

Agricultural and Agrarian Insurance Board
Agricultural and Agrarian Insurance Schemes
Financial Statements for year ended
31 December 2002

The Financial Statements for the year ended 31st December 2002 have been drawn up in conformity with the agricultural and agrarian Insurance Act. No. 20 of 1999, institutionalizing the Agricultural and Agrarian Insurance Board and in terms of section 13 (6) of for the Finance Act. No. 38 of 1971.

The Balance Sheet as at 31st December 2002 pertaining to the AGRICULTURAL & AGRARIAN INSURANCE BOARD, the related Income and Expenditure Account and the statement of changed in financial position for the period ended 31.12.2002 along with the related Notes 01 to 08 are annexed.

**Agricultural and Agrarian
Insurance Board**

Agricultural and Agrarian Insurance Schemes

**Financial Statements for year ended
31 December 2002**

**CROP INSURANCE SCHEME
BALANCE SHEET AS AT 31st DECEMBER 2002**

ASSETS EMPLOYED	NOTES	AGR. & AGRARIAN INSURANCE BOARD 31/12/2002	AGR. & AGRARIAN INSURANCE BOARD 31/12/2001
		Rs.	Rs.
NON CURRENT ASSETS	2	8,363,958.32	8,522,852.10
INVESTMENTS	3	49,785,229.70	38,162,465.70
CURRENT ASSETS	4	36,681,839.18	41,834,946.49
LESS: CURRENT LIABILITIES	5	(26,883,904.86)	(25,963,143.89)
WORKING CAPITAL		9,797,934.32	15,871,802.60
EXCESS OF ASSETS OVER LIABILITIES		67,911,901.64	62,557,120.40
FINANCED BY: AUTHORISED CAPITAL		20,000,000.00	20,000,000.00
CAPITAL-GOVT. GRANT	6	60,747,184.55	58,747,184.55
OTHER FUNDS			
A.I.B. ACCUMMULATED DEFICIT	7	(50,157,190.55)	(53,191,285.65)
SIDA FUND		5,931,221.50	5,931,221.50
A.A.I.B RESEVRVE FUND		355,906.84	
REHABILITATION FUND		70,000.00	70,000.00
KIRINDIOYA PROJECT FUND		1,000,000.00	1,000,000.00
LONG TERM LIABILITIES			
GOVT. LOAN		50,000,000.00	50,000,000.00
		67,947,122.34	62,557,120.40

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Chairman

.....
Director Finance

AGRICULTURE & AGRARIAN INSURANCE BOARD
CROP INSURANCE SCHEME
INCOME & EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31.12.2002

AGR. & AGRARIAN INSURANCE BOARD
31/12/2002

AGR. & AGRARIAN INSURANCE BOARD
31/12/2001

INCOME	NOTES	Rs.	Rs.
PREMIA - Paddy	8.01	2,717,416.45	3,392,140.78
- Livestock		2,106,076.69	2,949,052.18
- Suwasetha Contribution		229,785.00	1,045,635.00
- Subsidiary Crops		793,028.44	950,894.87
- Export Crops		651,715.50	3,007,248.50
- Coconut		12,224.00	-
- Stores Insurance		29,510.88	554.88
		6,539,756.96	11,345,526.21
Interest -From treasury bills		6,332,779.98	5,972,153.00
-Loans to employees		541,031.70	527,815.30
-Motor cycle Loans		5,721.13	13,270.43
T O T A L I N C O M E		13,419,289.77	17,858,764.94
Less: Expenditure			
Indemnity - Crop insurance	8.02	(2,006,681.33)	(2,849,584.12)
- Livestock		(1,950,487.40)	(1,611,658.60)
- Suwasetha		(158,701.00)	(31,811.98)
- Subsidiary crops		(557,719.83)	(757,359.59)
- Export Crops		(1,109,590.98)	(984,397.12)
Operational Expenses- Crop insurance	8.03	(205,580.04)	(368,648.10)
- Livestock	8.04	(236,112.82)	(191,371.80)
- Other	8.05	(76,279.62)	-

		(6,301,153.02)	(6,794,831.31)
GROSS SURPLUS (DEFICIT)		7,118,136.75	11,063,933.63
Add:			
Sundry income - Livestock		139,831.69	72,950.11
- Others		94,850.00	76,505.46
Less: Loss on Disposal A\C (Computer)		(7,600.00)	-
		7,345,218.44	11,213,389.20
Less: expenses			
Administrative Expenses	8.06	(36,304,181.21)	(37,785,116.75)
Finance & other Expenses	8.07	(54,195.40)	(40,812.88)
Surplus/(Deficit) before Govt. Grant		(29,013,158.17)	(26,612,540.43)
Add: Govt. Grant For Admin: Expenses		32,200,000.00	36,197,500.00
NET SURPLUS (DEFICIT)		3,186,841.83	9,584,959.57
for the year			

**CROP INSURANCE SCHEME
APROPRIATION ACCOUNT
FOR THE YEAR ENDED 31.12.2002**

Net Surplus Before Provision	3,186,841.83
Less:	
Provision For A.A.I.B Reserve Fund	355,906.84
Net Surplus After Provision	2,830,934.99

Cash flow for the ended
31.12.2002
Agricultural & Agrarian
Insurance Board
Agricultural & Agrarian Insurance Scheme

	Rs.	Cts.	Rs.	Cts.	Rs.	Cts.
Operational Expenses Crop Insurance					205,580.04	
Operational Expenses Livestock					236,112.82	
Operational Expenses Other					76,279.62	
					<u>517,972.48</u>	

