement would be terminated. However, the Fund had not taken any step to implement a methodology by conducting discussions with the relevant parties in order to proceed with the insurance scheme that had functioned in a manner beneficial to the Fund.
- (b) A group insurance scheme had been introduced by the Fund for members of Parliament. Even though the Fund decided on the annual insurance premiums a proper methodology in that regard had not been devised. According to the information presented to audit, benefits totalling Rs.7,898,710 exceeding the annual insurance premiums of the years 2012 and 2013 had been paid.
- (c) The Fund had introduced the Crop Insurance scheme in accordance with a budget proposal in the year 2013 in order to protect the cultivations of paddy farmers from drought, floods, and wild elephants. The Budget Circular No. BD/EF/118/01/BP/2013 dated 21 June 2013 necessitated that it was compulsory for all the paddy farmers to be insured. The premiums of the scheme are to be recovered at the time of fertilizer purchased by farmers by Agrarian Services Centers, and Cooperative Societies, and the cash collected should be remitted weekly to an account of the National Insurance Trust Fund. However, the Fund had not introduced a proper methodology in order to ascertain whether all of the cash collected from the farmers were banked weekly. Furthermore, out of 68,359 applications for indemnity received by the Fund as at 16 September 2014 due to damage caused to crops by the drought in Maha season, payments for 15,240 applications only had been finalized. As payments were yet to be made for 53,119 more applications, it was observed that the Crop Insurance scheme was losing its goodwill, and hence, the expected goals could not be achieved.
- (d) A methodology to ascertain the accuracy of premiums collected and remitted by various institutions in connection with Agrahara Insurance scheme operated by the Fund had not been introduced, and action required for collecting the premiums promptly had not been taken. Also, action had not been taken to check whether all employer institutions had been insured under this scheme.

(e) The Fund had commenced a motor vehicles insurance scheme for all motor vehicles owned by Government institutions since the year 2008, and a motor vehicles insurance scheme for privately owned motor vehicles with effect from 01 September 2009. Despite the Public Finance Circular No. PF 437 dated 18 September 2009 informing the Government and Semi Government Institutions that insurance cover for their motor vehicles should be obtained either from National Insurance Trust Fund or Sri Lanka Insurance Corporation, it had been decided at the meeting of Board of Directors held on 18 February 2013 to restrict the insurance scheme to other institutions except the Public Enterprises. Comparison of the number of motor vehicles owned by Government Institutions and privately owned and the premium collected thereon during the year 2009 to 2013 revealed that the number of motor vehicles owned by Government Institutions insured in the year 2013 and the premium collected thereon as compared with the year 2009 had decreased by 7,321 motor vehicles or 45 per cent and the annual income had decreased by Rs.158 million while the number of privately owned motor vehicles insured in the year 2013 as compared with the year 2011 had decreased by 2,736 motor vehicles and the annual income had decreased by Rs.9 million.

4.2 Staff Administration

The approved staff, actual number, and number of vacancies of the Fund as at 31 December 2013 had been as follows.

<u>Category</u>	<u>Approved Number</u>	<u>Actual Number</u>	<u>Number of Vacancies</u>
Senior Level	12	02	10
Tertiary Level	16	16	0
Secondary Level	144	126	18
Primary Level	<u>24</u>	<u>18</u>	<u>06</u>
Total	<u>196</u>	<u>162</u>	<u>34</u>

The following observations are made.

- (a) The number of vacancies of the Fund as at 31 December 2013 had been 34, or 17 per cent of the approved posts. This included 10 posts of the senior level management including the Chief Executive Officer of the Fund.
- (b) Even though the Department of Management Services had approved the cadre of the Fund by the letter No.DMS/C2/2/44 dated 07 September 2012 for the implementation of the provisions in the Management Services Circular No.30, the Fund had not been taken action to fill the above vacancies despite the elapse of 02 years since that date.
- (c) Nine posts including Regional Branch Manager had been filled with temporary appointments without proper approval.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Although the draft annual report and the financial statements should be presented to audit within 60 days after the close of financial year in terms of Section 6.5.1 of Public Enterprises Circular No. PED 12 dated 02 June 2003, the financial statements for the year 2013 had been presented only on 30 June 2014.

5.2 Budgetary Control

As a variation ranging from 29 percent to 2557 per cent between budgeted and actual expenses were observed, the budget had not been made use as an effective instrument of management control.

5.3 Internal Audit

The post of Manager (Internal Audit) had remained vacant since the inception of the Fund. The officers attached to the Unit had been covering the operations of a single field such as, checking on the accuracy of payment of benefits in the Agrahara Insurance Division. Hence, the Internal Audit of the Fund had further remained weak.

6. Systems and Controls

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

- (i) Payment of insurance Benefits
- (ii) Assets Management
- (iii) Accounting
- (iv) Staff Administration
- (v) Granting Advances