National Insurance Trust Fund – 2017

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 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 26 October 2018.

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

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 National Insurance Trust Fund as at 31 December 2017 and its financial performance and cash flows, for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(i) **Sri Lanka Accounting Standard 16**

(a) In terms paragraph 31 (a) of the Standard, after recognition as assets, an item of property, plant and equipment whose fair value can be measured reliably, shall be carried out at a revalued amount thereof and it is further mentioned that revaluation of an asset shall be made once in every 03 or 05 years. However, action had not been taken to revalue property, plant and equipment with a carrying amount of Rs.39,470,895 existed as at 31 December 2017.

(b) Even though the assets costing Rs.3,432,638 had been fully depreciated as the useful life of non-current assets had not been reviewed annually in terms of paragraph 51 of the Standard, they were being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Accounting Standard 08.

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

In terms of paragraph 29 of the Standard, when monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the date of transaction and the date of settlement, an exchange difference results and the transaction is recognized in the accounting period itself in which it occurred. However, when the transaction/any value is settled in a subsequent accounting period, it is not determined on the change in the exchange rate during the period in which it is settled. As such, the profit in accounts had been overstated by Rs.994,384 due to changes in exchange rate in the year 2017.

2.2.2 Accounting Deficiencies

The following observations are made.

(i) Even though the gross value of investment income of the Fund should be indicated in the financial statements, the investment income had been understated by Rs.123,111,800 in the financial statements due to inclusion of the net income.

(ii) According to the information presented to Audit, premiums had been received as income by 31 December 2017. However, premiums totalling Rs.17,568,213 relating to the year 2017 had not been brought to account as income due to delay in issuing receipts and instead, the said value had been included in the “Motor Premium Advance Collected” Account.

(iii) Action had not been taken to review balances totalling Rs.95,978,933 lapsed over 90 days, included in the premium income receivable and an unidentified balance of Rs.9,053,364 remained over a period of 06 years in the premium income-reinsurance receivable and to make provisions for bad and doubtful debts.

(iv) Even though moneys had been credited to bank accounts due to a gap between the dates of daily cash deposits in District Secretariats and dates of receipts entered into the system, instances where those moneys had not been brought to account as income on relevant days, were observed. Accordingly, as revealed in the audit test check, an income of Rs.5,482,729 had been understated in accounts in the year under review.

(v) Even though foreign currency monetary items should be translated by using the closing rate at the end of every reporting period, it had not been so translated. As such, a net profit of Rs.5,918,344 had been understated in the final financial statements of the Fund.

Item	**Value**
	Rs.
Non-translation of balances in receivable premium income accounts of the Reinsurance Division	5,884,934
Difference of adjustment of the balance in the US$ Current Account of the SRCC Division	622,682
Indicating the loss of Rs.262,796 as a profit of Rs.371,872 in the translation of the exchange rate	(589,272)
	5,918,344

(vi) Even though foreign currency monetary items should be translated by using the closing rate at the end of an accounting period, it had not been so translated. As such, the loss of Rs.56,614 in the balance of non-motor premium income receivable, had not been brought to account in the final financial statements.

(vii) There were credit balances totalling Rs.278,024 in the General Insurance – (Non-motor) Debtors Age Analysis as at 31 December 2017 and those balances had not been identified and settled.

(viii) The financial statements of the Fund consist of two divisions such as SRCC and NITF Division and the receivable balance included in other non-financial assets totalling Rs.3,462,112, was a loan balance obtained from the SRCC Division by the NITF for granting Staff Distress Loans. Even though it had been informed that the said loan balance had been settled by the NITF Division, evidence relating thereto had not been made available to Audit. Further, it had not been indicated as a balance payable further, in accounts of the NITF Division. Moreover, though it had been indicated as a balance receivable in the SRCC Division, the evidence relating to the said value as well, had not been made available to Audit.

(ix) The audit fees for the year 2016 had been Rs.886,200 and making provisions for audit fees for the year 2017 even based on the said amount and accounting the expenditure relating to the year had not been carried out, thus understating the expenditure and liability in the financial statements.

