

## **Agricultural and Agrarian Insurance Scheme - 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Agricultural and Agrarian Insurance Scheme (“Board”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of comprehensive income, statement of income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, except for the effects of the matters described in the basis for Qualified Opinion section, the accompanying financial statements give a true and fair view of the financial position of the Scheme as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the scheme’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the scheme or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the scheme’s financial reporting process.

As per section 16(1) of the National Audit Act No. 19 of 2018, the scheme is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared.

#### **1.4 Auditor's responsibility of Auditing the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also,

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit 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 scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following:

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the scheme, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the scheme has complied with applicable written law, or other general or special directions issued by the governing body of the scheme;
- Whether the scheme has performed according to its powers, functions and duties; and
- Whether the resources had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Audit Issue	Management Comment	Recommendation
According to paragraph 59 of Sri Lanka Accounting Standards 37, Although active contributor identification and life expectancy assessment should be done in a timely manner but without doing so, An allocation of Rs.19,016,134 for the Farmers' Death Gratuity Fund as at 31 December 2019 has been mentioned in the financial statements.	As the Farmers' Pension Scheme is currently in operation without recruitment of new contributors, A life expectancy assessment has not been done and it is expected that the life expectancy assessment will be done as per the schedule with the restructuring of the pension scheme in the future.	Life expectancy assessment should be done in a timely manner.

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The value of 76.6 perches of land belonging to the official housing scheme in Mahiyanganaya, Embilipitiya and Anuradhapura districts had not been assessed and taken into account. Also, the value of the buildings at the Embilipitiya official residence, which was	Necessary work has been initiated in consultation with the District Deputy / Assistant Directors regarding the valuation of lands in Mahiyanganaya, Embilipitiya and Anuradhapura and the value of the Embilipitiya official quarters and action	The value should be assessed and taken into account.

leased out by the National Housing Development Authority in 1986, had not been assessed and accounted. will be taken to finalize and estimate the valuation expeditiously.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivable

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Employees' loans and advances remained from 5 to 25 years totaling Rs. 692,302 are coming forward in the accounts without any timely recovery from the employee gratuity or guarantors.	Summons had been sent to recover loan balances and interest of the retired / Resigned officers from the Board and If the payment is not made accordingly, legal action will be taken in the future. Further, the loan balances of many of these defaulted officers were recovered when they came to the Board to obtain the necessary documents to obtain the Employees Provident Fund, and action is being taken to recover the loan balances of other officers through guarantors.	Action should be taken to recover the loan from the relevant officials.
(b)	The totaling amount of Rs.708,347 which has been coming forward for a period of 5-15 years are coming forward in the accounts without settling the salary, salary advances and mixed debtor balances.	Arrangements are already being made to recover this balances of Rs.708,347 due to the Board from various parties.	Action should be taken to recover from the relevant parties.
(c)	The total amount of compensation that could be recorded for the 2019 Yala season is Rs. 613 million from the Insurance Trust Fund for the first payment of Rs. 10,000 out of Rs. 1,284 million. According to the	They have been informed in writing and orally on a number of occasions to pay the insurance compensation due under the reinsurance for the 2019 Yala season and this has been discussed with the Treasury and the National	Action should be taken to recover the relevant arrears expeditiously.

Reinsurance Agreement with the Insurance Trust Fund for the 2019 Yala Season, the Board had not yet taken action to recover the remaining Rs.312 million from the Insurance Trust Fund after the Rs. 359 million in liabilities had been removed.

Insurance Trust Fund. We have been informed that necessary steps will be taken in this regard in the future.

## 2 Financial Review

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### 2.1 Financial Result

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The operating result for the year under review was a surplus of Rs. 702,186,913 and the corresponding surplus for the previous year was Rs. 978,995,887. Accordingly a decrease of Rs.276,808,974 was observed in the financial result. The Premiums received from the General Treasury for compensation for the Yala and Maha seasons in 2019 has decreased by Rs.460,120,000 as compared to the year 2018 and an increase of Rs. 328,582,848 in the payment of reinsurance premiums as compared to the previous year were the main reasons for this decrease.

## 3 Operational Review

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### 3.1 Management Inefficiencies

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	Audit Issue	Management Comment	Recommendation
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(a)	Circular No. 07/2017 (Amendment 11) issued by the Secretary to the Ministry of Agriculture on 02nd September 2019 contains the terms and conditions for charging a premium for accident insurance cover when paying compensation for crop damage from the 2019/20 Maha season. Although a formal program had to be prepared and released, it had not yet been done.	According to the circular issued by the Secretary to the Ministry of Agriculture on 02.09.2019, the corona epidemic prevailed in the country at the time of calculation of compensation and release of compensation, even though an insurance policy was to be issued subject to deduction of compensation premium from the farmers who were compensated from the 2019/20 Maha season. The Board of Directors was informed that the management had decided not to deduct the premium from the compensation in such a case.	Steps should be taken to formulate a formal program in accordance with the circular rules.

