## National Insurance Trust Fund – 2016

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of comprehensive income, cash flow statement and statement of changes in equity 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 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. A detailed report in terms of Section 13(7)(a) of the Finance Act was issued to the Chairman of the Fund on 16 October 2017.

### 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 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 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 2016 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

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#### 2.2.1 Sri Lanka Accounting Standards

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The following non-compliances were observed.

(a) **Sri Lanka Accounting Standard 12**

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Even though the tax expenses related to profit from ordinary activities of an entity shall be presented separately in the Profit and Loss Account in terms of paragraph 77 of the Standard, the tax expense of Rs.195,609,935 identified for the year under review, had not been shown in the statement of comprehensive income by the Fund.

(b) **Sri Lanka Accounting Standard 21**

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Even though foreign currency monetary items shall be translated using the closing rate at the ends of every reporting period, the balance in 02 accounts of the Fund had not been so translated, thus indicating a difference of Rs.22,663,676 between the balance of the account and the translated balance. Accordingly, exchange profit of Rs.22,663,676 from these items had not been brought to account and those assets as well had been understated in the financial statements by the similar amount.

#### 2.2.2 Accounting Deficiencies

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The following observations are made.

(a) In the computation of tax liabilities, the decrease in the expenditure on gratuity in the year of assessment is not permitted by the Income Tax Act. Therefore, the difference between the expenditure on gratuity and the actuarial gain amounting to

Rs.1,137,249, had been added to the Taxable Income instead of adding a sum of Rs.3,603,644 included in the expenditure on staff as expenditure on gratuity, to the Taxable Income. As such, the Taxable Income had been under computed by Rs.2,466,395 while corresponding tax liabilities as well had been under computed by Rs.690,591.

(b) Despite having settled the receivable sum of Rs.29,579,065 in the Premium Income Receivable Control Account, debit cards of US$8,756 and credit cards of Rs. 10,000,593 of the Reinsurance Division in the year 2015, those had not been eliminated from the balance that remained as at 31 December of the year under review.

(c) Credit balances of Rs.39,502,102 were included in the balance of Rs.424,430,802 receivable as at 31 December 2016 of the Reinsurance Division and as such, the premium income receivable, had been understated in the financial statements by the similar amount.

(d) Insurance premiums of motor cycles provided to public officers, included in other financial liabilities had been retained in an Advance Account received and after receipt of remaining premiums for each said insurance agreement, accounting of total amount of premiums including the said remaining premiums as an income, was the policy of the Fund. The balance of that Advance Account received as at 31 December 2016 amounted to Rs.21,750,002 and that amount had not been identified as an income of the year and brought to account due to non-receipt of remaining monies relating to that balance.

(e) According to the Procedural Code of the Fund, debtors balances should be settled within 60 days from the date of invoice. However, balances totalling Rs.1,049,204,598 older than 90 days included in the balance receivable as at 31 December 2016 of two insurance business classes and according to the Prudence Concept, provisions for bad and doubtful debts had not been made by the Fund.

(f) Payments of motor vehicle insurance claim of Rs.5,634,178 had been brought to account in the Provision for Motor Claim Account instead of accounting in the Claim Expenses–Motor Account. As such, the value of those two accounts had been understated and overstated by Rs.5,634,178 respectively.

### 2.2.3 Unexplained Differences

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There was a difference between credits and debits of Rs.36,836,958 and Rs.30,702,859 of debit cards and credit cards respectively belonging to a private institution, in the schedule submitted relating to the balance receivable as at 31 December 2015 and schedule submitted as at 31 December 2016 relating to the year 2015 respectively by the Reinsurance Division and evidence that those values had been settled were not available as well.

### 2.2.4 Transactions not supported by adequate Authority

The following observations are made.

(a) Even though the payment of commission remaining as a practice of the Strike, Riot and Civil Commotion Division (SRCC&TF) had been discontinued since the year 2008, it had been recomputed and allocated from the profit therefor since the year 2016. The legal basis relating to this payment of Rs.89,809,561 shown in the financial statements in the year under review, had not been made available to Audit.