(x) A health insurance scheme had been implemented for employees of the Fund and a sum of Rs.9,813,773 had been paid for employees of the Fund in the year 2017 as indemnity through the said insurance scheme. However, out of the value of premium of Rs.3,331,750 relating thereto, only a sum of Rs.2,269,500 had been received in the year 2017 and the remaining premium of Rs.1,062,250 had not been included in the financial statements.

2.2.3 Unexplained Differences

The following observations are made.

(i) A difference of Rs.472,880 was observed between the balances included in letters of confirmation of balances and the receivable balances included in the age analysis, which were sent to institutions selected on a sample basis relating to the General Insurance - Non-motor Division.

(ii) Even though the value of Treasury Bonds according to financial statements had been Rs.888,946,713, according to confirmation of balances and the schedule made available to Audit, it had been Rs.889,407,219, thus indicating a difference of Rs.539,494. It was observed that the inclusion of a balance of matured development bond in accounts further had been the reason for said difference.

2.2.4 Lack of Evidence for Audit

Evidence indicated against each following item of accounts had not been made available to Audit.

Item	Value	Evidence not made Available
	Rs.	
(a)Premium income receivable- Reinsurance	9,053,364	Detailed schedules, Age analysis, Confirmation of balances
	101,030,311	Confirmation of balances
(b) Premium income receivable - Motor	1,136,176	Age analysis, Confirmation of balances
(c) Deposits paid	270,049	Confirmation of balances, detailed schedules
(d) Returning cheques receivable	585,481	Detailed schedules, Age analysis, Confirmation of balances
	112,075,381	

2.2.5 Accounts Receivable and Payable

The following observations are made.

(i) In terms of Note No.10.1 of the statement of financial position as at 31 December 2017, the value receivable from reinsurance institutions for the year 2016/17 had been Rs.4,574,100,921 and the said balance was 25 per cent of the total financial position as at 31 December 2017. The said balance had decreased by Rs.954,701,937 representing 17 per cent as compared with the year 2016 and the reinsurance value recoverable was as follows.

	Value
	Rs.
Reinsurance receivable - RETRO	2,157,672,249
Reinsurance receivable -NNDIS	2,416,428,672
	4,574,100,921

The following matters were observed in this connection.

(a) Out of the said balance recoverable from reinsurance institutions, only a total sum of Rs.1,590,250,491 had been recovered by 17 January 2019, the date of audit and a sum of Rs.1,679,464,649 had been written off during the year. Even though the approval of the Board of Directors for writing off of a sum of Rs.490,479,162 out of the said amount, had been made available to audit, a proper approval for writing off of a sum of Rs.1,188,985,487 had not been made available to audit even by 02 July 2019.

(b) However, according to the Letter No. NITF/FIN/02/2016 of 26 April 2018 of Management Representative, it had been pointed out to audit that a sum of Rs.3,117,190,041 of the said value recoverable, can be recovered. Out of that, only a sum of Rs.1,590,250,491 representing 51 per cent had been recovered by 19 January 2019.

(ii) Balances of Rs.12,263,329 brought to account as rejected claim payments brought forward from the year 2015 had not been settled even by 25 July 2018 due to failure to maintain a proper Data Base including information on Agrahara Insurance members and weaknesses in the system of settlement of claims.

(iii) A refundable premium balance of Rs.3,843,488 relating to the SRCC Division had remained since the year 2007 and action had not been taken to pay and settle those premiums payable to relevant insurance institutions or to take necessary measures therefor.

(iv) A total sum of Rs.2,907,894 to be reimbursed from the SRCC Division to the NITF Division over a period of 03 years, had not been reimbursed.

(v) Even though a sum of Rs.184,055 recoverable from the Ministry of Finance and Mass Media and Departments thereunder since the year 2015 had been indicated in the premium income receivable under General Insurance-Non-motor, according to confirmations made available to Audit, there was no such balance recoverable.

(vi) The premium income of General Insurance-Non-Motor, of Rs. 323,711,536 receivable as at 31 December 2017 comprised of a balance of Rs.95,978,993 exceeded 90 days and it comprised of balances remained from the years 2015 and 2016. The Fund has not taken action to recover those balances up to now.

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

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

	Reference to Laws, Rules, Regulations	Non-compliances
(a)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
	(i) Public Finance Circular No.03/2015	Even though the Ad-hoc Sub-imprests obtained, should be settled immediately after the completion of the purpose it is granted, a period from 02 months to 06 months had lapsed for settling sub-imprests of Rs.1,055,115 granted in the year 2017.

