National Insurance Trust Fund - 2014

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, statements of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13 (1) of the Finance Act, No. 38 of 1971 and Section 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 Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of 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 Qualified Opinion

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

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) Even though the current and non- current assets and liabilities should be classified in the financial statements in the order of liquidity by the Entity in terms of Sri Lanka Accounting Standard 01, action had not been taken by the Fund accordingly.

(b) Even though provisions should be made in order to ensure the real position as much as possible through past experience and trends in the identification of insurance claims expenses in terms of Sri Lanka Accounting Standard 04, an over provision of Rs.24,096,208 had been made in the year under review.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) Even though the market value of 04 motor vehicles had been revaluated as Rs.15,400,000 of the net value of which was Rs.9,501,597, only their effective lifetime of the motor vehicles had been re- estimated, bringing to account showing that value of the motor vehicles.

(b) The Rent Expense and contributions to the Employees Provident Fund had been overstated by Rs.1,500,000 and Rs.546,183 respectively in the year under review, due to Rent Expense and the contributions to Employee Provident Fund being brought to account on cash basis.

(c) An overprovision of Rs.189,946 was observed in the year under review due to erroneous calculation of Employee Gratuity provision.

2.2.3 Lack of Evidence for Audit

Letters of confirmation of balances for the receivable premium income amounting to Rs.718,919,253 with regard to general, reinsurance and other divisions of the Fund and detailed schedules and letters of confirmation of balances with regard to other financial liabilities amounting to Rs.68,675,128 were not made available to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) As the crop insurance operated by the Fund had been vested in the Agricultural and Agrarian Insurance Board since the maha season of 2014, a sum of Rs.11,904,463 out of the estimated premium amounting to Rs.50,000,000 payable to the Board remained payable even by 31 December 2015.

(b) A sum of Rs.11,928,811, which had been granted approval by the Committee appointed to refund premiums paid by the insurance companies to Strike, Riot, Civil Commotion and Terrorism Fund, at the time where they were demanded, to be refunded due to various reasons could not be settled further due to non- presentation of the documents necessary to settle that amount.

(c) Action had not been taken to settle dishonoured cheques amounting to Rs.757,980 which had been unsettled for periods over 1 to 4 years even by 31 December 2015.

(d) Action had not been taken to recover a sum of Rs.859,655 receivable relating to the Agrahara Insurance Division which had been brought forwarded since three years, from the relevant parties.

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

The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, and Regulations	Non-compliance
(a) Regulation of Insurance Industry Act (No.43 of 2000)	
(i) Section 7(1)	Even though a cess should be paid to the Sri Lanka Insurance Trust Board by the Fund on the annual net premium income of every insurer from time to time by Order published in the Gazette by the Minister with the agreement of the Board as determined by the concurrence, a sum of Rs.56,829,739 had been payable relating to the years 2011 and 2012 and any amount had neither been provided or been recovered for the years 2013 and 2014.
(ii) Section 16(1)	Even though every insurer should pay an annual fee to the Sri Lanka Insurance

		Board such sum of money as may be prescribed, a sum of Rs.10,349,888 in relation to the period from 2011 to 2014 was payable by the Fund to the Board, according to the records of the Board.
(b)	Chapter 9.14 of Public Enterprises Circular No.PED/12 of 02 June 2003	Even though the consent of the Secretary to the Treasury should be obtained after obtaining the approval of the Board of Directors by preparing a handbook of administration including rules and regulations relating to Human Resource Management the approval of the Secretary to the Treasury had not been obtained in terms of the Procedure Rules operated by the Institution.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2014 amounted to a surplus of Rs.4,582,655,586 as compared with the corresponding surplus of Rs.4,239,427,182 for the preceding year. There was an improvement of Rs.343,228,404 in the financial result as compared with the preceding year. Even though the net benefits and payments of claims and expenditure of acquisition had been increased by Rs.1,823,900,049 and Rs.312,593,232 respectively, the increase of the Gross Premium Income, crop insurance income and "Agrahara" contributions by Rs.1,674,034,223, Rs.743,810,655 and Rs.88,193,134 had been mainly contributed to the improvement of the financial result.

4. Operating Review

4.1 Performance

The following observations are made.

(a) In terms of National Insurance Trust Fund Act No.28 of 2006 the main objective of the establishment of the Fund was to implement insurance schemes for the vulnerable groups of the society. Even though plans had been prepared for the fulfillment of the above objective, the Fund had not taken action to implement such insurance schemes until the date of audit.

(b) It had been informed by Public Finance Circular No.PF/437 of 18 September 2009 that all Government and Semi- government institutions should obtain the motor vehicles insurance only from the National Insurance Trust Fund and the Sri Lanka Insurance Corporation, in accordance with their needs; even though 9,158 motor vehicles of the public sector had been insured in the year 2013 it had been reduced to 6,206 or, by 32 per cent in the year 2014. As a result, the insurance income had been reduced to Rs.39 million. Similarly, even though 22 motor vehicles had been insured in the year 2013, the Fund had not achieved any progress in respect of motor vehicle insurance as none of the motor vehicles had been insured in the year 2014.

(c) Collection of crop levy recovered from banks, financial companies and insurance companies had been vested to the Fund in accordance with the Gazette Extraordinary No.1824/23 of 23 August 2013 but the guidance in respect of the utilization of that money had not been received by the Fund. However, the Fund had taken action to pay crop insurance compensation claims from this levy as there was no sufficient money in the account. The income received to the Fund by recovering crop levy that could not be paid in the years 2013 and 2014 had been Rs.440.8 million and Rs.1,184.6 million respectively.