(b) Property loans up to Rs.3 million had been granted to the officers of the Fund under 03 categories at the interest rates of 3.5 per cent from the employee and 7.5 per cent, 5 per cent and 2.5 per cent from the employer on the approval of the Board of Directors Paper No.88/01 of 31 October 2012. Moreover, no approval from the General Treasury or instructions of any circular or approval whatsoever had been obtained therefor. However, property loans had been granted to seventeen officers of the Fund under this category since the year 2012 and the expenditure on interests incurred therefor during the year by the Fund, amounted to Rs.3,854,638.

(c) In addition to the property loans mentioned in paragraph (b) above, personal loans had been granted to officers through a state bank by the Fund only on the said approval of the Board of Directors. Despite having limited the payment of loans to a maximum of Rs.1.5 million for Executive Officers and Rs.500,000 for Non-Executive Officers, that loan limit of Non-Executive Grades had been increased from Rs.500,000 to Rs.750,000 on the capacity of settling the loan. Moreover, it was observed in audit that in granting these loans, the interest payable is divided between the employee and the Fund. Further, 128 Non-Executive employees and 13 Executive employees of the Fund had obtained personal loans from a state bank by 31 December 2016. Accordingly, the amount of interest payable therefor by the Fund as at 31 December 2016 totalled Rs.18,711,687.

### 2.2.5 Lack of Evidence for Audit

The following observations are made.

(a) Debtors age analysis and letters of confirmation of balances relating to the motor vehicle general insurance value amounting to Rs.123,534,491, had not been made available to Audit.

(b) Even though a sum of Rs.5,528,802,851 receivable from reinsurance institutions relating to the natural disaster insurance scheme, had been shown in the financial statements of the Fund by 31 December 2016, the letter of confirmation of balances thereon had not been made available to Audit. According to the Letter of Management Representation No.NITF/FIN/02/2016 of 26 April 2018, the Management had informed the audit that a sum of Rs.3,468,019,881 out of the said amount was further receivable. However, according to the said letter, a sum of Rs.535,040,194 receivable from reinsurance institutions, included in the financial statements relating to that programme had not been confirmed by the Letter of Management Representation.

## 2.3 Accounts Receivable and Payable

The following observations are made.

(a) Action had not been taken to identify and recover a balance of Rs.9,053,364 included in the receivable balance of premium income of the Reinsurance Division as at 31 December 2016.

(b) Disaster funds had been released by the National Insurance Trust Fund to the Ministry of Disaster Management and other institutions without obtaining estimates for various disaster situations. As such, the remaining balances of Rs.14,928,705 had not been recovered even by 31 December 2016.

(c) The balance of Rs.3,462,112 shown as premium income receivable from parties relating to the Note No.10.1 of the financial statements 2016 of the Strike, Riot, Civil Commotion and Terrorist Funds Division (SRCC &TF) was brought forward since the year 2014 and action had not been taken to recover that balance even by 14 July 2017, the date of audit.

(d) Even though it had been informed to Audit that action will be taken to make the Agriculture and Agrarian Insurance Board (AAIB) aware in respect of Rs.42.5 million, credited to the Account relating to crop insurance as at 31 December 2015 and to make payments expeditiously after getting down relevant documents, that balance had not been settled even by 31 July 2017.

(e) Value Added Tax (VAT) and Nation Building Tax (NBT) totalling Rs.5,005,761 relating to premiums included in the receivable premium income of the Reinsurance Division, had not been settled up to 31 December 2017 by an insurance company.

