

Agricultural and Agrarian Insurance Board - 2015

The audit of financial statements of the Agricultural and Agrarian Insurance Board for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement 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 28 of the Agricultural and Agrarian Insurance Board Act, No. 20 of 1999 and Section 13(1) of the Finance Act, No. 38 of 1971. My comments and observations which I consider should be published with the Annual Report of the Board 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board'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 Board'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 the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No 38 of 1971 give discretionary powers to the Auditor General to determine the scope and 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 effects of 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 Agricultural and Agrarian Insurance Board as at 31 December 2015 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 Comply with Sri Lanka Accounting Standards (LKAS).

The following observations are made.

- (a) **LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors;** Net effect of 03 prior year adjustments amounting to Rs.22,006,328 had been adjusted to the fund account in the year under review without adjusting retrospectively.
- (b) **LKAS 16 - Property Plant and Equipment;** Thirteen fully depreciated motor vehicles are being used by the Board without being recalculated their useful life time in terms of Section 51 of the Standard.
- (c) **LKAS 19 – Employee Benefits;** Even though the actuarial valuation of Rs.38,190,657 for the contribution to the retirement benefit plan had been made, the contribution had not been invested by the Board in order to discharge the future obligation under a defined benefit plan.
- (d) **LKAS 39 - Financial Instruments;** Staff loans aggregating Rs.33,335,241 had not been recognized as a financial asset in the financial statements.

2.2.2 Accounting Deficiencies.

The following accounting deficiencies were observed in audit.

- (a) A profit of Rs.1,545,000 arrived from disposal of a vehicle in the year 2016 had been erroneously included in the income for the year under review. As such, the income for the year under review had been overstated by similar amount.
- (b) Commission expenses amounting to Rs.8,325,661 had been overstated by Rs.204,755 due to a computation error.
- (c) Paddy Insurance income of Rs.79,873,594 had been understated by Rs.5,826,623 due to delay in remitting the income to the Board that have already been collected by the banks and Agrarian Service Centers during the year under review.
- (d) A building purchased at a cost of Rs.70,000 in the year 1986 and a motor vehicle transferred by the Ministry of Finance and Planning in the year 2014 had been omitted in the financial statements.

2.2.3 Accounts Receivable.

The following observations are made.

- (a) A loan of Rs.331,963,805 given to the Farmers Pension Scheme for the payment of the farmers pension and interest thereon for the years from 2010 to 2014 had not been recovered even up to the end of the year under review.
- (b) Non-performing loans and advances aggregating Rs.1,056,109 had remained in the accounts for a long period without taking actions to recover those loans and advances from the respective parties.
- (c) Outstanding salary amounting to Rs.342,023 to be recovered from two employees released to the Ministry of Sports and the Ministry of National Language and Social Integrity during the years 2010 and 2011 respectively had not been recovered by the Board even up to 31 December 2015.

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

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations etc.

Non-Compliance

Government Procurement Guidelines – 2006

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| (i) Guideline 3.6 | According to the provisions in the guideline, only 50 per cent of the original contract value should be procured under repeat order method. Even though the original contract value was Rs.168,000, twenty one desktop computers valued at Rs.1,764,000 had been purchased during the year under review exceeding the original contract value by Rs.1,596,000. |
| (ii) Guideline 8.12.1 (b) | Action had not been taken to independently check the quality of 21 computers purchased during the year under review before accepting them. |

3. Financial Review.

3.1 Financial Results.

According to the financial statements presented, the operations of the Board for the year under review had resulted in a surplus of Rs.8,768,542 as compared with the corresponding

surplus of Rs.25,381,952 in the preceding year, thus indicating a deterioration of Rs.16,613,410 in the financial result. Even though the total revenue had increased by Rs.1,033,540,664 during the year under review, the increase of operating and administrative expenses by Rs.1,040,579,591 and Rs.34,945,381 respectively were the main reasons attributed for this deterioration in the financial results of the year under review.

3.2 Analytical Financial Review.

According to the financial statements and information made available for audit, the deficit for the preceding three years and the year under review before taking into the consideration of the Government grants had gradually increased. Details are shown below.

	2015	2014	2013	2012
	Rs.000	Rs.000	Rs.000	Rs.000
Total Income	1,163.8	124.6	109	139
Total Expenditure	1,248	171.9	260	217
Deficit Before Government Grant	(84.2)	(47.3)	(151)	(78)
Government Grant	93	72.7	69	63
Surplus/(Deficit) After Government Grant	8.8	25.4	(82)	(15)

According to the above information it was revealed that the ability to continue its operations by the Board without the financial assistance of the General Treasury is in doubt.

4 Operating Review.

4.1 Performance.

The following observations are made.

- (a) The main objectives of the Board are to provide insurance for agricultural and horticultural crops and medicinal plants, livestock, fisheries and forestry, agricultural equipment and implements and the storage and preservation of agricultural and horticultural produce and the products of medicinal plants, fisheries and forest produce and to provide medical benefits and social security schemes for agriculturists.

According to the Action Plan for the year under review, the following table shows the physical and financial performance of the Insurance Schemes which implemented by the Board in order to achieve the above objectives.

