

## **National Insurance Trust Fund - 2015**

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The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2015 comprising the statement of final 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 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 the 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**

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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**

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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 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 Section 14 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**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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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 National Insurance Trust Fund 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 Accounts**

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#### **2.2.1 Sri Lanka Accounting Standards**

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According to the Sri Lanka Accounting Standard 01 an entity should not set off assets and liabilities or income and expenditure against each other unless otherwise allowed, required or permitted by a Standard. Nevertheless the unidentifiable Value Added Tax Receivable (VAT)- Motor, existing over a number of years and the Value Added Tax payable balances had been set-off against each other and the further balance amounting to Rs.8,452,926 had been credited to the Value Added Tax Payable-Motor Account.

#### **2.2.2 Accounting Deficiencies**

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The following observations are made.

- (a) The balances of 04 unidentifiable accounts existing from the period from the year 2010 to the year 2012 totalling Rs.1,860,990 pointed out by the Audit in the year 2014 and the balances of 09 other accounts totalling Rs.3,385,401 had been transferred to the Suspense Account in presenting the draft financial of statements and those balances had been transferred again to the former accounts in the final financial statements without settling those balances.
- (b) The net balance of 04 accounts receivable and payable among the Divisions of the Fund amounting to Rs.4,668,866 had been adjusted to the Retained Earnings in the final financial statements with being identified and settled.
- (c) The sum of Rs.2,489,103 representing employees' loan balances, shown as receivable to the Fund in the year 2014 from the Terrorist Funds Division on Strikes, Riots and Civil Commotions implemented under the Fund had been erroneously shown as the installment income in the amended financial statements of the year under review.

- (d) Out of the interest income on debentures under the Note No.03 to the financial statements Withholding Tax totalling Rs.46,121,820 relating to the years 2010 to 2014 had been shown as a deduction from the income tax of the amended financial statements of the year 2015 without formal approval.
- (e) Action had not been taken up to date for the identification of a sum of Rs.29,328,516 out of the sum of installment advances totalling Rs.71,632,037 received for the insurance of motor cycles provided to the Public Officer included in the other financial liabilities under Note No.15 of the financial statements for the year under review.

### 2.2.3 Lack of Evidence for Audit

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The evidence indicated against each of the following items had not been furnished to audit.

	Item	Value Rs.	Evidence not made available
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(a)	Premium Income Receivable	1,043,806,532	Confirmation of Balances
(b)	Other Financial Assets	32,307,438	} Letter of Confirmation of Balances
(c)	Other Financial estimates	193,756,079	
(d)	Cancellation of Invoices Receivables and credit cards payable	92,421,039	Approval

### 2.3 Accounts Receivable and Payable

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The following observations are made.

- (a) According to the Finance and Planning Circular No.DFD/Circular/2014/03 dated 10 December 2014, the operation of Crop Insurance from the Maha Seasons 2014 had been vested in the Agricultural and Agrarian Insurance Board. But the premiums recovered from the farmers in the Maha Season had been credited to the Account of the Fund by the Agrarian Service Centres. Out of the premiums so credited, a sum of Rs.42,520,846 had been estimated and brought to account as settled to the Agricultural and Agrarian Insurance Board. Out of that a sum of Rs.4,425,709 only had been settled even up to 30 June 2016, the date of audit. Even though that Insurance scheme is no more under the Fund at present, the receipt of the premiums to the Fund and the payment of the claims therefrom without being vesting that work in the respective institution is a contentious matter in audit.