## 2.4 Effect of Action occurred after the date of Balance Sheet

According to Note No.2.3.8 of the financial statements, the Management had made an assessment on the going concern of the Fund. However, it was revealed in audit that the financial position of the Fund had deteriorated as compared with the preceding years due to delay in obtaining reinsurance coverage of Rs.15 billion for the year 2017 of the National Insurance Cover for natural disasters, to make payments for disasters occurred during that period, from funds of the Insurance Trust Fund and to make exchange of funds between insurance classes on the approval of the Cabinet of Ministers dated 09 June 2016. Even though, the Fund had not sustained a loss in the year under review, it was observed that the loss before tax of the Fund had been Rs.552,501,540 by 31 May 2017 and the retained earnings as well had decreased by Rs.2,543,773,950 by 31 August 2017 as compared with 31 December 2016. Moreover, the value of non-current assets such as property, plant and equipment owned by the Fund amounted to Rs.37,802,741 by 31 December 2016 and the value of assets invested as at that date amounted to Rs.11,195,999,167. That investment value had decreased to Rs.8,300,859,568 by 31 August 2017 and it was further being decreased and as such, it was observed that Fund has been running at a risk.

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

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

| Reference to Laws, Rules, Regulations, etc. | Non-compliances |
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| (a) Regulation of Insurance Industry Act, No.43 of 2000 | |
| Section 27 | Even though separate accounts should be maintained in respect of each sub-class of the insurance scheme, the Fund had not prepared sectoral financial statements or reports on accounts thereon for other Divisions except for the Strike, Riot, Civil Commotion and Terrorist Funds Division (SRCC &TF). Despite that, a balance payable amounting to Rs.2,308,114 among internal departments had been shown in the financial statements of the year under review. |
| (b) Inland Revenue Act, No.10 of 2006 | |
| Section 114 | The Pay As You Earn Tax had not been deducted from holiday allowance of Rs.871,427 paid to officers who are under obligations for Pay As You Earn Tax, in January 2016 relating to the year 2015 and the officers who are under obligations for Pay As You Earn Tax amongst the non-staff officers had not been identified from February to July 2016. |
| (c) Public Enterprises Circular No.PED/12 of 02 June 2003 | |
| (i) Section 8.3.8 | Even though it was mentioned that donations and gifts should not be made without the prior approval of the Cabinet of Ministers, a sum of Rs.1,159,220 had been granted as donations to various institutions and persons by the Fund. |
| (ii) Section 9.14.1 | An approved Manual of Procedures relating to management of human resources was not available with the Fund and even though it had been informed by the Letter No.NITF/OC/03/2014 sent to the Department of Public Enterprises on 16 August 2016 that the said Manual will be submitted for the approval after preparation and updating completely by considering the institutional requirement, no future action whatsoever had been taken up to now. |

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
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Financial Regulation 396 — Action in terms of the Financial Regulations had not been taken in respect of 33 cheques totalling Rs.976,585 issued relating to 03 current accounts of the Fund and remained for more than 06 months but not submitted for the payment.

**2.6 Funds Management**
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The following observations are made.

(a) A sum of Rs.100 million had been granted in October 2016 to the Agricultural and Agrarian Insurance Board for the “Kethata Aruna Pohora Diriya Insurance Programme” by the Fund without a pre-estimate and out of that, only a sum of Rs.59,401,901 had been spent during the year under review. The remaining amount of Rs.40,598,099 had been returned to the Fund on 31 March 2017.

(b) According to a Decision of the Board of Directors, taken on 29 July 2015, the balance of the Agrahara Collection Account, opened with the objective of collecting Agrahara Membership Fees amounted to Rs.14,750 as at 31 December 2016. However, according to files, no money whatsoever had been credited to this account since November 2015 and as such, the objective of opening this account had not been achieved.

**2.7 Non-compliance with Tax Regulations**
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The following observations are made.

(a) As the Fund is registered under the Simplified Value Added Tax(SVAT) Scheme, within 15 days after a month of providing the service for a registered purchaser, credit vouchers should be submitted to the relevant registered supplier of services. However, credit vouchers for SVAT invoices had not been received from Mineral Sands Limited, who is a registered purchaser, to the Fund. As such, the receivable amounts excluding VAT relating to those invoices had been received to the Fund. Nevertheless, action had not been taken to identify those SVAT values. As such, unsettled values of Rs.35,806 had been included in receivable balances older than 90 days in debtors age analysis of the General Insurance Division(Non-Motor).