	(ii) Financial Regulation 396	The payee of each 'outstanding cheque' should be addressed as soon as possible after the period of validity has expired, requesting him to return the cheque for revalidation. If the cheque is returned by the payee, it should be revalidated and returned without delay. The Fund had not followed such a procedure in respect of cheques which were cancelled by the Fund.
	(iii) Financial Regulation 396 (d)	Action in terms of Financial Regulation had not been taken on cheques valued at Rs.6,860,412 remained uncashed for more than 06 months.
(b)	Public Administration Circular No. 07/2015	In terms of the Circular, the maximum amount that can be granted as festival advance, is Rs.10,000. However, the Fund had paid festival advance based on the basic salary of the staff by neglecting the said limit. As such, a sum of Rs.1,871,081 had been paid to 142 employees exceeding the said limit in the year under review without a proper approval.
(c)	Section 113 of the Inland Revenue Act, No.10 of 2006	Even though no assessment whatsoever had been made for any year of assessment, income tax should be paid in four installments on or before the fifteenth day respectively of August, November and February in that year of assessment and the fifteenth day of May of the next succeeding year of assessment. However, the Fund had not paid income tax based on self-assessment.
(d)	Public Enterprises Circular No.PED/12 of 02 June 2003 --------------------------------	
	- Section 8.3.8	A total sum of Rs.2,170,000, had been granted in the year under review as sponsorships by the Fund without the approval of the Cabinet of Ministers.
	- Section 9.14	Action had not been taken to prepare a Manual of Procedures in terms of the Circular and obtain the concurrence of the Secretary to the Treasury.
(e)	Regulation of Insurance Industry Act, No.43 of 2000 Section 49	Even though a quarterly return containing such information as may be determined by rules made in that behalf, should be sent to the Sri Lanka Insurance Regulatory Commission within 45 days after closure of every quarter, it was observed in audit that quarterly reports of the Fund, are not furnished within the said period.

2.4 Transactions not supported by Adequate Authority

The following matters were observed.

(i) Cheques had been issued for paying compensation to persons affected by natural disasters through an account operated by a state bank in foreign currency for foreign currency transactions. An approval obtained for using the money of that account for paying distress compensation, had not been made available to audit and as the said account is dormant at present, it had been pointed out to audit that the said account had been so used.

(ii) According to Instructions No.IBSL/DG/SUP/17/06/233 of 28 June 2017 of the Sri Lanka Insurance Regulatory Commission, exchange of moneys cannot be made among divisions. However, moneys had been exchanged among divisions of the Fund in the years 2016 and 2017. As such, a sum of Rs.1,651,072,897 should have been settled by 15 October 2018 by the Reinsurance Division to other divisions.

2.5 Non-compliance with Tax Regulations

The following matters were observed.

(i) It was observed in audit that it is not complied with paragraph (a) of Section 25 of the Inland Revenue Act, No.10 of 2006 on deductions allowed in ascertaining profits and income. It had been indicated as replies relating thereto that as the Fund is an institution owned by the Government, payment and calculation of taxes had been made by holding discussions with officers of the Department of Inland Revenue and that it had been agreed to deduct the value of depreciation for accounting from the revenue instead of the allowance for depreciation for first years, that is since the year 2009. However, written confirmations relating to the concurrence made with the Department of Inland Revenue to confirm the said reply, had not been made available to Audit up to now.

(ii) In terms of paragraph 114 (c) of Sri Lanka Accounting Standard 1 on the presentation of financial statements, supporting information for items presented in the financial statements should be presented by notes and moreover, calculation of income taxes should be disclosed in terms of Sri Lanka Accounting Standard 12 on income taxes. However, the Fund had not disclosed the income tax liability by a note in the financial statements.

(iii) An value of Rs.185,529,964 relating to the payment of net claims of General Insurance- Non-Motor, included in financial statements, had been recognized as Rs.185,631,974 representing an overstatement by Rs.102,010 in the calculation of tax liability of the year 2017. As such, the actual tax liability and expenditure on income of the year had been understated by Rs.28,563 in the financial statements.