Loans	546,752.83	<u>6,879,532.81</u>	13,419,289.77
Indemnity -			
Suwasetha	(159,701.00)		
Crop Insurance	(2,006,681.33)		
Live Stock	(1,950,487.40)		
Export Crop	(1,109,590.98)		
Subsidiary	(557,719.83)	(5,783,180.54)	
Operational Expenses		<u>2,326,848.42</u>	<u>(3,456,332.12)</u>
Total out from operating activity			9,962,957.65
Investments		(11,622,764.00)	
Work in progress		(110,000.00)	
Fixed assets		<u>(1,077,112.39)</u>	<u>(12,809,876.39)</u>
			<u>(2,846,918.74)</u>
Govt. Grant Capital			<u>2,000,000.00</u>
			(846,918.74)
 INCREASE IN CASH			
Cash Balance as at 31.12.2001		4,384,443.82	
Cash Balance as at 31.12.2001		<u>3,537,525.08</u>	
INCREASE IN CASH		<u>(846,918.74)</u>	

(Draft)

Confidential

FB/P/A.AIB/03/02

March, 2003

The Chairman
Agricultural And Agrarian Insurance Board

Report of the Auditor General on the accounts of the Agricultural and Agrarian Insurance Board for the year ended 31st December 2002 in terms of section 14(2) (c)of the Finance Act No 30 of 1971

The Audit of accounts of the Agriculture & Agrarian Insurance Board for the year ended 31st December 2002 was carried out under my direction in person of provisions in Article 154(1) of the constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with section 13(1) of the Finance Act no 38 of 1971. My observations which I consider should be published with the annual report of the board 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 will be furnished to the Chairman of the board in due course.

1:2. **Scope of Audit**

Audit opinion , comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and extents of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me.

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The audit was carried out in accordance with Sri Lanka Auditing standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates

and judgements made in the preparation of financial statements, evaluation of their overall presentation and determination whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Subsections (3) and (4) of section 13 of the Finance Act No 38 of 1971 give discretionary powers to the Audit General to determine the scope and extent of the audit.

2. Accounts

2:1:1 Audit Opinion

Except for the effects of the adjustments arising from the matters referred to paragraph 2:3 of this report, I am of opinion that the financial statements have been satisfactorily prepared to present fairly in all material respect the financial position of the Agricultural and Agrarian Insurance Board as at 31st December 2002 and the result of its operations and the cash flow for the year then ended in accordance with the Sri Lanka accounting standards and the stated accounting policies as set out in Notes . 1 .01 to 01.03 to the financial statements.

2:2 Financial Results

According to the accounts presented the operating deficit of the Board for the year ended 31st December 2002 before taking into account the grant received from the governments for administration expenses amounted to Rs. 29,013,158 as compared with Rs. 26,612,540 for the previous year. The deficit had been converted into a surplus of Rs. 3,186,841 after taking into account the Government Grant of Rs. 32,200,000 for the year under review as compared with the surplus of

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Rs. 9,584,959 after taking into account the Government grant of RS. 36,197,500 for the previous year.

2:3 Comments on Accounts

2:3:1. Accounting Policies

The following items of expenditure brought to account as expenditure of the Board during the year under review did not represent the total expenditure

incurred on each item of expenditure and these were the balance expenditure remaining after transfer on an estimated basis to the Farmers' Pensions and Fishermen's Pension Schemes.

Items of Expenditure	Amount	Expenditure transferred	
		To Farmers' Pensions Scheme as a Percentage	to Fishermen's Pensions Scheme as a Percentage
(a) Salaries, Employees' Provident fund, Employees Trust Fund, Travelling And subsistence Allowances, Medical Aid Expenditure ,Payment Of Gratuity, Newspapers, Maintenance of Buildings And Telephone Expenses	29,339,538	50	
(b) Rent, Electricity, Water And Labour Charges	1,171,891	50	10
(b) Maintenance of Office Equipment	162,530	50	10
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(d) Maintenance of Motor Vehicles	508,842	70	02
(e) Fuel	242,917	70	02

2:3:2 Understatements in the Accounts

Computation of the balance of printed materials stocks as at the end of the year under review had not been done correctly according to stores records thus resulting in an understatement of the balance of printed materials stocks as at end of the year by Rs. 318,600.

2:3:3 Inappropriate Disclosures in the Accounts

A sum of Rs. 1,719,000 had been received in 1991 under Treasury Miscellaneous Services Head for payment of income tax in respect of year 1984/85 and 1986/87. Of this , a sum of Rs. 1,114,200 had been paid in that year to the department in Inland Revenue. The balance Rs. 604,800 had not been refunded to the Treasury and it had been brought to account as an amount to the Department of Inland Revenue

2:3:4 Accounts Receivable

The Balance of loans and advances to employees as at the end of the year under review amounted to Rs. 13,687,952 and an effective arrangement had not been in operation to recover Rs. 722,801 of this amount drawn by employees who had left the service for various reasons.

2:3:5 Un reconciled Accounts

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According to the accounts of this scheme for the year under review, a sum of Rs. 2,358,642 had been shown as receivable from the Farmers' Pension scheme. However according the accounts of the Board the corresponding amount had been shown as Rs. 2,214,571. The reason for this difference had not been made available to the audit.

2:3:6 Non-Compliance with Laws ,Rules, Regulation etc.

The provisions in the Government Financial Regulations Nos. 1645, 1646, 700 (5) and 387 relating to maintenance of vehicle log books, running charts, submission of copies of tender document for audit and paying officer responsibilities were not complied with.

3. Profitability

According to the accounts presented , the Financial results of the Board for the year under the year review and the preceding 03 years as compared with the capital employed are given below :

Year	Government Contribution Towards As at 31 December	Surplus (deficit) for the year	Surplus (Deficit) as a percentage of capital	Accumulated Deficit at the end of the year as per accounts rs (m)
From 01/01/1999 to 15/08/1999	50,147,185	7,292,756	14.5	(70.8)
From 16/08/1999 to 31/12/1999	51,747,185	453,725	0.9	(70.9)
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31/12/2000	54,747,185	11,134,591	20.3	(63.2)
31/2/2001	58,747,184	9,584,959	16	(53)
31/12/2002	60,747,184	3,186,841	5.2	(50)

3:1 Premium Income

According to the accounts presented , the premia income of the Board for the year under review compared with the year 2002 is given below :

Income	2001	2002	Decrease By
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	RS	RS	%
Paddy	3,392,140	2,717,416	20
Livestock	2,949,052	2,106,076	29
Suwasetha Contribution	1,045,635	229,785	78
Subsidiary Crops	950,894	793,028	17
Export Crops	3,007,248	651,715	78
Total Income	11,345,526	6,539,756	42

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The premia income earned from major schemes had come down drastically as compared with the previous years results.