Accordingly, it has been approved not to implement this for the 2019/20 Maha season and to implement it in a circular manner from the next season.

Accordingly, the accident insurance policy will be issued from the 2020 Yala season.

- (b) Although the corporate plan states that a database containing information on farmers throughout the island should be developed using computer technology, it had not been developed by the end of the year under review and no software system had been purchased to store that data.
- The software has been developed and completed in collaboration with the International Finance Corporation (IFC). Full technical support for the software system and database is provided by the International Finance Corporation. Entering information into the database is currently being done at the field level.
- The database should be set up quickly using the customized software.

### 3.2 Non-economic transactions

Audit Issue	Management Comment	Recommendation
<p>The Board had paid Rs.565,800 to the Land Reclamation and Development Corporation of Sri Lanka on 04 June 2008 for the construction Plan of an office building. Although the institution had been informed that the money could not be repaid, the amount paid due to the abandonment of the project was non-economic, but it was shown as a capital advance under current assets.</p>	<p>Plans are afoot to build the head office of the board within the next year and the Sri Lanka Land Reclamation and Development Corporation will take steps to complete the initial land creation after allocating the relevant land. It will be shown as a capital advance until the work is done.</p>	<p>Action should be taken to construct the head office building expeditiously.</p>

### 3.3 Operational Inefficiencies

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	<p>Although the reinsurance value is Rs. 3,500,000,000 for the maximum insurance liability amount which is likely to be about Rs. 5,000,000,000 to provide free insurance for mandatory 06 crops for the period between 01st April 2018 to 31st March 2019 due to the incorrect application of the Central Bank Report the said insurance liability has been determined as Rs. 7,500,000,000 and the institution has entered in to a reinsurance liability of Rs.5,315,000,000. Thereby there was Rs. 675,000,000 had to be paid as reinsurance premium. Up to Rs. 2,185,000,000 / - from the damage value reported under the reinsurance Agreement is entitled to go for reinsurance after payment by the Agricultural Insurance Board. However, the total compensation recorded for 2018 Yala and 2018/19 Maha was only Rs. 1,016,824,823 and the Board was unable to obtain any compensation from the reinsurance.</p> <p>It was observed that if the total insurance liability value had been approximately assessed according to the previous damaged data, the amount paid to the foreign insurance the institution could have been reduced by Rs.473,032,000.</p>	<p>Reinsurance has been obtained as there was a high risk due to the prevailed climate condition and as there was a high risk when compared to past seasons under the same conditions. This reinsurance was done on the basis of liability predictions / forecasts according to insurance procedure. If damages caused as expected those could have been compensated using the reinsurance. When obtaining this reinsurance facility it has been done through a Tender board approved by the Cabinet of Ministers and a technical committee comprising experts in this field according to the insurance procedure and therefore this installment should not be identified as a expense in vain. Due to the inability to make a more accurate forecast of weather and other damages outside the control of the Board, and the damage was not reported as expected, the expected benefits of reinsurance did not materialize.</p>	<p>The risk must be accurately assessed and the firm must enter into an agreement with a Reinsurer so that it can reap the benefits.</p>

- (b) It was planned to build a centralized agricultural information system through the Agriculture and Agrarian Insurance Board under the Digital Economic Strategy Development Project for Sri Lanka implemented by the Ministry of Agriculture. The pilot project was implemented to develop a database of farmer information based on Gampaha and Badulla districts, identify farm lands for Sri Lanka and computerize them. Although it was hoped to use the database prepared by the Department of Agrarian Development for the Gampaha District, the Board identified weaknesses in the inability of the database to be directly applied during the implementation of the project. Due to protests and financial difficulties caused by the Agricultural Research Officers, only 10,825 plots and 9,955 plots could be mapped out of 27,139 plots of 80,006 plots in 26 Agrarian Service Centers and 10 Agrarian Service Centers in the Gampaha and Badulla districts respectively. It is observed that This project operated for only 07 months and it stopped halfway, if This project not implement in the future, the expenditure of Rs. 9,610,720 that incurred for this project may be a vain expenditure.
- These projects have not been halted and the program is intended to be implemented island wide based on the experience gained from the Feasibility Study conducted in Gampaha and Badulla districts. The required project proposals have already been submitted to the Ministry.
- Expenditure incurred should not be vain and future expenditure should be effective.
- (c) Due to the delay in the payment of crop damage compensation by the General Treasury to the farmers who
- Cash requests have been made to the Treasury for expeditious compensation and action will be taken to release the
- Action should be taken to pay crop damage compensation in a timely manner.



are insured under the free insurance, the payment of crop damage compensation for the 2017/2018 Maha and Compensation for crop damage in the 2018 Yala season was delayed for a year and was made in the 2019 Yala season. Also, compensation of Rs. 598,972,934 for 20,100 farmers who lost their crops for the 2018/2019 Maha season had been paid in February 2020, That is during the 2019/2020 Maha season. Thus some inefficiency was observed in the free insurance program. Field inspections in the Polonnaruwa, Anuradhapura and Kurunegala districts further revealed that farmers' confidence in the Agriculture and Agrarian Insurance Board had been eroded due to non-receipt of timely compensation.