(b) The total value of depreciation for accounting had been deducted from the income instead of deducting the capital allowance which is a deduction allowed in ascertaining the taxable income in terms of Section 25 of the Inland Revenue Act, No.10 of 2006. According to computations made in Audit, the capital allowance had been Rs.7,730,203. Nevertheless, the value of depreciation for accounting of Rs.7,056,814 had been deducted from the income and shown therein.

(c) In terms of Sub-section 2.2 of Cage 30 of the Instruction Series for incorporated income tax report relating to the year of assessment 2016/2017, the certificate of an external Auditor should be submitted along with the income tax report for deducting Notional Tax Credits from taxable income. Nevertheless, the Fund had not taken action to obtain this certificate from an external Auditor in the year 2016 as well as in preceding years.

## 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 2016 had been a surplus of Rs.2,839,751,855 as compared with the corresponding surplus of Rs.4,303,897,565 for the preceding year, thus indicating a deterioration of Rs.1,464,145,710 in the financial result of the year under review as compared with the preceding year. Even though the gross premium income had increased by Rs.919,020,772, the increase in the payments and write offs of net benefits and claims by Rs.2,534,277,747 had been the main reason for the above deterioration in the year under review.

An analysis of financial results of the year under review and 04 preceding years revealed that the surplus which was Rs.2,083,023,166 in the year 2012 had fluctuated annually up to the year 2014 and it had been Rs.4,562,029,897 in the year 2015. Further, it had declined to Rs.2,839,751,855 in the year 2016. Moreover, in readjusting the employees' remuneration, Government tax and depreciation for non-current assets, to the financial result, the contribution of the Fund which was Rs.2,165,850,389 in the year 2012 had increased gradually up to the year 2014. However, it had again decreased from the year 2015 and had been Rs.3,011,061,987 in the year under review.

## 4. Operating Review

### 4.1 Performance

In terms of Section 12(a) of the National Insurance Trust Fund No.28 of 2006, the objectives of the Board are providing benefits and safeguards–

- to public officers, provincial public service officers and local government service officers and to persons retired from the public service, the provincial public service and the local government service, and who are presently in receipt of pension from the government, the Provincial Council or the local government service, as the case may be;

- to Samurdhi beneficiaries and their families, in terms of the Samurdhi Authority of Sri Lanka Act, No. 30 of 1995 ;
- to farmers, fishermen and persons engaged in self-employment ;
- to the needy persons or groups of persons identified by the Minister from time to time on the recommendation of the Board, against unforeseen health risks, personal accident and damage to property through a contributory insurance scheme to be operated by the Board.

The following observations are made in respect of achieving those objectives.

(a) According to the Public Administration Circular No.12/2005 (vi) of 29 April 2016, action had been taken to further expand the insurance cover, entitled to public officers under two insurance schemes to which contributions would be made on their consent. At present, a number of approximately 0.2 million members of 1750 institutions, had agreed and registered under this new scheme. However, data relating only to 650 out of those institutions had been entered into the system. Moreover, accounting as well had not been made so as to enable the identification of receipt of premiums separately relating to Gold, Silver and General Insurance Schemes.

(b) It had been decided to grant funds received from cultivation tax of 1 per cent from the profit of financial and insurance institutions, to the Agriculture and Agrarian Insurance Board for making payments for damages caused to cultivations whenever necessary. Moreover, the approval had been obtained by the Cabinet Paper No.16/0525/706/017 of 07 April 2016 to implement an Agricultural Loan Protection Insurance Scheme for farmers who received subsidy fertilizer under the Programme "Kethata Aruna Pohora Diriya" by using this entire cultivation tax. However, according to the Progress Review Report, it was observed that no functions whatsoever had been carried out during the year under this Loan Protection Insurance Scheme.