3:2. Operational Performance

The details of premium income received and indemnity payments made in the year under review as compared with previous two years are given below ;

Year	Premium (Rs. M)	Increase (Decrease) %	Indemnity Payments %	Increase (Decrease) percentage of	Indemnity payments as Received Premium Income	Income
2000	13.2	(14)	5.9	5	45	

2001	11.3		6.2		55
		(42)		(8)	
2002	6.5		5.7		88

According to the above figures, It was observed that while premium income had decreased by 42% in the year 2002, the indemnity payments had decreased only by 8%.

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3:2. Suwasetha Health Insurance Scheme

A sum of Rs (5,794,491) had incurred in the year 1999 as printing expenses for Suwasetha Health Insurance Scheme which was commenced in 1999. However as at end of the year under review the printing materials in stock was Rs. 1,236,000.

The above figure represented 383% as compared with the premium income earned from this scheme From its inception up to 31st December 2002 and 3000 % when compared with the claims paid relating to this scheme.

3:3 Indemnity Paid at Ampara District

It was observed that the indemnity payments made for Paddy Insurance exceeded the premium collected in the Ampara District specially during Maha Season. The details of premium income collected and indemnity payments made for Paddy Insurance in the Ampara District from 1989/1990 to 1998/1999 Maha and Yala Season are as follows:

Season	Collected Premium Income Rs.	Indemnity Payments Rs.
--------	---------------------------------	---------------------------

Maha	7,582,649	15,075,658
Yala	3,833,496	2,815,166

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The damage to crops during Maha reason due to were very high compared with the Yala reason in the Ampara District. Therefore number insured during Maha reason was very high risk. However the Board had not revised the premium in respect of Maha season in the Ampara District until the year 2002.

3:4 **The effects of competitiveness due to under taking Crop Insurance by private Insurance companies.**

A company had entered into crop insurance business commencing from the year 2000 and the acreage insured by them during 2001 was 7545 hectares as compared to 3233 hectares insured with the Board.

It is revealed from the above that the Board should reconsider the entire scheme to increase the farmers insuring with them.

3:5 **Operating Efficiency and Achievement of Objectives.**

The Agricultural & Agrarian Insurance Board had failed to achieve the objective as set out in the following sections of the Agricultural and Agrarian Insurance Board Act No 20 of 1999.

- (b) Establishment and operation of an Insurance Scheme relating to Agricultural equipment and implements and other movable and immovable properties of agriculturists.
- (c) Insurance Scheme relating to storage and preservation of agricultural and horticultural products and herbal plants, Fisheries and Forestry products.

- (d) The operation of insurance scheme for the medical benefits and social Security for the benefits of agriculturists was unsuccessful.

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(II) Sub-Section 24 (4)

While the Board in order to achieve these objectives, the administrative expenses of the Board during the year under a review amounted to Rs. 36,876,349 even after charging expenses to the Farmers' and Fishermen's insurance schemes and the claims paid to Farmers amounted to Rs. 5,783,180 . Due to the failure to expended the activities of the Board in order to achieve these objectives as anticipated by act No 20 of 1999 , It was observed that for every Rs. 6.00 spent by the Board for its administrative expenses. It had paid only Rs. 1.00 as claims. It was also observed that the Board which was established solely for the welfare of farmers had failed to pay at least to the extent of 1/6 th of its overhead expenses to farmers as their benefits. This position should be taken into consideration and appropriate steps taken to provide a more efficient service.

3:6 Liquidity

Current liabilities as at the end of the year review represented 83% of current assets and it was 62 % as at the end of the preceding year.

3:7 Funding Arrangement for payment Gratuity

An accumulated provision in a sum of Rs. 14,571,940 had been made as at 31st December 2002 For the payment of gratuity to employees. However, no fund had been created to meet future Liabilities as and when they arise relating to these payments.

3:8 Physical Performance against targets

According the activities plan of the Board out of the targets set-up in respect of 16 Insurance Scheme only Goat Insurance Scheme and

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Sugar Cane Insurance Scheme had achieved the targets. The achievement of Seven schemes was less than 20% and four schemes achievement running from 20% - 40 % . Further 3 schemes had not showed any progress.

It would appear from the above that the achievement against targets set under various insurance schemes of the Board was very poor.

3:9 **Budgetary Control**

Significant variances were observed between estimated income and expenditure and actual for the year under review thus indicating that the budget had not been made use of as an instrument of management control.

4 **Systems and Controls**

Deficiencies observed during the courses of audit will be brought to the notice of the Board by my detailed report in terms of section 13(7) (a) of the Finance Act. Special attention is needed in respect of the following areas of control.