(iv) In determining profits and income for computation of tax liability in terms of Inland Revenue Act, No.10 of 2006, it is not allowable for 25 per cent out of expenditure on advertisements. However, the value of expenditure on advertisements of Rs.3,980,192 included in expenditure on other operations and administration had been considered as Rs. 2,905,750 in the computation of tax liability and out of that, only 25 per cent representing Rs.726,437 had been added to the income as a disallowable expense. As such, the difference between Rs.995,048 representing 25 per cent of the value of Rs.3,980,192 and Rs. 726,437 had been Rs.268,611, thus understating the tax liability and the expenditure on taxes by Rs. 75,211 in the financial statements of the year 2017.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2017 had resulted in a net profit of Rs.976,233,935 as compared with the corresponding net profit of Rs.2,839,751,855 for the preceding year, thus indicating a deterioration of Rs.1,863,517,920 in the financial result of the year under review as compared with the preceding year. Even though the net premium income had increased by Rs.2,763,322,531, the increase in net benefits and expenditure on claims by Rs.4,357,544,669 had been the main reason for the above deterioration in the financial result of 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.4, 240,847,242 in the year 2013 had increased to Rs.4,737,846,670 as at the end of the year 2014. However, it had declined in the years 2015 and 2016. It had further declined to Rs.976,233,935 by Rs.1,863,517,920 in the year 2017. 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.4,326,939,182 in the year 2013 had annually fluctuated after the said year and it had decreased to Rs.1,285,935,618 in the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

(i) In terms of paragraph (g) of Section (2) of the National Insurance Trust Fund Act, No.28 of 2006, persons receiving benefits under the Samurdhi Authority Act, No. 30 of 1995 and farmers, fishermen and persons engaged in self- employment are covered by the insurance coverage. However, the Fund had not taken action to recover premiums by implementing those insurance schemes even in the year 2017.

(ii) Failure in implementing / insufficient implementation of following activities during the year, to be implemented by each division according to the Action Plan of the year 2017 of the National Insurance Trust Fund, was observed. Details are given below.

Reference to the Action Plan	Division	Description Failure in implementing/ insufficient implementation
01	Reinsurance	It had been planned to reinsure motor and non-motor general insurance in the year 2017. Even though the initial activities of the said purpose had been commenced, the Fund had failed to complete it even by 05 November 2018.
02	Strike, Riot, Civil Commotion and Terrorist Fund	Even though it had been planned to automate the accounts of the Fund of which accounts are operated according to the Manual Accounting System, it had not been completed even by 15 October 2018.
03	General Insurance-Non-Motor Division	i. Even though this Division had planned to obtain an integrated foreign insurance deed for expanding the existing insurance coverage during the year 2017, the Fund had failed to complete the said purpose due to inability to summon a person who provides foreign facilities and to obtain reinsurance. ii. Even though it had been proposed to insure the state properties which were not insured, evidence for commencement of those activities, had not been made available. iii. Even though the Fund had pointed out that the insurance of fishing boats had been commenced in the year 2017, awareness programmes thereon had not been implemented.
04	General Insurance-Motor Division	Even though it had been planned to increase the income through the insurance of motor vehicles of the private sector, introduce the insurance of private motor vehicles of public officers as "Agrahara Motor", attract consumers through the consumer management programme and to facilitate for obtaining schemes from branch offices by providing information technology facilities, performance of those activities during the year was at a low level.
05	Natural Disaster Division	It had been planned to establish a natural disaster pool for the insurance industry and objectives such as providing a report thereon to the Chief Executive Officer and briefing the insurance industry on advantages received from the said pool, were included therein. However, no activity whatsoever relating thereto had been carried out even by 15 October 2018 and the Fund had informed that it had not been implemented due to failure in receiving the concurrence of the Insurance Association of Sri Lanka.