- (b) It was observed in that the refund of premiums paid by the Insurance Companies for the Strikes, Riots, Civil Commotion and Terrorist Fund, are made by the Insurance Companies due to various reasons and that the Fund submits these claims to a Working Committee for consideration and a sum of Rs.14,482,746 so approved by the Committee for refund had not been settle by the Fund even up to the date of audit.
- (c) According to the Section (VII) of Stage of the Procedure of the Payment of claims of the Strikes, Riots, Civil Commotion and Terrorist Fund, the considering motor vehicle claims the additional claim reimbursement for each claim in accordance with the Motor XL provision amounts to Rs.10 million per year, even though the approval of the Technical Consultation Committee had been received in excess of Rs.10 million unsettled claims amounting to Rs.36,376,284 had been included in the financial statements as the institutions had not produced the documents. Out of that amount, a sum of Rs.24,966,409 comprised balances older than 3 years.
- (d) The Fund had not taken action for the settlement of debit balances amounting to Rs.75,752,260 and the credit balances amounting to Rs.48,092,753 older than 03 years receivable from 08 Insurance Companies and 05 Insurance Companies respectively included in the premium Income receivable of the Reinsurance Division.

#### **2.4 Unexplained Differences**

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Differences of Rs.1,442,422 existed as at 31 December 2015 between the Staff Distress Loan Account and the Schedules .

#### **2.5 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

#### **Reference to Laws, Rules, Regulations, etc.**

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#### **Non-compliance**

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| (a) Insurance Industry Regulatory Act No.43 of 2000 Section 49 | Even though every Insurer should furnish quarterly periodical Reports including the certified copy of the report prepared in relation to the business of the Insurer and other information made for that purpose to the Sri Lanka Insurance Board, the Fund had not furnished such reports or the compliances certification for the year 2015 to the Board. |
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| (b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka<br>Financial Regulation 135 | The limits for making payments by a State Institutions should be fixed and such levels of authority should be authorized by the Board of Directors and that should be reviewed annually. Nevertheless, it was observed that the Fund is using at present the Authority limits approved by the Board Paper No.77-04 dated 14 March 2012.  |
| (c) Public Enterprises Circular No.PED/12 of 02 June 2003 - Section 9.14                                | Even though the Board of Directors had been informed in the year 2015, to resubmit the Handbook on Administration of the Fund submitted for the approval of the Secretary to the Treasury it had not been responded by the Board even up to June 2016.   |
| (d) Public Enterprises Circular No.PED2/2015 of 25 May 2015   | Even though it was stated that in the event of obtaining residential telephone, mobile phones or Internet Facilities the cost incurred on equipment and accessories should be borne by the officer concerned, a sum of Rs.562,609 from the money of the Fund had been spent in the year 2015 for the purchase of 18 mobile phones. Instead of determining the specifications are inviting quotations it was observed that purchases of mobile phones had been made as required by each officer and without determining the limits of prices of telephones to be provided to each post. |

**3. Financial Review**  
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**3.1 Financial Results**  
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According to the financial statements presented, the financial result of the Fund for the year ended 31 December 2015 amounted to a surplus of Rs.,4,303,324,331 as compared with the corresponding surplus of Rs.4,582,655,586 for an preceding year thus indicating a deterioration of Rs.279,331,255 in the surplus for the year under review as compared with the preceding year. The increase of expenditure on payment of net benefits and claims and the write offs and acquisitions amounting to Rs.853,870,734 and Rs.251,862,336 respectively and the decrease gross premium income by Rs.84,142,667 had mainly affected the decrease in the year under review.

**4. Operating Review**  
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**4.1 Performance**  
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According to Section 12(a) of the National Insurance Trust Fund Act No.28 of 2006, the objectives of the Fund and the provision of benefits and Security through a Contributory Insurance Scheme operated by the Fund in cases of unexpected health risks, personal accidents and damage to property appropriate in the circumstance to -

- (i) The Public Officers, the officers of the Provincial Public Service the Officers of the Local Government Service and the persons at present receiving a pension from the Government, the Provincial or the Local Government Service after retirement from the Public Service, the Provincial Public Service and the Local Government Service as the case may be,
- (ii) The Samurdhi Beneficiaries in terms of the Sri Lanka Samurdhi Authority Act, No.30 of 1995 and their families.
- (iii) The farmers, the fishermen and the person engaged in self-employment, and
- (iv) The persons or groups of persons with needs that may be identified by the Minister from time to time on the recommendation of the Fund.

The following observations are made in connection with the achievement of the above objectives.