- (a) Operation of Insurance Schemes
- (b) Advances
- (c) Loans and Advances to Employees
- (d) budget

(S.C.Mayadunne)
Audit General

**AGRICULTURAL
&
AGRARIAN INSURANCE BOARD**

**FARMERS PENSION
&
SOCIAL SECURITY BENEFIT SCHEME**

**FINANCIAL STATEMENTS
2002**

AGRICULTURAL & AGRARIAN INSURANCE BOARD
FARMER'S PENSION & SOCIAL SECURITY BENEFIT SCHEME
BALANCE AS AT 31 ST DECEMBER 2002

	NO TE	2001	2002
<u>CAPITAL ASSETS</u>			
Non Current Assets	1	3,856,352.42	4,977,226.19
<u>INVESTMENT</u>			
Fixed Deposit (S.M.B.)	2	716,745,212.73	839,393,937.11
Treasury Bills	3	1,280,967,100.00	1,528,282,840.00
Treasury Bills (Staff Security)		125,520.00	-
Investment P.B.		55,000,000.00	-
		2,052,837,832.73	2,367,676,777.11
<u>CURRENT ASSETS</u>			
Stock	4	6,402,804.55	6,360,210.64
Debtors	5	10,308,174.66	8,388,557.12
Interest Receivable	6	128,687,907.82	154,105,433.39
Receivable Income	7	12,149,048.65	15,760,231.78
Cash at Bank	8	27,171,505.62	(767,206.98)
		184,719,441.30	183,847,225.95
<u>LESS</u>			
<u>CURRENT LIABILITIES</u>			
Creditors	9	9,282,731.30	8,024,829.05
Accrued Administrational Expenses	10	402,699.54	778,676.31

Payable Audit Fees	11	493,176.00	793,176.00
		10,178,606.84	9,596,681.36
Net Current Assets		174,540,834.46	174,250,544.59
Non Current Assets Investment & Net Current Assets		2,231,235,019.61	2,546,904,547.89

		2001	2002
REPRESENTED BY			
Farmer's Pension Scheme Fund		1,769,836,077.16	2,102,211,244.48
Excess Income Farmer Pension Scheme		338,785,823.58	270,225,362.33
Excess Income Over Expenditure		(6,410,656.26)	22,119,000.32
Group Insurance Fund		115,483,141.00	138,556,861.00
		2,217,694,385.48	2,533,112,468.13
Premia Collection Undivided		296,482.91	353,258.92
Capital Reserve Account		9,916,286.08	10,110,935.70
F.A.O. Grant		547,885.14	547,885.14
Government Grant			
Computer System		1,780,000.00	1,780,000.00
Group Insurance Contribution Obtained From Insurance Corporation Ltd.,		1,000,000.00	1,000,000.00
		13,540,634.13	13,792,079.76
		2,231,235,019.61	2,546,904,547.89

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Chairman

Agricultural & Agrarian Insurance Board

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Director(Finance)

Agricultural & Agrarian Insurance Board

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Director
(Pension)
Agricultural &
Agrarian
Insurance Board

AGRICULTURAL AND AGRARIAN INSURANCE BOARD
FARMER'S PENSION AND SOCIAL SECURITY BENEFIT SCHEME
INCOME & EXPENDITURE ACCOUNT FOR THE
YEAR ENDED 31 ST DECEMBER 2002

	2001	2002
<u>ADMINISTRATION INCOME</u>		
Interest Income For Administration Expenses	46,640,000.00	56,000,000.00
<u>OTHER INCOME</u>		
Farmer's Contribution Towards Adm. Expenditure	8,128,920.00	7,676,175.00
Special Loan Interest	-	-
Other Income	3,860.50	9,817.22
	8,132,780.50	7,685,992.22
Total Administration Income	54,772,780.50	63,685,992.22
<u>LESS</u>		
<u>EXPENDITURE</u>		
Allowance to Board & T.A.C. Members	21,300.00	54,800.00
Admi.& Establishment Expenses	54,938,405.15	39,136,839.02
Incentive for Enrolment of Farmers	2,786,451.50	3,977,315.25
Commission for Collection Agents	3,006,742.75	2,094,687.32
Consultation Fees	183,400.00	499,000.00
Assets Disposal Account	-	7,600.00
Total Administration Expenditure	60,936,299.40	45,770,241.59
Excess Income Over Expenditure	(6,163,518.90)	17,915,750.63

Previous Year Adjustment	(247,137.36)	4,203,249.70
Excess Income C/F	(6,410,656.26)	22,119,000.33

AGRICULTURAL AND AGRARIAN INSURANCE BOARD

**FARMER'S PENSION SOCIAL SECURITY
BENEFIT SCHEME
REVENUE ACCOUNT FOR THE YEAR ENDED
31ST DECEMBER 2002**

<u>FARMER'S PENSION FUND</u>		
<u>INCOME</u>		
Interest Income	268,443,045.31	245,009,675.95
Farmers Contribution	212,264,838.76	220,680,792.26
Insurance Premia	16,257,840.00	15,352,350.00
Total Fund Income	496,965,724.07	481,042,818.21
<u>LESS</u>		
<u>EXPENDITURE</u>		
Refund of Contribution	5,298,470.00	5,644,161.00
Refund of Contribution Net		
Interest Paid	1,545,835.12	1,831,691.00
Disablement Gratuity	1,204,428.12	1,520,874.01
Group Insurance Paid	33,361,975.00	35,844,720.00
Bank Commission (Collection Account)	60,442.54	70,166.62
	41,471,150.78	44,911,612.63
	455,494,573.29	436,131,205.58
PENSION PAYMENTS		
Paid Pension Payments		
Commission Pension Payments		

Balance Pension Payments	116,026,818.35	165,149,195.00
Total Pension Payments	518,260.00	631,055.00
	163,671.36	125,593.26
	116,708,749.71	165,905,843.26
Excess Transferred to Farmer's Pension Scheme		
	338,785,823.58	270,225,362.32

**The Chairman,
Agricultural and Agrarian Insurance Board.**

Report of the Auditor General on the accounts of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2002 in terms of Section 14 (2) © of the Finance Act No.38 of 1971.

The audit of accounts of the Farmers' Pension and Social Security Benefit Scheme for the year ended 31 December 2002 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 Section 13 (1) of the Finance act No. 38 of 1971 and Section 28 (4) of the Farmers' Pension and Social Security Benefit Scheme Act No. 12 of 1987. My observations which I consider should be published with the annual report of the Scheme in terms of Section 14 (2) © of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was furnished to the Chairman of the Agricultural and Agrarian Insurance Board in due course.

1.2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting

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the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgements made

in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act. No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2 Accounts

2:1 Audit Opinion

In view of my observations appearing in this report, I am unable to express an opinion on the accounts presented. Major deficiencies observed are shown below.

