

Agricultural and Agrarian Insurance Board -2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Going concern of the Board

- (a) A reconciliation of the income, payment of indemnity and the expenditure incurred thereon for the preceding 05 years as given below indicating an uncertainty over the going concern of the Board, without any Government assistance.

Year	Premiums Received	Claims Paid	Operational Expenditure	Administrative Expenditure	Total Expenditure	Expenditure Exceeding the Premiums
	Rs.mn	Rs.mn	Rs.mn	Rs.mn	Rs.mn	Rs.mn
2008	70.5	27.0	4.2	78.7	109.9	(39.4)
2009	83.4	31.0	5.7	84.1	120.8	(37.4)
2010	105.1	268.7	5.6	86.3	360.6	(255.5)
2011	157.4	57.3	10.1	82.3	149.7	7.7
2012	124.7	126.6	8.6	81.8	217.0	(92.3)

- (b) It was observed that heavy expenditure had been incurred in respect of Paddy and Subsidiary Crops insurance schemes for the year under review which was adversely affected for the operating result of the Board. Details are as follows.

Insurance Scheme	Income	Total Operating Expenditure	Operating Expenditure as a percentage of Income
	Rs.	Rs.	%
Paddy	77,930,573	100,303,622	129
Livestock	15,807,854	5,241,680	33

Suwasetha	2,494,794	787,277	32
Subsidiary Crops	22,016,546	20,065,955	91
Agri -Equipments	929,429	129,405	14
Store insurance	199,987	100,000	50

1.2.2 Sri Lanka Accounting Standards

Following observations are made.

- (a) The Financial Statements had not been prepared in terms of SLFRS 1, (First Time Adoption of Sri Lanka Accounting Standards).
- (b) In terms of LKAS 39, the Fair Value through profit or loss (FVPL), Held to maturity (HTM), Loan and Receivable (LR) and Available for sale (AFS) had not been recognized and measured in the financial instruments.
- (c) In terms of SLFRS 07, Disclosures related to financial instruments had not been made
- (d) In terms of LKAS 19, Actuarial valuation and accounting had not been made for the define benefit plan in order to discharge the obligation under a defined benefit plan and the contribution by the employer had not been invested.
- (e) In terms of LKAS 37, a provision had not been made in the financial statements for the year under review for indemnity paid to an employee amounting to Rs.200,000 in the year 2013 as per the Court order made in the year under review.

1.2.3 Accounting Deficiencies

Following observations are made

- (a) A provision had not been made in the accounts for the payable amounting to Rs.153,836 to the International Centre for Geo-informatics applications and training of the University of Moratuwa, in respect of feasibility report prepared on Geo-informatics technology for the operation of the Crop Insurance .
- (b) The PAYE Tax amounting to Rs.12,000 deducted for the months of September, October, November and December 2012 on the allowances paid to former Chairperson had not been taken into accounts.
- (c) The outstanding salary payable to the employee who was interdicted and reappointed in service during the year under review, amounting to Rs. 561,220 related to 2012 and paid in the year 2013, had not been taken into the income statement of the year under review.

- (d) It was observed that the administration expenditure had been understated by Rs.423,439 in the financial statements for year under review as per original payment vouchers and as a result deficit for the year had been understated by the same amount.
- (e) The rental and rates amounting to Rs. 111,451 which had been paid in advance had not been accounted for as pre payments in the financial statements. Instead it had been charged against revenue for the year under review.

1.2.4 Unexplained Differences

- (a) Following differences were observed between the amounts shown in the detailed schedules of the Development Branch and the amounts shown in the financial statements, for the year ended 31 December 2012 in respect of revenue.

Insurance Schemes	As per the Financial statements Rs.	As per detailed schedules of the Development Branch Rs.	Difference Rs.
Livestocks	15,807,854	13,103,900	2,703,954
Suwesetha and life	2,494,794	2,196,974	297,820
Agri- equipment	929,428	4,483,967	3,554,539
Stores	199,987	238,370	38,383

- (b) Following differences had been observed between the amounts shown in the detailed schedules of the Development Branch and the amounts shown in financial statements regarding indemnity payments made during the year under review.

Insurance Schemes	As per Financial statements Rs.	As per detail Schedules of the Development Branch Rs.	Difference Rs.
Livestocks	5,241,680	7,818,212	(2,576,532)
paddy	100,303,622	75,770,287	24,533,335
Agri-equipments	129,405	165,823	(36,418)
Subsidiary crop	20,065,955	15,798,206	4,267,749
Suwesetha and life	787,276	713,365	73,740

1.2.5 Accounts Receivable and Payable.

Following observations are made.