- (a) According to the National Insurance Trust Fund Act, No.28 of 2006, the implementation of Benefit Schemes and Insurance Scheme by the Government for Samurdhi Subsidy Recipients who face greater risks in the society is included in the primary objectives of the establishment of the Fund. Even though the audit was informed in the preceding year that an insurance scheme for the Samurdhi Subsidy Recipients was being prepared, it is still not in the implementation stage.
- (b) Even though the Fund expected to develop and implement Guidelines on the allocation of compulsory 30 per cent for re-insurance by the Insurance Companies, that Manual had not been brought to the operating stage even by September 2016.
- (c) As envisaged in the Action Plan for the year 2015 the Fund had made available the opportunity to the Insurance Companies to examine from the Web Sites of the Fund the payment of re-insurance Claims through the Consumer Friendly Compensation Payment Process. According to the information furnished to Audit, if the Insurance Companies furnish the quarterly financial statements as specified in the Draft New Guidelines relating thereto, a methodology had been introduced for furnishing documents only for the claims for Rs.50 million or exceeding that amount. Nevertheless, it had not been implemented even by 08 October 2016, the date of audit as the Guideline had not been approved in the year 2015.
- (d) Even though the formulation of an efficient and effective income collection mechanism in the year 2015 had been expected, it had not been implemented as the Draft Guidelines had not been approved.
- (e) Even though the automation of the reinsurance, premium income and the payment of claims had been expected for completion during the year under review, it had not been finalised. As such it had not been possible to obtain the monthly reports of the Reinsurance Division even by 19 September 2016, in date of audit.

**(f) Agrahara Insurance Scheme**  
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The following observations are made.

- (i) Even though a period of more than 10 years had elapsed after the introduction of the Agrahara Insurance Scheme in order to provide more benefits to the officers of the Public Service and the Provincial Public Service, National Insurance Trust Fund had not maintained a database containing the information(including the recovery of the monthly premium) of each member.
- (ii) It was observed that the payment of benefits to the members is done only on the monthly total amount of the benefits sent by the Government Institutions. During the course of the test check carried out, it was observed from the computer information of the Fund, that out of 38 officers of 06 Departments of the Treasury, 21 officers had not registered and obtained the membership even as an Electronic Card Member.
- (iii) The Fund is not aware of any transfers of Public Officers from Department to another Department or Institute and the Fund had failed up to 31 December 2016, the date of audit, to build up a methodology for obtaining the reports on the transfer notices for the confirmation of such positions.
- (iv) According to a systems audit carried out by a Private Audit Firm from May to June 2016, the existence the risk of payment of benefits to the members who had not obtained the contributory status to Agrahara due to the absence of methodology for establishing the receipt of contributions of the members, the low level of reliability of registered and recorded data, the possibility of submitting rejected claims again for payment without approval and the non-updating of the data of members had been reported.

**4.2 Transactions of Contentious Nature**  
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According to an agreement entered into with the Sri Lanka Bureau of Foreign Employment, the Insurance Scheme for persons in Foreign Employment implemented with effect from 01 June 2008 had ceased with effect from 28 April 2012. Even though the premium income for this Insurance Scheme had not been received after 28 April 2012, the Fund had to pay the claims after that date as the agreement entered into before the above date was relevant to a period of 02 or 03 years. The unearned income out of the premiums received for the purpose had not been separated annually and all the money received had been brought to account as income during the year of receipt. Nevertheless, payment of claims for the Rs.4,526,669 had been made in the year 2015 and the files or the vouchers relating to claims paid amounting to Rs.1,640,118 included therein had not been produced for audit.

The Following observations are made.

- (a) In making the payment of a claim by the Fund, it is submitted to a Committee and the payments had been made on the recommendation/ approval of the Committee. Nevertheless, the Committee approval for the payment of claims amounting to Rs.599,998 under the numbers We/2/2/1/VR/01310/2012 and No.VR/04046/2013 had not been received and the payment had been made only on the approval of the Executive Officer of the Fund.
- (b) According to the account, sum of Rs.200,000 at Rs.100,000 per person had been paid to 2 persons for the claim No.VR/04968/2013. But according to the file, the voucher relating thereto without the amount inserted, had been signed by the Officers certifying and approving.