Deficiencies	Reference to Paragraph of this Report
(a) Accounting Policies	2:3:1
(b) Unreliability of investments And interest thereon	2:3:2
(c) Understatements and overstatements In the accounts	2:3:3
(d) Inappropriate disclosures in the accounts	2:3:4
(e) Lack of evidence for audit	2:3:5
(f) Unexplained differences	2:3:6
(g) Non-compliance with laws, rules, Regulations and management decisions	2:3:7
(h) Non-maintenance of individual accounts of the contributors	3:2:2
(i) Fraudulent withdrawals	3:2:4
(j) Financial position of the Farmers' Pension Fund	3:3
(k) Loss of interest	3:5
(l) Weakness in systems and controls	4

2.2 Financial Results

According to the accounts presented, a summary of the financial results of the Scheme for the year under review⁶⁶ compared with that of the previous year is shown below:-

	<u>Year ended 31 December</u>	
	2002	2001
	Rs.	Rs.
Surplus/(deficit) of	_____	_____

Administration Income	17,915,751	(6,163,519)
Surplus on the Direct Income Of the Fund	270,225,362	338,785,824
Overall Surplus for The year	288,141,113	332,622,305

2:3 Comments on Accounts

2:3:1 Accounting Policies

Out of the sum of Rs.39,136,839 brought to account as Establishment and Administration Expenses of the Scheme, a sum of Rs.12,775,391 represented the direct expenses incurred by the Scheme and the balance of Rs.26,361,448 represented the expenses transferred to the Scheme, out of the expenses incurred by the Agricultural and Agrarian Insurance Board, on an estimated basis.

2:3:2 Unreliability of Investments and the Interest Thereon

The Scheme manages over Rs.2,367.7 million liquid funds and invested in Treasury bills, bonds and fixed deposits in banks. However proper records relating to these investments had not been maintained.

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In the absence of proper records relating to the date of investments, type of investment, rate of interest, interest received and accrued interest, it was not possible to be satisfied in audit that the Scheme had brought to account all its investments and the interest thereon correctly.

2:3:3 Understatements and Overstatements in the Accounts

- (a) The accepted policy of the Scheme to account for farmers' pension contributions receivable from agents at the end of the year was based on four months receipts of the ensuring year. However only one month contribution had been computed and accounted for instead of four months during the year under review.

Therefore the premium income brought to account had been understated by three months contributions.

- (b) The accrued interest on fixed deposits at State Mortgage Bank amounting to Rs.70,627,735 had been brought to account without any deduction for withholding tax at 10% thus resulting in overstatement of excess of income over expenditure by Rs.7,062,774 during the year under review.

2:3:4 Inappropriate Disclosures in the Accounts

The following inappropriate disclosures were observed in audit.

- (a) Several cheques valued at Rs.428,715 received by the Farmers' Pension Scheme and dishonored due to various reasons had been posted to a "Cheques Returned Account" instead of being adjusted to the relevant accounts.
 - (b) A sum of Rs.20,427 paid as publicity advances had been shown under debtors for over a period of 6 years without being accounted for appropriately if they were utilized.
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- (c) Out of the sum of Rs.426,175 debited in April 1998, a sum of Rs.416,070 had not been settled during that year and this amount had continued to be shown in debtors account as unidentified debts even as at the end of the year under review.
 - (d) The Scheme had not taken any action from the inception to obtain directly, the Government grants for capital expenditure for the Farmers' Pension Scheme. A sum of Rs.10,110,936 had been spent as capital expenditure of the Scheme out of the provision made in the Annual Estimates for the Agricultural and Agrarian Insurance Board.

2:3:5 Lack of Evidence for Audit

Several items in the accounts aggregating Rs.18,679,762 could not be satisfactorily vouched or accepted in audit in the absence of proper Board of Survey reports, confirmations, detailed schedules etc.

2:3:6 Unexplained Differences

According to the schedule of the Farmers' Pension Scheme, amount payable to Agricultural and Agrarian Insurance Board was Rs.2,214,571 but according to the Agricultural and Agrarian Insurance Board, it was shown as Rs.12,469,578. The reason for the difference had not been explained.

2:3:7 Non-Compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules
Regulations etc.

Particulars

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(a) Farmers' Pension and
Social Security Benefit
Scheme Act. No. 12 of
1987

Section 14

When a person is enrolled as a contributor of the Scheme, the Board should issue a certified policy. But, out of the 679,398 persons who had become contributors as at 31 December 2002 certified policies had not been issued to 113,277 contributors.

(b) Report of the Technical
Advisory Committee

(i) Section 3

Although farmers over the age of 45 years should be permitted to join the Scheme only during a period of two years from the date of commencement of the Scheme. However, even after the elapse of 15 years, it had been continued without proper authority.

(ii) Section 12.3

The schedule of defaulters had not been

prepared.

- (iii) Section 12.5 Although computer printouts of the contributions of every contributor should be dispatched at least once in two years, it had not been done.

- (c) The provision of the Financial Regulations No. 387 relating to paying officers responsibility before making payments had not been complied with.

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3. Financial and Operating Review

3:1 Financial Results

The surplus of the Scheme for the year under review was Rs.288,141,113 as compared with the corresponding surplus of Rs.332,622,305 for the preceding year, thus indicating a decrease in surplus by Rs.44,481,192. This can be analyzed as follows:-

	<u>Favourable</u>	<u>Variance</u>	
	Rs.	<u>Adverse</u>	Rs.
		Rs.	
<u>Income</u>			
Farmers' contributions		-	
	8,415,953		
Income from Investments	-	23,433,369	
Insurance premium	-	905,490	
Administration Income		-	
	<u>8,913,212</u>		

	<u>17,329,165</u>	<u>24,338,859</u>	(7,009,694)
--	-------------------	-------------------	-------------

Expenditure

Payment of Pensions	-	49,197,094	
---------------------	---	------------	--

Administration

Expenses	15,166,058	-	
----------	------------	---	--

Expenditure of the fund	-	3,440,462	
	<u>- 71</u>	<u>-</u>	

	<u>15,166,058</u>	<u>52,637,556</u>	<u>(37,471,498)</u>
--	-------------------	-------------------	---------------------

Net Decrease in Surplus

(44,481,192)

3:2 Contributors to Farmer's Pension Scheme

3:2:1 Enrolment of Contributors

It was observed that the Board had enrolled 30,957 contributors during the year 2002 as compared to 50000 in the Action Plan for the year.