(c) A private company had been selected by the Fund in the year 2016 for providing reinsurance coverage and the Reinsurance Agreement for the year 2016 was valid up to the period from 01 April 2016 to 01 April 2017. Accordingly, a sum of Rs.336 million had been paid to reinsurers by the Fund as the net cost of the reinsurance coverage from 04 quarterly premiums at a rate of Rs.84 million for the said year. The following matters were observed in this connection.

    (i) According to the Cabinet Memorandum No.MNPE/2016/35 of 20 May 2016, the intended objective of obtaining this reinsurance coverage was protecting the financial position of the institution against the disadvantageous position which would arise due to unusual damages caused by such natural disasters. However, according to the information presented to Audit, despite having paid a sum of Rs.3,750,798,782 as disaster relief in the year 2016, only a sum of Rs.153,326,181 had been received therefor from this reinsurance institution. Accordingly, reinsurance coverage had covered only 4 per cent of payments made for all disasters and as such, achievement of that objective was problematic in Audit.

(ii) The above mentioned institution had been selected for the reinsurance relating to years 2017/2018 as well and the Fund had entered into the relevant agreement on 26 May 2017, that is, on 25 May 2017 the day after the date of occurring flood emergency situation. Therefore, a period over 02 months had elapsed after cancellation of the previous agreement. As such, the Fund had to cover these disaster damages by using funds of the institution. According to the information presented to Audit, a sum of Rs.1,482,908,152 had been paid as disaster damages by the institution by 19 September 2017.

## 4.2 Procurement Process

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The following observations are made.

(a) In terms of the Public Enterprises Circular No.4/2016 of 30 May 2016, two motor vehicles had been obtained under operating leasing method for a period of 5 years from 12 July 2016 by the Fund with the approval of the Department of Public Enterprises and the Line Ministry. According to the Supplement 28 of the Government Procurement Guidelines, total lease value or total lease period should be considered as the total cost of the procurement in a procurement on lease and the total value payable during 5 years for the said two motor vehicles, had been Rs.16,650,000.

The following matters were observed in this connection.

(i) According to Guideline 2.14.1 of the Supplement 28 of the Procurement Guidelines, this procurement should be made on the recommendation of the Department Procurement Committee. However, the Department Procurement Committee had not been appointed by the Ministry for the year 2016 relating to procurements of the Fund.

(ii) The approval for this procurement had been given only by two members of a Committee comprised of three members such as the Chairman, Chief Executive Officer and the Manager (Finance) of the Fund and one member had not given approval therefor stating as a “deviation from the procurement indicated by the National Budget Circular No.1/2016”.

(iii) According to the said Public Enterprises Circular No.4/2016 and the National Budget Circular No.01/2016 of 17 March 2016 attached to it, in the procurement of motor vehicles under Operating Leasing Method, the recommendation of an Evaluation Committee should be obtained before presenting for the approval of the Treasury and the prior approval of the General Treasury as well should be obtained before procuring the motor vehicle. However, the said recommendation as well as the approval of the Treasury had been obtained for these vehicles which were procured on 08 July 2016, after procurement of the motor vehicle, that is, 15 October 2016 and that approval had been sought only on 30 September 2016.

(iv) In terms of paragraph 2.3 of the National Budget Circular No.1/2016 of 17 March 2016, motor vehicles should be procured through calling for competitive bidding. However, the Fund had deviated from calling for competitive bidding stating that there are only 03 recognized financial institutions therefor in the market. However, in terms of paragraph 2.3 of the said circular, the qualified suppliers had been specified under 03 categories.

(b) Action had been taken to construct a branch office in Matara area in the year 2016 and the estimated expenditure on those construction works and relevant activities thereon totalled Rs.1,688,882.

The following matters were observed in this connection.