06	Crop Insurance and Micro Insurance Division	i. Even though it had been planned to introduce insurance coverage so as to cover migrant employees and livestock and farmers by the Micro Insurance Division, action had not been taken therefor by the date of audit. Moreover, it had been planned to implement an agricultural loan protection insurance scheme for protecting farmers from losses occurred due to loans, it had not been implemented even by 15 October 2018. ii. Even though it had been planned to insure 200,000 farmers under the payment of annual premium of Rs.1,200 through the Govi Divi Aruna Insurance Coverage and to earn an annual premium income of Rs.240,000,000, insurance of farmers or earning of any premium income had not been carried out. However, expenditure of Rs.192,780 had been incurred therefor.
07	Information Technology Division	The Audit had pointed out from several years that the preparation of financial statements is not correct due to shortcomings in existing information system. Accordingly, the Audit had been informed that the requirement of a new information technology system has been identified and a request had been made to the University of Moratuwa for obtaining the consultancy service with a view to introducing a new system. However, it was not observed in audit that any future steps whatsoever had been taken thereon.
08	Financial Division	Even though it had been planned in the year 2017 to divide the Fund into reinsurance and general insurance, those activities had not been carried out during the year. Even though this activity has been commenced by now, the Fund has stated that it cannot be implemented within a period of one year.
09	Investment Management Division	According to the Action Plan, the following activities had been planned to be carried out by this Division. However, it had not been so done even by the end of the year 2017. i. Taking action to revise provisions of the Act pertaining to investment ii. Taking action to invest in Government securities by the private sector to maximize the investment benefits iii. Strengthening the investment by purchasing shares of hospitals iv. Carrying out researches on the investment market
10	Agrahara Division	(i) In terms of Sections (ii) and (iii) of Public Administration Circular No.12/2005 (i) of 18 May 2005, it had been indicated that public officers should be compulsorily registered for the Agrahara Insurance. However, according to the information of the Department of Management Services, all public officers except for the three forces had

been 1,119,441 as at the end of the year 2017. Nevertheless, according to the information presented to Audit, the total number of public officers registered under this scheme by 10 September 2018 stood at only 696,501. Accordingly, the Fund had failed to register nearly 38 per cent of public officers who had completed 12 years of service at present under the Agrahara Insurance Scheme.

(ii) The Fund had introduced a format on 06 February 2017, notifying to send premiums received to the Fund under the Agrahara Insurance Scheme through soft copies or a compact disk including the name and the National Identity Card Number of the officer according to the monthly abatement list, with the motive of maintaining members' accounts separately, updating of monthly accounts and expediting of payment of Agrahara claims. However, 257 out of 1,744 institutions had not taken action accordingly and the Fund had failed to take future measures relating thereto and prepare a proper data base for Agrahara Insurance and to achieve the above objectives.

(iii) According to Section 37(1) of the Regulation of Insurance Industry Act, (Section 16 as amended later) the Sri Lanka Insurance Regulatory Commission may by notice in writing, require any insurer to furnish to it copies of policy forms issued by such insurer, for purpose of examining whether the interests of policy holders are being adequately safeguarded, and it shall be the duty of such insurer to comply with such notice. However, action had not been so taken by the National Insurance Trust Fund under the purview of the said Institute, relating to Gold, Silver and Retirement Insurance Scheme for public employees and the Gold and Silver Insurance Schemes for Semi Government Officers commenced in the year 2016.

(iv) The Fund had purchased 45 Agrahara Magnetic Reader Machines including cards in the years 2011 and 2015 by spending a sum of Rs.25,743,020 and only 17 machines out of them had been issued to the hospitals. Out of the machines issued to hospitals, 7 machines had been returned to the Fund in January 2018 stating that it was difficult to carry out activities by connecting with the network of hospitals and 22 machines had not been issued to hospitals. However, 05 machines out of them were in inoperative condition and the physical existence of 7 machines was not revealed to Audit. Accordingly, whether the purpose of purchasing the machines had been achieved, was questionable in Audit. Nevertheless, the Fund had informed the Audit that they have changed to the method of identifying members through a more effective system convenient to all at present and that providing with card reader machines is less effective. As such, it was observed in Audit that the above expenditure had been fruitless.

(v) The Audit had been informed that the Fund had entered into agreements with 22 hospitals for providing facilities to members submitting Agrahara cards of the Fund. Even though it was observed that the period of agreement of 13 hospitals out of them had expired, new agreements had not been entered into. Moreover, Agrahara cards introduced in the years 2016 and 2017 for retired and Semi- Government officers had not been issued.