3:2:2 Non -maintenance of Individual Accounts of the Contributors

- (a) Although individual accounts should be maintained in respect of contributors of the Farmers' Pension Scheme, the Board had failed to maintain updated individual accounts in respect of 679,398 contributors of the Scheme as at end of the year under review. Therefore, necessary information, for deciding the contributors eligibility for farmers' pensions and the benefits payable to the contributors who leave the Scheme, was not available with the Scheme. In the circumstances it was observed in audit that a proper internal check had not been exercised in making payment of farmers' pensions to the contributors and refunding net contributions.
- (b) The failure to maintain updated individual accounts had resulted in decline of the confidence in the scheme and subsequent enrolment of contributors. In the absence of individual accounts, information's such as number of contributors who left the scheme-
- (c) due to resignation, death, disability and non-payment of 5 consecutive installments etc. could not be readily obtained from the Scheme.
- (d) The Board had incurred Rs.14,512,666 for the purchase of computer from the inception of the Scheme. However, it had failed to introduce an effective programme to record the details of the individual contributors.

3:2:3 Issuing of Receipt Books

Issuing of receipt books from Head office to the District offices from District offices to Field officers and agencies had not been done properly in that written orders and approvals for same were not made available. Acknowledgement with regard to acceptance of receipt books had not been received. Used receipt books had not been returned by the field officers and agencies to the District offices. Most of the District offices and agencies had not maintained updated records regarding the receipt books received, issued and the balance. The weakness in the control over receipts books allow room for malpractice's.

3:2:4 Fraudulent Withdrawals

Fraudulent withdrawals made by field officers in the District offices, but remaining outstanding as at 31 December 2002 are given below:-

<u>District Office</u>	<u>Amount outstanding</u>
	<u>Rs.</u>
Thambuttegama	364,590
Anuradhapura	139,600
Trincomalee	180,840

	685,030
	=====

3:3 Financial Position of the Farmers' Pension Fund

According to the Actuarial report for 2000, the Farmers' Pension Scheme Fund is very unsound due to the non-receipt of the Government Grants and the irregular manner in which the contributions are received and that its assets will be adequate to pay only 18.5% of the proposed pensions.

According to the Actuarial Report for 2002, following suggestions and recommendations had been made since the current enrolment itself has a fairly heavy financial liability.

- (i) To re-examine the existing regulations as a whole, to make necessary amendments and modifications and to frame new regulations where required.
- (ii) To stop enrolment at the age of 45 years and above with effect from 01.01.2003.
- (iii) To increase the minimum age of enrolment
- (iv) To operate a new proposed scheme with effect from 01.01.2003.
- (v) To lie low on enrolment without much propaganda and special enrolment programmes. However a sum of Rs.1,226,935 had been incurred on publicity even after the receipt of the actuarial report.

3:4 Payment of Farmers' Pension

The Scheme had taken action to award farmers' pension benefits to its contributors since 1992 and the payments made out of the Fund during each year are shown below:-

Year	Farmers' Pensions
-----	-----
1992	1,711,500
1993	4,887,202
1994	7,971,789
1995	13,193,390
1996	30,677,930
1997	45,470,220
1998	66,650,512
1999	74,931,836
2000	89,141,834
2001	116,026,818
2002	165,149,195
	<hr/>
	615,812,226
	=====

Significant delays were observed in the processing of pension claims and this too causes decline in confidence by the farmers in the Scheme.

3:5 Loss of Interest

The premium income had been collected by field officers and deposited at the 27 Peoples Bank branches island-wide for remittance to the account of the Board at Peoples Bank, Union place branch. The 27 Peoples Bank branches are remitting the collections only once a month and therefore the Board has lost substantial amount by way of interest.

3:6 Group Assurance Scheme and Benefits

According to information furnished for audit, particulars relating to the total premium paid by the Scheme for the Group Assurance Scheme, of the Insurance Corporation of Sri Lanka Ltd, premium recovered from the contributors and the premium paid by the Scheme on behalf of the contributors who had defaulted payment of premium and the benefits received by the contributors under the Group Assurance Scheme from 2001 to end of the year under review are given in the following statement.

	2001	2002
Total number of contributors Insured	72,208	30,953
Premium recovered from The contributors	Rs.33,361,975	35,844,720
Total number of contributors Benefited	816	854
Death gratuity	Rs. 9,704,000	9,978,000
Benefits for disabled Persons	3,695,000	4,313,874
13,399,000	14,291,874	
	=====	=====

4. Systems and Controls

Deficiencies observed during the course of audit will be brought to the notice of the Board in due course. Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Sundry Advances
- (c) Individual Accounts
- (d) Premiums
- (e) Investments
- (f) Cash collection by agencies
- (g) Suspense account
- (h) Control over receipt books