(i) According to Guidelines 4.3.1 and 4.3.2 of the Government Procurement Guidelines of the year 2006, the Total Cost Estimate including all associated costs should be prepared by the Fund which is the procuring entity. However, suppliers had been selected by calling for quotations as 3 procurements by the Fund without including all associated costs to the Total Cost Estimate.

(ii) It was observed that a long period, that is, about one year had been taken for the obtaining of recommendation of the Evaluation Committee since the planning of this activity.

(iii) According to the Letter No.DSM/ADM/GOVBU/08/01 of 01 June 2016 of the District Secretary, Matara, the purpose of renovating and maintaining the building located in front of the Secretariat had been assigned to the Fund. Nevertheless, new constructions had been carried out without any concurrence or legal agreement of the District Secretary.

(c) An insurance scheme had been proposed by the budget proposal -2016 to protect the entire country against natural disasters and it had been proposed to introduce an entire insurance coverage to the value of Rs.10,000 million (Rs.10 billion) comprising an insurance coverage to the value of Rs.2.5 million per capita and a coverage to the maximum limit of Rs.0.1 million per person who were affected by disasters and to introduce an accidental death cover to the value of Rs.01 million for fishermen who faced accidents while involving in fishery. Provisions of Rs.300 million and Rs.500 million had been allocated in the years 2016 and 2017 respectively as insurance premiums by the budget for the implementation of this scheme and the Fund had taken action to obtain reinsurance cover therefor.

The following matters were observed in this connection.

(i) According to Guideline 2.14.1 of the Procurement Guidelines and revisions made thereto, procurements exceeding Rs.200 million should be made on the recommendation of the Cabinet Appointed Procurement Committee (CAPC). Even though the total value of this reinsurance had been Rs.420 million, action had not been so taken by the Fund. Moreover, procurement activities relating thereto had been carried out by the Fund on the recommendation of the Procurement Committee appointed for other Retrocession.

(ii) Even though it had been expected to obtain this reinsurance coverage from international A rated institutions, the relevant advertisement had been published only in a local newspaper and in the website of the Fund.

(iii) The Fund had taken action to obtain only the covering approval of the Cabinet of Ministers on 30 May 2016 for the Company selected deviating from the procurement process in the payment of premiums for reinsurance coverages. However, the Fund had entered into an agreement with the relevant reinsurer even by the instance of obtaining this approval, that is, 06 April 2016.

## 4.3 Staff Administration

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The following observations are made.

(a) According to the information presented to Audit, the approved staff of the Fund as at 31 December 2016 stood at 269 and the actual staff stood at 210, thus resulting in 59 vacancies.

(b) Even though the total cadre of 197 existed, had been increased by 37 per cent representing 269 by the Department of Management Services in the year 2016 for restructuring purpose of the Fund, restructuring activities of the Fund was in the initial stage even by now.

(c) Recruitments for 22 permanent posts (Management Assistant/ Telephone Operator and Receptionist) in the secondary level and for 07 posts (Karyala Karya Sahayake) in the primary level of the approved cadre, had been made on contract basis.

(d) The following matters were observed at the audit test check carried out in respect of recruitment of officers for 03 posts of top management and 13 posts at medium level in the approved cadre by the Fund during the year 2016.

(i) Appointment of members for interview boards had not been properly carried out.

(ii) Recruitments had not been made up to now for the post of Manager(General Insurance) for which advertisements had been published and applications, called before 28 December 2015.

(iii) Recruitments had been made for 02 posts by holding interviews improperly and without transparency. Moreover, applications had been called for another post recruited on 15 November 2016 deviating from the Approved Scheme of Recruitment.

(e) Five vacancies at senior level comprised of a post of Assistant General Manager, 03 posts of Manager and a post of Internal Auditor. However, approval had been granted to fill vacancies on acting basis instead of taking action to recruit officers on permanent basis for the said posts.

(f) Fifty posts in the tertiary and secondary levels had been vacant even by 30 August 2017, the date of audit.