(vi) According to the agreement, it had been indicated that system facilities are provided for identifying members through Agrahara identity cards. However, out of the 02 valid agreements, the said facilities had been provided only to one hospital. Even though Agrahara Normal, Gold and Silver cards were issued, an introduction of new discount rates was not observed separately for those cards and the Fund had not introduced the benefits entitled to the member by introducing members of Gold and Silver Insurance to hospitals.

4.2 Management Activities

(a) Using the name National Insurance Trust Fund Board by the National Insurance Trust Fund

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The National Insurance Trust Fund had used the name, National Insurance Trust Fund Board as well. In enquiring about this matter, the Fund had indicated in terms of Section 4 of the National Insurance Trust Fund Act, No.28 of 2006, which mentions the establishment of the National Insurance Trust Fund, (hereinafter called the "Board") that a National Insurance Trust Fund Board comprising persons specifically mentioned in Section 6 of the Act, is established and the said Section implies that even though the Institute can be called National Insurance Trust Fund or National Insurance Trust Fund Board, the Institute had become popularly known in the field of insurance as National Insurance Trust Fund.

(b) The following observations are made as well.

(i) As compared with the preceding year, the premium income receivable, in the General Insurance – Non-motor Division had increased by Rs.178,870,895 and a systematic procedure for the recovery of the said income was not observed in Audit. Moreover, it was observed that invoices had been issued in the year 2017 as well for debtors with a debtors' time limit exceeding 360 days, included in the said recoverable balances. Delays in the recovery of receivable balances had resulted in limiting cash inflows of the Fund and the Fund had taken action to provide new insurance coverages without taking necessary steps to recover those moneys.

(ii) In terms of Section 54 of the Act, it had been decided to appoint an independent auditor to carry out an investigation on the affairs of the National Insurance Trust Fund by the Letter No. IRCSL/DG/LEG/18/03/139 dated 27 March 2018 of the Director General of the Commission and activities relating thereto had not been completed even by the date of this report.

(iii) It was mentioned in Public Administration Circular No.12/2005 of 18 May 2005 that all officers of public and provincial public service holding permanent and pensionable posts are qualified for the Agrahara Insurance Scheme and in terms of Section 2 of the National Insurance Trust Fund Act, No.28 of 2006 as well, the Semi-Government officers were not covered by this insurance scheme. However, it was observed in Audit that 30 Semi-Government institutions are claiming benefits under Agrahara Insurance by 31 August 2018 on the approval of the Board of Directors of the Fund. Moreover, contributions of Rs.14,915,950 had been collected from 12 Semi-Government institutions by 31 December 2017 and benefits amounting to Rs.7,183,772 had been paid.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every Government institution should take action in terms of the Letter No.NP/SP/SDG/17 of 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the “2030 Agenda” of the United Nations on Sustainable Development and the Fund had not been aware of the manner of implementation of the functions coming under its scope relating to the year under review. As such, sustainable development goals, targets, the manner of achieving those targets and the indices for measuring those targets had not been identified.

6. Procurements

The following observations are made.

(i) An order had been placed for purchase of 650,000 magnetic cards and 20 magnetic card reader machines at a total cost of Rs.21,820,000 from a private institution on 04 November 2011. A sum of Rs.4,364,000 representing 20 per cent of the total cost thereof had been paid as advance therefor by the Fund. Even though 221,630 cards had been supplied on 10 October 2014, payments of Rs.2,440,000 and Rs.3,585,000 had been made for 100,000 and 150,000 cards on 21 March 2012 and 24 July 2012 respectively. Moreover, an overpayment of Rs.865,285 had been made for 28,370 cards. The said card printed in the year 2014 is presently in inoperative condition and the relevant institution was inoperative as well. Even though the Audit had made enquiries on the recovery of overpayments made and future steps taken relating thereto, no replies had been made up to now.

(ii) A sum of Rs.3,923,020 had been spent in the year 2015 for purchase of 300,000 magnetic cards and 25 magnetic card reader machines and according to the said procurement, quotations submitted by the supplier and relevant procurement files had not been presented to Audit and it had been reported that they have been misplaced.

(iii) Action had not been taken even by the date of this report to distribute 10,000 magnetic cards received to the Fund on 07 June 2018, among the relevant members.