(S.C Mayadunne)
Auditor General

**AGRICULTURAL
&
AGRARIAN INSURANCE BOARD**

**FISHERMEN'S PENSION
&
SOCIAL SECURITY BENEFIT SCHEME**

**STATEMENTS OF ACCOUNTS
2002**

AGRICULTURAL AND AGRARIAN INSURANCE BOARD

**FISHERMEN'S PENSION AND SOCIAL SECURITY BENEFIT
SCHEME**

**BALANCE SHEET AS AT 31ST DECEMBER -
2002**

ASSETS EMPLOYED	NOT E	31.12.2002 Rs. Cts.	31.12.2001 Rs. Cts.
NON CURRENT ASSETS	3	12,283.75	16,930.02
Investments	4	275,999,888.50	251,370,194.00
CURRENT ASSETS			
Stock printing	5	638,393.74	792,137.26
Debtors	6	1,882,574.00	1,773,253.00
Accrued interest	4	8,243,048.85	1,402,393.44
Cash at bank	10	556,252.42	43,563.93
		<u>11,320,269.01</u>	<u>4,011,347.63</u>
LESS: CURRENT LIABILITIES			
Audit fees payable	7	2,950,549.13	3,125,048.24
Creditors		247,588.00	184,286.00
Accrued expenses	8	366,470.00	260,547.27
Gratuity	9	87,115.00	64,600.00
		<u>3,651,722.13</u>	<u>3,634,481.51</u>
NET CURRENT			

ASSETS

7,668,546.88	375,866.12
283,680,719.13	251,763,990.14

FINANCED BY

Fishermen's Pension Fund	283,335,333.25	251,795,867.31
Group Insurance Fund	5,966,247.30	5,050,509.95
Surplus/Deflect for the year	(5,620,861.42)	(5,082,387.12)
	283,680,719.13	251,763,990.14

**Chairman
Agricultural &
Agrarian
Insurance Board**

**Director
(Finance)
Agricultural &
Agrarian
Insurance Board**

**Deputy Director
Agricultural &
Agrarian
Insurance Board**

**AGRICULTURAL AND AGRARIAN INSURANCE
BOARD**

FISHERMEN'S PENSION AND SOCIAL SECURITY BENEFIT SCHEME

INCOME & EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 31.12.2002

INCOME	NOT E	31.12.2002 Rs. Cts	31.12.2001 Rs. Cts
Govt. Grant for Administration Expenses		1,500,000.00	1,500,000.00
LESS EXPENSES			
Administration & Establishment	2	1,942,350.30	2,291,539.67
Commission on pension payments		72,495.00	58,245.00
		2,014,845.30	2,349,784.67
Surplus/Deficit for the year		(514,845.30)	(849,784.67)
ADD			
As previously stated		(5,082,387.12)	(4,230,602.45)
Prior year adjustment		(23,629.00)	(2,000.00)
Surplus (Deficit) carried forward		<u>(5,620,861.42)</u>	<u>(5,082,387.12)</u>

AGRICULTURAL AND AGRARIAN INSURANCE BOARD

FISHERMEN'S PENSION AND SOCIAL SECURITY BENEFIT SCHEME

FISHERMEN'S PENSION FUND ACCOUNT FOR THE YEAR ENDED 200

	31.12.2002 Rs. Cts.	31.12.2001 Rs. Cts.
Balance B/F	251,795,867.31	214,257,643.36
ADD:		
Fishermen's contributions	6,801,925.51	6,214,784.50
Interest on Treasury bills	32,658,388.91	37,945,472.60
Interest on contributions	30,000.00	24,732.00
Refund of pension payments	63,281.00	13,033.00
Total	291,349,462.73	258,455,665.46
LESS		
Pension payments	- 80 - 5,810,164.00	4,403,096.00
Group insurance premia	1,654,737.35	1,643,036.15
Incentive payments	264,764.00	211,060.00
Refund of contributions	206,261.00	312,689.00
Refunds of interest on contributions	78,203.13	89,917.00
Total	8,014,129.48	6,659,798.15
Balance	283,335,333.25	251,795,867.21

AGRICULTURAL AND AGRARIAN INSURANCE BOARD

**FISHERMEN'S PENSION AND SOCIAL SECURITY BENEFIT
SCHEME**

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GROUP INSURANCE FUND ACCOUNT 31 ST DECEMBER 2003

	31.12.2003	31.12.2003
	Rs. Cts.	Rs. Cts.
Balance	3,357,510.00	4,352,955.00
ADD		
Group Insurance Premium	1,480,445.00	1,840,200.00
	4,837,955.00	6,193,155.00
LESS		
Death gratuity payment	425,000.00	450,000.00
Disablement gratuity payment	60,000.00	90,000.00
	485,000.00	540,000.00
	4,352,955.00	5,653,155.00

Report of the Auditor General on the accounts of the Fishermen's Pension and Social Security Benefit Scheme for the year ended 31 December 2002 in terms of Section 14 (2) © of the Finance Act No.38 of 1971.

The audit of accounts of the Fishermen's Pension and Social Security Benefit Scheme for the year ended 31 December 2002 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 Section 13 (1) of the Finance act No. 38 of 1971 and Section 28 (4) of the Fishermen's Pension and Social Security Benefit Scheme Act No. 23 of 1990. My observations which I consider should be published with the annual report of the Scheme in terms of Section 14 (2) © of the Finance Act appear in this report. A detailed report in terms of Section 13 (7) (a) of the Finance Act was furnished to the Chairman of the Agricultural and Agrarian Insurance Board in due course.

1:2 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff, other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principles and significant estimates and judgments made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act. No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

2 Audit Opinion

I am of the opinion, that the financial statements have been satisfactorily prepared to present fairly in all material respects, the financial position of the scheme as at 31 December 2002 and the results of its operations for the year then ended in accordance with the Sri Lanka Accounting Standards and the accounting policies as set out in Note 1 to the financial statements.

2.1 Financial Results

According to the accounts presented, the deficit of the Administration Account of the Scheme for the year ended 31 December 2002 was Rs.514,845 after taking into account the Government Grant of Rs.1,500,000 received for administration and operations of the Scheme and the accumulated surplus of the Fund Account was Rs.31,539,466. The deficit of the Administration Account for the year ended 31 December 2001 was Rs.849,785 after taking into account the Government Grant of Rs.1,500,000 received for administration and operations of the Scheme and the accumulated surplus of the Fund was Rs.37,538,225.