#### **4.3 Procurement Management**

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Even though in Fund had prepared a Procurement Plan for the year 2015, procurement had not been done according to that plan.

#### **4.4 Idle and Underutilised Assets**

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A debit balance of Rs.1,268,482 of a Savings Account in a private Bank remained idle over a number of years.

#### **4.5 Staff Administration**

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The following observations are made.

- (a) The approved staff of the Fund for the year 2015 stood at 197 and the actual staff stood at 186, thus resulting in 11 vacancies.
- (b) Eleven Management Assistants and 04 Karyala Karya Sahayakas had been recruited on contract basis and the approval for that had not been received even by 19 September 2016. Three officers who did not possess the qualifications for the post of Management Assistant as specified in the approved Scheme of Recruitment had been recruited.
- (c) An officer had been recruited with effect from 01 January 2015 for the post of the Chief Executive Officer of the Fund on 05 November 2014 the Board of Directors had decided to place him on the highest step on the salary scale of that post, according to the Scheme of Recruitment approved by the Department of Management Services. Subsequently the salary increments from that step had been granted. The approval of the Department of Management Services obtained in this connection had not been furnished to Audit.

- (d) A Committee of 05 Members had been established in the year 2015 to consider the internal transfers and it had been stated that the Committee meets once in every three months and take decisions. Even though decisions for three requests had been given in May 2016, replies had not been given for 20 requests even by 26 September 2016, the date of audit. Even though it was stated that the objectives of the internal transfers are the creation of productivity of the institution and job satisfactions, following an approved methodology for that purpose was not observed in audit.
- (e) The Fund had approved the criteria for the Training and Development Programmes in the year 2015 and the objectives thereof had been creation of a staff thorough in the professional and technical skills and the conduct of training programmes for the new staff recruited. But, the 20 external training and development programmes conducted during the year under review had given priority for the officers in the Senior Level and the Tertiary Level, whilst only 35 out of 144 officers in the Secondary Level had an opportunity for participation in the training programmes in 06 instances. The Fund had not made available any training programmes for the officers in the Primary Level and the newly recruited staff.

## **5. Accountability and Good Governances**

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### **5.1 Presentation of Financial Statements**

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According to Section 6.5.1 of an Public Enterprises Circular PED/12 of 02 June 2003, the Draft Annual Report and the financial statements should be presented for audit within 60 days after in close of the financial year. Nevertheless, the financial statements for the year under review had been presented for audit only on 07 April 2016.

### **5.2 Budgetary Control**

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Variances ranging from 10 per cent to 4435 per cent were observed between the budgeted expenditure and the actual expenditure, thus indicating that the budget had not been made use of as an effective in instrument of financial control.

### **5.3 Effectiveness of the Management Information System**

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A Private Audit Firm had carried out a systems audit of the Fund during the period May to June 2016 under a professional agreement for Rs.1,150,000. Therein the matters revealed such as the low level of reliability of entering data to the database of the Agrahara Division, updating of the data entered and the security of the database had been reported. In addition observations on other deficiencies in the database of the Finance Division such as approval not granted for new entries, the possibility of entering journal entries as a single entry without being balanced, the possibility of printing and reprinting of cheques without approval, etc. had also been reported.

## 5 Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Accounting	(i) Insurance premium income is entered into this database by the Information Technology Division and given to in Finance Division.  (ii) The database does not give approval for opening of new Ledger Accounts.  (iii) Availability of opportunity for printing / reprinting of cheques without approval.  (iv) Making payment exceeding the limits in the payment of claims.
(b) Agrahara Insurance Scheme	(i) Registration of two persons under the same number of the Registration of Persons Identity Card.  (ii) Non-updating of particulars of Members and the non-grant of approval for the data entered to the database when payments are made on claims.
(c) Human Resources Management	Recruitments made without complying with the approved Scheme of Recruitment and marks awarded at the interviews not being formal.