- (d) Although the Agriculture and Agrarian Insurance Board has entered into an agreement with the International Monetary Fund (IMF) affiliated to the World Bank to formulate and implement an insurance scheme based on indicators in 6 districts between May 05, 2016 and May 2019, During the 2018/2019 Maha season, it was implemented at the research level in Vavuniya, Anuradhapura, Kilinochchi and Mullaitivu districts. Although it was hoped to introduce modern methods of damage assessment through the implementation of the Compensation calculation has already commenced in Gampaha and Hambantota districts under the index based insurance scheme. Also, there are no plans to issue farmer identity cards under the index-based insurance scheme. Discussions are underway to issue a formal Farmer Identity Card in the future.
- Efforts should be made to assess all damages in the island using modern methods and to issue farmer identity cards.

index-based insurance scheme, compensation was calculated under this scheme only in the Vavuniya District.

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| (e) | <p>Inspections by the Kegalle and Hambantota District Offices revealed that the failure of the District Offices to renew the contracts renewed after the expiry of the insurance period for cattle insured under the Livestock Insurance had resulted in a decrease in the livestock insurance revenue. During the inspection of the Kegalle District Office, 64 out of 224 cattle insurance agreements in 2017 and 2018 had expired in 2019 but no action had been taken to renew those insurance.</p> | <p>The reasons for not renewing the contract after the expiry of the insurance period for cattle insured under livestock insurance have been identified. The main reason for this is that since these cows are given on bank loans, they only need to get insurance to present to the bank. In addition, it has been reported that various NGOs and institutions also take out insurance at the outset as a security measure in providing cattle to farmers. After that it is not the farmers' concern about insurance. However, after identifying these conditions, the insurers identified in three months before the end of the contract, explained the value of the livestock insurance and instructed the district offices to implement a retention program for future years as well. In addition, it is hoped to maintain direct contact with donor agencies, NGOs and banks as a solution.</p> | <p>Steps should be taken to develop livestock insurance schemes.</p> |
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### 3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
(a) The Official quarters situated at Embilipitiya was in idling for over 21 years without carrying out necessary repairs.	Necessary steps will be taken to repair and use of the said assets.	Should take necessary steps to repair and use the idle assets.

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| (b) | Although lands had been acquired by the respective divisional secretariats to construct district offices of agrarian insurance board in the districts of Kandy, Ampara, Manampitiya and Mahawa without taking steps to construct buildings in those lands, the officers had been maintained in the rented out buildings for 2-12 years from the said date. | Will be taking steps to construct after taking over the ownership of these lands properly and procuring funds to construct district offices.  | Should take steps to construct district offices quickly and to vacate from rented buildings. |
| (c) | Due to the fact that there are only 03 reserved drivers for 07 drivable pool vehicles that owned by the institution, Those vehicles were in an underutilized condition.  | Although approval has been sought from the Department of Management Services, recruitment for the year 2020 has not been approved. However, the Department of Management Services has been asked to approve the recruitment of the approved number of drivers, explaining the service requirements for the recruitment. | Action should be taken to recruit adequate drivers.  |

### 3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) The revised Recruitment Procedure (SOR) approved by the Board of Directors No. 463/14 dated 30th July 2015 for future human resource requirements had not been amended to suit the present and action had not been taken to obtain the approval of the Department of Management Services till the end of the year under review.	It has been 05 years since the approval was obtained and due to the expansion of the Board, the need for staff has increased significantly and a new recruitment procedure is being formulated focusing on all the requirements. It is scheduled to be submitted to the Board of Directors by August. Thereafter, the new amendment is planned to be submitted to the Department of Management Services for approval.	Steps should be taken to update the recruitment procedure.

- (b) Out of 421 approved staff posts at the end of the year under review, there were 139 vacancies in 19 staff grade posts, 98 non-staff posts and 22 junior grade posts. This shortage of officers was an impediment to the efficient and timely implementation of office and field duties in the Head Office and District Offices. As a result, the Board has recruited 13 Contract Officers and 48 Daily Allowed Training Officers to perform the role of Permanent Staff.
- Steps are being taken to fill all these vacancies after the Parliamentary Elections and the approval of the Chairman of the Election Commission has been obtained to publish newspaper advertisements for the speedy recruitment of staff grade posts and arrangements are being made to publish newspaper advertisements regarding the vacancies.
- Action should be taken to fill the vacancies with the approval of the Department of Management Services.