- a) Following loan and advance balances of employees' aggregating Rs.2,254,178 had remained in the accounts without being recovered .Out of this Rs.1,902,915 had remained for over five years without being recovered.

Type of Loans and Advances	Rs.
Distress loans	1,238,190
Festival advances	55,300
Special advances	17,050
Fuel advances	160,602
Motor cycle loans	341,572
Special staff loans	4,800
Miscellanies advances	324,293
Traveling advances	8,000
Salary advances	50,261
Sundry Debtors and motorcycle expenses	<u>54,110</u>
	<u>2,254,178</u>

- b) Gratuity payable to the deceased employees aggregating Rs.320,944 had remained for a long period of time without being settled.
- c) Action had not been taken to recover the balance of rental advances amounting Rs.145,008 which had been paid to the State Trading Corporation in 2007.
- d) With Holding Tax which was refunded by the Department of Inland Revenue amounting to Rs. 604,800 had been shown in financial statements without being settled to the Treasury.
- e) A sum of Rs. 272,829,074 paid to the Farmer's Pension Fund during the period from 2010 to 2012 to pay farmers pensions by the Agricultural and Agrarian Insurance Board had not been recovered up to 31 December 2012.

(f) Four employees had been released to the following institutions. The salaries amounting to Rs. 1,908,815 paid to these four employees had neither been recovered nor been shown as debtors in the financial statements.

- Ministry of Post Telecommunications and Udarata Development.
- Ministry of Community Development and Estate Infrastructure.
- Ministry of Power and Energy.
- Ministry of Agriculture Development and Agrarian Services.

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

Following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non-Compliance
(a) Section 10 of the Employee Provident Fund Act No 15 of 1958	The EPF contributions of 12% amounting to Rs.2,550,366 had not been deducted and paid to the EPF on the living allowance paid to an Employee amounting to Rs: 21,253,050 during the year under review.
(b) Section 16 (1) of the Employee Trust Fund Act no 46 of 1980	The ETF contributions of 3% amounting Rs. 637,592 had not been deducted and paid to the ETF on the living allowance paid to an employee amounting to Rs. 21,253,050 during the year under review.
(c) Inland Revenue Circular No PAYE/Tax/No1/2011 Dated 18 April 2011	PAYE tax amounting to Rs.11,161 had not been deducted from the allowance paid to the officers who were participated to the fund management of the fishermen pension scheme.
(d) F.R.110	A register of losses had not been maintained.

1.2.7 Uneconomic Transaction

Following observations are made.

- (a) The Board had paid Rs. 18,480 as reconnection charges for the water supply which was disconnected due to nonpayment of water bills in due dates with regard to the Head Office and a branch.

- (b) The Board had incurred an expenditure of Rs. 325,000 for 6 months in the year 2012 to provide transport facilities to the staff for the purpose of maintaining attendance of the employees in time .However, the Purpose had not been achieved due to late attendance.

- (c) Action had not been taken to use the GPS/GLS technology for the indemnity payments of crop insurance. Hence, expenditure incurred on this regard amounting to Rs.625,346 for the pilot project of the Geo-informatics could be identified as uneconomic transaction.

2. Financial Review.

2.1 Financial Results

- (a) According to the financial statements presented, the operating surplus of the Board for the year ended 31 December 2012 before taking into account the Government Grant for administrative expenses, amounted to Rs.1,467,963 as compared with the corresponding operating surplus of Rs.101,215,444 for the preceding year. After the adjustments of the Government Grant and other income of Rs.65,095,828 received for the year under review with the administrative and financial expenses, the overall deficit amounted to Rs.15,420,596 as against the overall surplus of Rs.87,675,318 after the adjustments of the Government Grant and other income of Rs. 68,998,243 with the administrative and financial expenses of that year, thus indicating a deterioration of Rs.103,095,914 in the financial results. Following are the main reasons for the above deterioration.
 - (i) The insurance premium had been decreased by 21 per cent as compared with the previous year.
 - (ii) Operating expenditure had been increased by 100 per cent as compared with the previous year.
 - (iii) Other income had been decreased by 72 per cent as compared with the previous year.

- (b) According to the financial statements and information made available, the following table gives a summary of financial results as compared with the preceding year.