4.2 Management Inefficiencies

It was observed in audit that the insurance activities had been conducted in accordance with the procedures adopted by other insurance companies as guidelines had not been formulated even until 31 December 2014 by the Fund for the implementation of insurance schemes/reinsurance activities under the motor vehicles, non- motor vehicles and various other categories of insurance. As such, an approved methodology had not been implemented for insurance activities by this Fund which performs as the reinsurer in Sri Lanka, despite a considerable period of time had elapsed after the commencement of its business activities.

4.3 Operating Inefficiencies

The Fund had not taken action to maintain a data base about all Officers of the Public Service and Provincial Public Service or a proper methodology in order to ensure whether “Agrahara” contributions recovered from salaries of the Officers for the “Agrahara” Insurance Scheme introduced with the objective of granting equal and more benefits to Officers of the Public Service and the Provincial Public Service by the Budget Proposals of the year 2005, had been received to the Fund on due date and to ensure the accuracy of payments of benefits.

A sum of Rs.69 is paid monthly to the Fund as a contribution for each Officer for the payment of “Agrahara” benefits, is stated in the Public Administration Circular No.12/2005(ii) of 18 May 2005. However, it could not be ensured in audit whether the Government’s contribution receivable to the Fund in the years 2012, 2013 and 2014 had been properly received due to paying only an agreed amount without concerning about the number of employees, as the Fund had not accurately identified the number of members in making the Government’s contribution by the Treasury to the Fund.

4.4 Identified Losses

The Fund had taken action to introduce an Electronic card system without conducting a feasibility study with the objective of provision of hospitalizing facilities for Public Servants from the year 2011 without payment of deposits under the “Agrahara” Scheme. The following observations were made in this regard.

(a) A total cost estimate inclusive of all related expenses necessitated to be prepared in accordance with Sub- sections (a) and (c) of Paragraph 4.3.1 of the Procurement Guidelines 2006 had not been prepared for this project by the Fund and the Procurement Committee had also not been appointed in accordance with the relevant guidelines.

(b) Even though quotations were received from three suppliers for this project the relevant contract had been awarded to a private institution which had presented the Second Minimum quotation of Rs.21,820,000. However, acceptable reasons for the rejection of the first minimum quotation had not been included in the recommendations. According to the information presented to audit, the total amount spent for this project had been Rs.10, 999,000.

(c) A sum of Rs.4,364,000 as mobilization advances for the purchase of 650,000 Electronic cards and 20 Electronic card reading machines and payments totalling Rs.6,025,000 had been made in the years of 2011 and 2012 in three instances as part payments by the Fund. However, according to the information furnished to audit a sum of Rs.855, 210 had been overpaid for 28,370 Electronic cards as only 221,630 Electronic cards were received to the Fund.

(d) The preparation of complete data base in relation to beneficiaries had not been completed by the Fund and it was informed the audit that data of 477,000 members had been computerized by 14 September 2015 and 212,969 cards had been distributed to Officers by now. However, it was informed to audit that a situation had prevailed that the cards could not be issued to the beneficiaries as the supplier had stopped printing of cards by now.

(e) It was informed to audit that even though it had been planned to install these card reading machines in 9 main hospitals, it could not be fulfilled due to the change of the management of the Fund by that time.

4.5 Personnel Administration

There had been 20 vacancies by the end of the year under review and an expenditure amounting to Rs.515,255 had been spent for the publication of newspaper advertisements for the recruitment of six posts out of those vacancies. Even though 09 applications for the post of Internal Auditor and 12 applications for the post of Assistant Manager (Finance and Corporative Services) respectively, had been received, those recruitment had not been made for the post of Assistant Manager (Insurance) in the year 2014 this post had again remained vacant by 30 April 2015.

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 under review had been presented only on 23 October 2015.

5.2 Budgetary Control

As variations ranging from 29 percent to 1176 per cent between the budgeted and actual expenses were observed, the budget had not been made use of as an effective instrument of management control.

5.3 Unresolved Audit Paragraphs

It had been decided by the Cabinet of Ministers to provide a sum of Rs.1,500 million under a 2 per cent concessionary interest rate from Strike, Riot, Civil Commotion and Terrorist Fund, managed by the Fund for the restoration of Commercial institutions damaged by Terrorist bomb explosions in the years 1996 and 1997 around Colombo Fort area. As Rs.1,789.48 million had been given to 07 institutions in 19 instances, a sum of Rs.289.48 million had been given as loans in excess of the approved limit. The following observations were made in this regard.

(i) Of this loan the amount recoverable by 31 December 2014 was Rs.188.2 million and the interest amounting to Rs.79,261,218, with regard to the loans provided to a private company in 5 instances including a sum of Rs.11,669,029 with regard to a loan provided to that company had been written off on the agreement, after a discussion held with the Board of Directors of the relevant company and with the Officers of the Ministry of Finance without referring it to the Cabinet of Ministers.

(ii) Action had not been taken to refer to the Cabinet of Ministers for the granting of approval to write off the capital amounting to Rs.111.53 million payable by 31 August 2013 out of the loan amount granted to another private company under concessionary conditions, 50 per cent out of the premium of Rs.10.81 million which remained outstanding as at that date and the remainder of the premium if payments had been fully made on or before 31 August 2013.

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) Control of Expenditure
(ii) Accounting
(iii) Provision for Gratuity
(iv) Deposits Receivable and Payable