## 5. Accountability and Good Governance

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### 5.1 Presentation of Financial Statements

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According to Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Draft Annual Report and the financial statements should be presented to Audit within 60 days after close of the financial year. Nevertheless, the final financial statements for the year under review had been presented to Audit only on 01 November 2017.

### 5.2 Budgetary Control

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Variances ranging from 11 per cent to 239 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 instrument of financial control.

### 5.3 Effectiveness of the Management Information System

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The following observations are made.

(a) Even though the preparation of cash book and the bank reconciliation statement were being carried out by using Zillione Cash Book software by the Fund, accounting software of Sage Accpacc had been used for the maintenance of Ledger Accounts and preparation of final accounts. Further, it was observed that transfer of data between software had been carried out without proper internal control and transfer of these data had been carried out by the Information Technology Division without intervention of the Accounts Division therefor. As such, in the preparation of bank reconciliation statements monthly, differences were observed between the balances of the cash book at the end of the month and the monthly closing balances of the cash book which was considered in the preparation of bank reconciliation statements.

(b) Control of passwords in carrying out accounts through this software was at a weak level and as such, there was a possible risk of entering into the Accounts System by any officer.

(c) A system audit of the Fund had been carried out by paying Rs.1,150,000 to a private audit firm for the period from May to June 2016 and it had been pointed out that the Management had not paid attention even by 31 December 2016 for rectification of defects of the data system of the Agrahara Division.

## 6. Systems and Controls

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) | Financial Control | (i) | Failure in entering cheque numbers accurately in the cash book. |
| | | (ii) | Failure to mention the date of preparation of bank reconciliation statements presented to Audit. |
| | | (iii) | Accounting certain expenses on cash basis in the preparation of financial statements monthly and quarterly. |
| | | (iv) | Variances between balances of petty cash books and physical balances, non-certification and non-approval of petty cash vouchers and improper numbering of vouchers. |
| | | (v) | Non-maintenance of updated Register of Fixed Assets in the SRCC and TF Divisions of the Fund. |
| | | (vi) | Improper maintenance of Register of Distress Loans. |
| | | (vii) | Failure in preparing estimates accurately and granting advances as per the requirement. |
| | | (viii) | Failure in preparing and approving journal vouchers in recording journal entries and obtaining a printout of the updated double entry by Sage Accpacc and observing instances of placing signatures of officers relating to preparation, checking and approval of the said print out. |
| | | (ix) | Failure to enter all cheques sent by mail, in the relevant register. |
| (b) | Accounting | (i) | Sales invoices of the General Insurance – Non-Motor Division had not been through a computer system according to the numbers put in order previously. As such, differences were observed between the invoice numbers included in the list of debtors balances, obtained by the computer system and numbers mentioned in the invoice register maintained by the relevant Division. |

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| | | (ii) | Failure to issue a receipt for receiving all monies or cheques. |
| | | (iii) | Failure to determine limits for the approval of journal entries. |
| | | (iv) | Failure in entering journal entries into the accounting system with proper approval and indicating a reference in relevant subsidiary registers as evidence therefor. |
| (b) | Human Resources Management | (i) | Failure in making recruitments in compliance with the approved Scheme of Recruitment. |
| | | (ii) | Improper appointment of Interview Boards. |
| (c) | Management of Branches | (i) | Deficiencies in assets management. |
| | | (ii) | Unavailability of temporary insurance cover notes and proper registers on printed formats received from the Head Office. |
| | | (iii) | Lack of proper evidence relating to misplacement of those documents. |
| | | (iv) | Improper use of temporary insurance cover note book. |
| | | (v) | Unavailability of a proper register relating to scrap materials and insurance cards. |
| | | (vi) | Problems in control of petty cash. |
| | | (vii) | Unavailability of proper procedure for arrival, departure, leave and for movement. |
| | | (viii) | Delays in depositing cash in the bank, collected in sub-offices. |
| | | (ix) | Improper acceptance of applications in scanning Agrahara applications and improper disposal of them. |