Item	Current Year (2012) Rs.(000)	Previous Year (2011) Rs.(000)	Percentage of Change over previous year
Insurance-premium	124,708	157,417	(21)
Interest	11,988	11,268	6
Total Operating Income	136,696	168,685	(19)
Operating Expenditure	<u>(135,228)</u>	<u>(67,470)</u>	100
Operating Surplus/(deficit)	1,468	101,215	(99)
Government Grant for Administrative Expenditure	63,323	62,750	0.9
Other income	1,773	6,248	(72)
Administrative, Finance and Other Expenditure	(81,984)	(82,538)	(0.7)
Net Surplus/ (Deficit)	(15,420)	87,675	(118)
Provision for Agricultural and Agrarian insurance Board Reserve Fund	–	<u>5,060</u>	–
Net Surplus/ (Deficit) after Provision	(15,420)	82,615	(119)

2.2 Analytical Financial Review

According to the financial results of the year under review and preceding 5 years, it was indicating that net surplus before Government Grant had been decreased gradually. Details are as follows.

	2012 Rs.mn	2011 Rs.mn	2010 Rs.mn	2009 Rs.mn	2008 Rs.mn	2007 Rs.mn
Total Income	139	175	128	114	96	48
Total Expenditure	217	150	361	121	134	50
Net Surplus(Deficit)	(78)	25	(233)	(7)	(38)	(2)
Government Grant	63	63	85	75	42	12
Surplus/ (Deficit) After						

Government Grant	(15)	88	(148)	68	4	10
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According to the net surplus/ (deficit), it was observed that the Board depends on Government Grant during the period of 2007 to 2012 except 2011.

2.3 Transactions of Contentious Nature

Following observations are made

- (a) Insurance indemnity aggregating Rs. 640,860 had been paid to 24 beneficiaries for which date of the crop insurance indemnity proposal had been changed.
- (b) The indemnity payment aggregating Rs. 1,099,780 had been made twice to 49 farmers during 2010/2011 maha season in Batticaloa District .Out of this payment, Rs. 133,540 had not been recovered up to 31 January 2013.

3. Operational Review

3.1 Performance
Administration of Insurance Schemes

According to the information made available, the following statement shows the physical and financial performance of the Insurance Schemes for the year under review and the previous year.

Item	Measure ment	Target				Achievement				Achievement as a percentage (%)			
		Physical		Financial		Physical		Financial		Physical		Financial	
		2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
				Rs.(000)	Rs.(000)			Rs.(000)	Rs.(000)	%	%	Rs.(000)	Rs.(000)
1. Crop Insurance													
(a) Paddy	Nos Acr	90,519	97,290	71,371	85,897	101,741	66,352	94,437	77,931	112.40	68.20	132.32	90.73
(b) Chilies	Acr	823	490	1,411	1,583	431	206	826	825	52.00	42.00	58.54	52.12
(c) Big Onion	Acr	341	1,125	3,386	3,328	998	1,538	2,744	4,086	292.67	136.71	81.04	122.77
(d) Coconut	Acr	130	193	140	304	5	-	11	-	3.38	-	7.86	-
(e) Sugar Cane	Acr	1,040	1,200	2,570	2,000	30	-	28	-	2.88	-	1.09	-
(f) Maize	Acr	12,065	12,530	18,583	19,028	9,788	6,618	16,263	10,441	81.13	52.81	87.52	54.87
(g) Export and Perennial Crop	Acr	1,376	1,865	3,759	2,466	14	17	49	37	1.02	0.91	1.30	1.5
(h) Flower Plant	Nos	64,752	5,050	261	201	-	-	-	-	-	-	-	-
(i) Plantation Crop	Acr	222	1,341	444	2,575	756	2,254	709	1,983	340.54	168	159	77
(j) Potato	Acr	600	1,280	3,037	3,200	817	732	2,919	2,886	136.17	57.18	96.11	90
(k) Other Crop	Acr	5,236	6,229	3,751	5,825	1,076	638	1,130	821	20.55	10.24	30.13	14.0
(l) Vegetable	Acr	375	400	1,273	1,200	889	631	869	937	237.07	157.75	68.26	78
2. Livestock													
Cattle	Nos	11,200	10,096	25,928	23,381	12,982	4,856	16,729	11,899	115.91	48.09	64.52	50.89
Goat	Nos	11,646	9,168	6,140	4,305	2,837	2,261	1,506	1,205	24.36	24.6	24.53	27.99
3. Stores	Nos	1,063	860	4,897	3,810	5	17	44	238	0.47	1.97	0.9	6.25
4. Agri-Equipment	Nos	3,645	4,109	13,600	13,625	402	316	5,881	4,484	11.03	7.69	43.24	32.91
5. Suwasetha	Nos	36,085	33,715	15,478	14,946	13,181	2,013	6,953	1,040	36.53	5.97	44.92	6.9
6. Life Insurance	Nos	12,069	21,931	10,189	18,185	8,105	1,433	7,272	1,157	67.16	6.53	71.37	6.36

The following observations are made in this regard.