(iv) An insurance scheme had been proposed by the budget proposals – 2016 for covering of losses occurred as a result of cyclones, storms, droughts, floods, landslides, hurricanes, earth tremors, tsunami and such other natural disasters. Accordingly, it had been proposed to introduce an entire insurance coverage to the value of Rs.10,000 million 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 coverage 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 to the Fund in the years 2016 and 2017 respectively as insurance premiums by the budget for the implementation of this scheme. The following matters were observed during the examination held in this connection.

i. The total value of the reinsurance coverage for the years 2016/2017 amounted to Rs.420 million and according to Guideline 2.14.1 of the Procurement Guidelines and revisions made thereto, procurements exceeding Rs.200 million should be carried out on the recommendation of the Cabinet Appointed Procurement Committee (CAPC). However, in the commencement of this procurement, the Fund had not obtained such recommendations.

ii. The Fund had selected a supplier without following a proper procurement procedure relating to reinsurance coverage and obtained only the covering approval of the Cabinet of Ministers on 30 May 2017 therefor. However, even by the instance of obtaining approval, which is by 06 April 2016, the private company which is the reinsurer, had not entered into an agreement with the Fund.

iii. The period of reinsurance coverage relating to the year 2016/17 had expired by 31 March 2017 and action had been taken to renew it. Evidence that the procurement activities relating thereto had been carried out properly, was not made available to Audit as well.

iv. The time frame prepared by the Fund for the said procurement and the time frame relating to the procurement process submitted to the Department of Public Finance were different from each other. Moreover, this time frame did not agree with the time frame relating to procurement activities mentioned in

Revision 31 of the Procurement Guidelines 2006. However, the Fund had given reasons that the time taken for appointing the Cabinet Approved Procurement Committee and the Technical Evaluation Committee and the time taken for completing the procurement process according to Government Procurement Guidelines had resulted in the delay in renewing the said reinsurance coverage.

v. Even though the reinsurance coverage should have been implemented again from 27 May 2018 for the year 2018/19, the agreement for the old reinsurance coverage had been extended from 27 May 2018 to 31 July 2018 by the Fund. Moreover, an additional sum of Rs.149,923,973 had been paid therefor to the reinsurance institution. The Cabinet approval had not been received even by 15 October 2018, the date of Audit for the said agreement and as such, the two relevant parties had not entered into the agreement.

vi. In terms of Section 79 of the Regulation of Insurance Industry Act, No.43 of 2000 as amended by the Regulation of Insurance Industry (Amendment) Act, No.23 of 2017, no person shall act or hold itself out as an insurance broker unless such person is a holder of a certificate of registration as a broker granted by the Board and is a member of an Association of Insurance Brokers approved by the Board. Nevertheless, reinsurance coverages had been obtained in the years 2017 and 2018 in 03 divisions of the Fund through a broker who was not registered at the Sri Lanka Insurance Regulatory Commission.

6.1 Irregular Transactions

The lease agreement on the buildings of the Head Office of the Fund had expired on 30 September 2017 and the said building had been again rented by increasing the lease rent from Rs.1,650,000 to Rs.2,400,000 contrary to the procurement process. Even though the Fund had subsequently entered into the agreement on 15 December 2017, action had not been taken to obtain an assessment of building rent from the Valuation Department. Moreover, the Fund had agreed to pay a service charge not mentioned in the old agreement and penalties relating thereto.

6.2 Identified Losses

The following observations are made.

(i) Even though the reinsurance agreement for the years 2016/2017 expired on 01 April 2017, the Fund had failed to enter into a new reinsurance agreement for the continuous implementation of the said agreement from that date. As such, the Fund could not obtain assistance of the reinsurance company for providing relief to people affected with floods and landslide disasters occurred on 25 May 2017. Accordingly, the Fund had to pay Rs.1,497,914,007 as compensation relating thereto. Moreover, the Fund had been deprived of a sum of Rs.497,914,007 receivable to the Fund if the reinsurance agreement was implemented. Further, as values of payment of compensation for the disaster occurred in November 2017, not paid by reinsurers had not exceeded the deductible claim expense, the Fund had not received compensation from the reinsurance company therefor as well. The Fund had made payments of Rs.476,614,977 contrary to the reinsurance agreement and the reinsurers had refused to reimburse those moneys. As such, the Fund had sustained a loss by the said value.