Name of the Insurance Scheme	Measurement	Target				Achievement				Achievement as a percentage of Targets			
		Physical		Financial		Physical		Financial		Physical		Financial	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
				Rs.(000)	Rs.(000)			Rs.(000)	Rs.(000)	%	%	%	%
1. Crop Insurance													
(a) Paddy	Acre	85,000	81,825	96,630	90,740	56,211	50,851	76,020	65,321	66.13	62.15	78.67	71.99
(b) Subsidiary Crops	Acre	23,000	24,000	47,300	48,165	13,759	16,550	24,456	34,241	59.82	68.96	51.70	71.09
2. Livestock Insurance	Nos.	19,900	18,450	28,767	28,250	6,007	7,287	9,861	12,057	30.10	39.50	34.27	42.68
3. Stores Insurance	Nos.	108	427	1,450	2,900	0	17	0	238	0.00	3.98	0.00	8.21
4. Agri Equipment Insurance	Nos.	1,632	2,382	7,425	12,000	35	55	135	245	2.14	2.31	1.80	2.04
5. Suwasetha Life Insurance & Third Party Insurance	Nos.	48,760	50,300	28,179	29,935	17,686	11,289	15,679	7,739	36.27	22.44	55.64	25.85

The following observations are made in this regard.

- (a) The Board had not drawn its attention on providing insurance for fisheries and fisheries and forest products even in the year under review.
- (b) The achievement of physical and financial targets of the Insurance Schemes of the year under review such as Livestock Insurance and Agri Equipment Insurance, were less than 35 per cent and 3 per cent respectively.
- (c) Even though the physical and financial targets for Stores Insurance were set out, no insurance coverage had been provided during the year under review.

4.2 Idle or Underutilized Property, Plant and Equipment.

Two quarters in Badulla and Embilipitiya had been idle for more than 10 years without carrying out required repairs.

4.3 Human Recourses Management.

The following observations are made.

- (a) Actions had not been taken to fill 07 vacancies in staff grade even up to the end of the year under review after obtaining required approval from the Department of Management Services.
- (b) Four officers had been appointed on contract basis for the post of Business Development Manager in order to implement Third Party Insurance Scheme without obtaining approval from the Department of Management Services. Further, this post had not included in the approved cadre of the Board and a monthly allowance of Rs.75,000, fuel allowance equal to 250 Liter and a commission of 0.5 per cent on the income collected by them had been paid to these officers without obtaining approval from the General Treasury.
- (c) Actions had not been taken to obtain the approval from the Department of Management Services for the amended cadre and the recruitment and promotion procedure approved by the Board on 30 July 2015 to address the future human resources needs.

4.4 Weaknesses in Financial Management.

The following observations are made.

- (a) Although the total insurance premium collected by the banks on behalf of the Board had to be directly remitted to the collection account maintained at the Head Office without deducting the commission as per the Circular No.391 of 11 September 2003 issued by the Chairman of the Board, net insurance premium totalling Rs.1,513,764 had been remitted by 14 bank branches to the Head Office through district offices after deducting commission of Rs.63,073.

- (b) It was observed that the insurance premium aggregating Rs.3,897,881 remitted to 05 district offices by the banks had been forwarded to the Head Office collection account with a delay ranging from 30 days to 133 days.
- (c) According to the instruction given by the Chairman, the insurance premium collected and deposited at Agrarian Service Centers by Agricultural Research and Development Officers had to be remitted to the Head Office collection account within 07 days of collection. However, sums aggregating Rs.275,100 had been remitted to the Head Office collection account with a delay of 35 days to 118 days.

4.5 Management Inefficiencies.

The following observations are made.

- (a) Actions had not been taken to fill 126 vacancies in 12 posts even after receiving the approval of the Department of Management Services and interview for one post was held. It was further observed that a sum of Rs.518,825 had been incurred for the paper advertisements and other activities regarding the interviews held. In the meantime another decision had been taken by the Board in the year 2015 to re advertise the recruitment notice of these posts. Accordingly, an amount of Rs.318,209 had been paid in two instances during the year under review to advertise 03 posts out of 12 posts which had advertised earlier. However, these 03 posts too had not been filled even up to 30 June 2016.
- (b) A sum of Rs.2,467,311 had been incurred from the year 1989 to 2015 for the improvement of District Offices building in Embilipitiya and Thambuttegama which situated at the land belonging to the Mahaweli Authority of Sri Lanka. Further, it was revealed that the Mahaweli Authority of Sri Lanka had claimed a sum of Rs.2,330,750 as accumulated annual rent and penalty for the period of 1986 to 2014 relating to Embilipitiya land.

5. Accountability and Good Governance.

5.1 Internal Audit

It was observed that 04 posts out of 07 posts in the approved cadre of the Internal Audit Division were remained vacant since the year 2012. As a result, internal audit in 38 areas identified and included in the annual audit programme for the year under review had not been carried out the within the year under review.

6. Systems and Controls.

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

Control Area	Observation
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(a) Accounting.	Weaknesses in revenue recognition.
(b) Insurance Income.	Non-compliance with the approved systems in income collection.
(c) Accounts Receivable.	Weaknesses in recoveries.
(d) Assets management.	Underutilization of assets.
(e) Human Recourses Management.	Unauthorized appointments and delays in filling existing vacancies.