- (a) The physical targets of insurance activities in respect of Chilies, Export and Perennial Crop, Other Crops, Goat, Cattle, Stores, Agri- Equipment, Life Insurance and Suwasetha had been achieved less than 50 per cent. The physical targets in respect of Export and Perennial Crop, Other Crop, Suwasetha, Life Insurance and Stores insurance had been achieved less than 7 per cent.
- (b) The financial targets of insurance activities in respect of Export and Perennial Crop, Other Crop, Goat, Stores, Agri Equipment, Life Insurance and Suwasetha had been achieved below 50 per cent. The financial targets in respect of Export and Perennial Crop, Life Insurance, Suwasetha and Stores insurance had been achieved below 10 per cent only.
- (c) The achievement of financial targets in respect of Paddy, chilies, Maize , Potato, Other Crop, Cattle, Life Insurance, Agri Equipment and Suwasetha insurance had decreased when compared with the preceding year.
- (d) Even though the physical and financial targets in respect of Flower Plant, Coconut, and Suger Cane insurance had been set out, no any single insurance had been made during the year under review.

3.2 Management Inefficiencies

An employee had filed a case against the Board in the year 2008 to extend the service period after completing the age of 57 years .The Board had failed the case in the year 2011 and an appeal had been made. However the appeal was dismissed by the Court in the year under review due to negligence of the administration of the Board.

3.3 Assets Management

Following observations are made.

- (a) According to the information made available 04 vehicles had remained idle at the Head Office premises without being used for three years.
- (b) Unused printing material stocks valued at Rs.526,321 had remained idle for a long period of time.

3.4 Delay in Projects

An Expenditure of Rs.585,800 had been incurred to develop a land in the year 2008 to construct a building and, shown as capital advance in the financial statements for 2012. However the land had remained idle for a long period without being constructed a building.

3.5 Construction of building without the legal owner ship of the lands

(a) The Board had constructed buildings in Embilipitiya and Thambuthegama without obtaining the legal ownership of the land. Details are as follows.

<u>Area</u>	<u>Amount spent for construction</u>
	Rs.
Embilipitiya	1,183,496
Thambuthegama	<u>1,283,815</u>
	<u>2,467,311</u>

(b) The residence Project Manager (Walawa) had informed to the Board, that Rs. 1,844,750 should have been paid as rent, delay charges and down payment for the period of 1986 to 2012. This amount had to be paid as the Board had not taken relevant actions to acquire the properties.

3.6 Human Resource Management

According to the information made available, the approved cadre, the actual cadre and vacant position for the year under review and two preceding years are given below.

Category of Staff	Approved Cadre				Actual Cadre			Vacant Cadre	
	31.12.2012	31.12.2011	31.12.2010	31.12.2012	31.12.2011	31.12.2010	31.12.2012	31.12.2011	31.12.2010
Executives	56	56	45	34	38	39	22	18	06
Non Executives	285	285	264	216	235	176	69	50	88
Minor Employees	80	80	69	56	60	60	24	20	09
Casuals	-	-	-	02	07	68	-	-	-
Total	421	421	378	308	340	343	115	88	103

It was observed in this regard that 103, 88 and 115 vacancies were existed in the years 2010, 2011 and 2012 respectively against the approved Cadre and actions had not been taken to fill the vacancies.

3.7 Utilization of Vehicles .

Eight jeeps and one cab had been used by the Board, of which ownership had not been transferred to the Board for a long period of time. Out of these vehicles certain vehicles were used by the Board without obtaining revenue licenses and insurances during the year under review.

4. Accountability and Good Governance

4.1 Corporate Plan

Though the Board had prepared a Corporate Plan for the period 2009 – 2012, it had not been updated for the year 2012 in terms of Section 5.1.3 of Circular No. PED/ 12 dated,02 June 2003 issued by the Department of Public Enterprises .

4.2 Action Plan

It was observed that certain targets set out in the Action Plan for the year 2012 regarding the insurance of Chilies, Sugar Cane, Maize, Flower Plant ,Export and Perennial Crop, Vegetable, Cattle, Goat, Stores, Agri Equipment, Suwasetha and Life Insurance had not been achieved and it had not been used as an instrument of management control.

4.3 Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure for the year 2012, thus indicating that the budget had not been made use of as an effective instrument of financial management control.

5. Systems and Controls

Deficiencies observed in system and controls during the course of audit were brought to the notice of the Board by my detailed report issued in terms of Section 13(7) (a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Insurance Schemes
- (b) Payment of Indemnity
- (c) Corporate Plan and Action Plan
- (d) Budget
- (e) Settlement of Staff Loans and Advances
- (f) Compliance with Laws, Rules and Regulations