(ii) In the receipt of moneys for reinsurance balances receivable in the years 2016 and 2017, losses of Rs.3,888,779 and Rs.13,005,027 had occurred respectively due to the change in exchange rates.

6.3 Staff Administration

The approved cadre and the actual cadre of the Fund as at 31 December 2017 stood at 271 and 211 respectively while 60 vacancies existed in the permanent staff. The following observations are made in this connection.

(a) Five vacancies existed in senior posts and they comprised one post of Assistant Manager, 03 posts of Manager and one post of Internal Auditor. Officers had been appointed on acting basis from 01 September 2018 for the above posts.

(b) In terms of paragraph 13.3 of Chapter II of the Establishments Code, an acting appointment should be made as a temporary measure only and until a substantive appointment is made. However, acting appointments had been made for 04 posts for over a period of 04 months without making substantive appointments.

(c) According to the information made available to Audit, 68 officers being on day's pay and 29 officers being paid salaries on contract basis not included in the approved cadre, had been recruited in the year under review. However, files had not been maintained relating to those recruitments and evidence was not observed in Audit that recruitments had been properly made by publishing newspaper advertisements.

(d) Applications had been called for 05 posts by publishing newspaper advertisements in the year under review, spending a sum of Rs.454,844 and recruitments had not been made for those 05 posts even by 12 October 2018, the date of Audit.

(e) Even though newspaper advertisements had been published by spending a sum totalling Rs.396,405 in 02 instances in the years 2017 and 2018 for recruitment of an officer for the post of Assistant Manager – Investment and Risk Management, recruitments had not been made due to non-application of a qualified officer even by the date of this report.

(f) The Manager of the Anuradhapura Branch had been interdicted from 28 August 2018 due to a financial misappropriation and a payment of Rs.47,280 had been made for the investigation report relating thereto. However, it was not observed even by 26 September 2018, the date of Audit, whether the final investigation report had been issued or future steps had been taken.

7. Accountability and Good Governance

7.1 Presentation of Financial Statements

The Draft Annual Report and financial statements should be presented to the Auditor General within 60 days after the closure of the financial year in terms of Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003. However, the financial statements of the year under review had been presented to Audit only on 07 December 2017.

7.2 Internal Audit

Even though an Internal Audit Plan had been prepared for the year 2017, audit examinations had not been carried out accordingly and reports thereon submitted.

7.3 Budgetary Control

Variances ranging between 20 per cent and 470 per cent were observed in the comparison of budgeted income and expenditure with the actual income and expenditure of the Board, thus observing that the budget had not been made use of as an effective instrument of management control.

7.4 Tabling of Annual Reports

The Annual Report of the Fund should be tabled in Parliament within 150 days after the closure of the year of accounts in terms of Section 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003. Nevertheless, the Annual Report for the year 2016 had not been tabled in Parliament even by 31 October 2018.

8. 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 the following areas of control.

Areas	**Observations**
01.Financial Control	(i)Failure in estimating the requirement and granting advances (ii) Failure in updating Registers of Advances (iii)Non-submission of cash deposit slips and receipts according to regulations indicated in the Guidelines on Financial Accounts of the Fund, to the Branch Supervision Division

	(iv) Non-submission of payment vouchers and other evidence relating to transactions by the parties who incurred expenses during the prescribed period, to the Accounts Division. The Debtors' Age Analysis had not been updated and as such, a difference of Rs.85,037,720 was observed between the Debtors' Age Analysis and the main Ledger.
02.Accounting	(i) Defects in the accounting system being used for accounting by the Fund (ii) According to Audit observations in the preceding years, installments of distress loans and the interest thereon had been recovered from the salaries of officers as prescribed. However, ledger accounts had not been updated. (iii) Information of two Divisions are included in the financial statements and one Division had been computerized and the accounts of the other Division had been prepared manually.
03.Insurance coverage from natural disasters	Instances of improper payment of compensation relating to insurance coverage from natural disasters.
04.Deficiencies in the Management Information System	The financial statements of the Fund comprised of 02 parts and out of them the accounts and related registers had been prepared through a computerized system by one Division. However, the registers including accounts under the other Division had been maintained manually. As such, it was observed in Audit that deficiencies in accounting had occurred.