2.2 Comments on Accounts

2.2.1 Accounting Policies

- (a) 2% of the fuel expenses, and expenses on maintenance of motor vehicles, and 10% of the other items of expenditure of the Agricultural and Agrarian Insurance Board had been apportioned to the Scheme. Details are shown below:-

Item	Total Value Apportioned
	Rs.
	- 83 -
Fuel	51,558
Rent, Electricity and Water	212,460
Labour Charges	4,640
Maintenance of Vehicles	79,341
Postage and Telephone	37,162

Stationery

95,987

2.2.2 Accounts Payable

Action had not been taken to settle the balance of Rs.1,000,000 out of an advance of Rs.1,279,104 obtained over 7 years ago from the Farmers' Pension and Social Security Benefit Scheme for expense of the ceremony held in the year 1996 for awarding pension to fishermen and it had been shown in the accounts under creditors.

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

Instances of non-compliance observed in audit are shown below.

Reference to Laws, Rules
Regulations and Management
Decisions

Particulars

- | | |
|---|--|
| (a) Section 7(1) of the Finance Act No. 38
Section 2 of the PED
Circular No. 52 of 16 June 1989 | A corporate plan had of 1971 and
not been prepared
for the Scheme. |
|---|--|

3 Financial and Operating Review

3.1 Financial Results

(a) Administration Account

The deficit of the Administration Account of the Scheme for the year under review was Rs.514,845 compared with the corresponding deficit of

Rs.849,785 for the year ended 31 st December 2001 thus indicating an increase of Rs. 334,940 in financial results. This can be analyzed as follows:-

	<u>Variance</u>		Rs.
	<u>Favorable</u>	<u>Adverse</u>	
	Rs.	Rs.	
<u>Expenditure</u>			
Administration	378,158	-	
Allowances to the members Of the Advisory Committee	-	50,800	
Depreciation	21,833	-	
Commission on pensions	-	14,250	
	399,990	65,050	334,940

(b) Fishermen's Pension Fund

The surplus of the Fund of the Scheme for the year under review was Rs.31,539,466 as compared with the corresponding surplus of Rs.37,538,225 for the preceding year thus indicating decrease of 5,998,759 in the surplus. This can be analyzed as follows:-

	<u>Variance</u>		Rs.
	<u>Favorable</u>	<u>Adverse</u>	
	Rs.	Rs.	
Receipts			
Contribution of the Fishermen	587,141	-	
Interest on Investments	-	5,287,084	
Interest on Contributions	5,268	-	
Refund of Pension payments	50,248	-	
	642,657	5,287,084	(4,644,427)

Payments

Payment of Pensions	-	1,407,068	
Payment of Group Assurance Premia	-	11,702	
Payment of Incentive Allowances	-	53,704	
Refund of Contributions	106,428	-	
Refund of Interest on Contributions	11,174	-	
	<u>118,142</u>	<u>(1,472,474)</u>	<u>(1,354,332)</u>
	=====	=====	-----
Decrease in surplus			(5,998,759)
			=====

3.2 Benefits of Group Assurance Scheme

According to the records maintained by the Board, total insurance premiums paid under the Group Assurance Scheme and the benefits received by the contributors during the year under review and the preceding year are shown in the following table.

	For the year ended 31 December	
	<u>2002</u>	<u>2001</u>
Total premiums paid	Rs. 1,654,737	1,643,036
No. of Contributors benefited		
- Death Gratuity	33	25
- Disability Benefits	06	2
<u>Benefits</u>		
Death Gratuity	Rs. 644,000	375,000

Disability Benefits	Rs.	95,000	45,000
---------------------	-----	--------	--------

3.3 Physical Performance

Although the Scheme had targeted for the enrolment of 5030 new contributors during the year under review, only 1273 new contributors had been enrolled, thus disclosing an achievement of only 25% of the target. The total Number of contributors of the Scheme as at the end of the year under review stood at 48,375.

3.4 Payment of Fishermen's Pensions

The scheme had commenced the payment of pensions from 1998 and according to information furnished, the number of persons who had received pensions during 2001 and the year under review and the amounts paid are shown below.

Year	Total number of Recipients of pension	Pensions Paid
_____	_____	_____
		Rs.
2001	357	4,403,096
2002	460	5,810,164

3.5 Investments

The value of investments which stood at Rs.251,370,194 as at 31 December 2001 had increased to Rs.275,999,889 as at 31 December 2002.

3.6 Cost of Personnel

A permanent staff had not been appointed to management grades from the inception of the Scheme. The cost of personnel during the year under review as compared with that of the preceding year is shown below.

	Number of Non-staff Employees		Total Cost	
	2001	2002	2001	2002
			Rs.	Rs.
Salaries and Wages	03	04	271,484	352,018
Over time	13	12	7,041	6,874

Activities of the Scheme had been done by the employees of the Agricultural and Agrarian Insurance Board and overtime had been paid for these..

3.7 Liquidity

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Current liabilities represented 32% of the current assets as at end of the year under review and it was 90% as at 31 December 2001.

3.8 Budgetary Control

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

4. Uneconomic Transaction

The Scheme had incurred an estimated loss of Rs.4,137,679 as a result of the delay in investing surplus funds from August 1995 to March 1996. The Board had instituted a case against the Bank of Ceylon which handled Treasury bills transaction of behalf of Board and case is still pending.

5. Operating Efficiency and Achievement of Objectives

The Fishermen's Pension and Social Benefit Scheme had failed to achieve the objectives as set out in the following Sections of the Fishermen's Pension and Social Benefit Scheme Act No. 23 of 1990.

Section 3

(d) To attract young persons to the fishing industry.

- (e) To inculcate the habits of savings and to promote thrift among the fishermen.

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6. Systems and Controls

Deficiencies observed during the course of audit will be brought to the notice of the Chairman of the Agricultural and Agrarian Insurance Board in due course. Special attention is needed in respect of the following areas of control.

- (i) Target achievement
- (j) Budget

(S.C. Mayadunne)
Auditor General.