

Management Services Rakshana (Pvt) Ltd - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Management Services Rakshana (Pvt) Ltd (“Company”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 Opinion

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 opinion.

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

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 Company’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 Company or to cease operations, or has no realistic alternative but to do so.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company 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 of the Company.

1.4 Audit Scope

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.
- Obtain 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 Company'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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Audit Issue	Management Comment	Recommendation
a. Account codes were not included in the ledger accounts. Further, links between transactions and source documents such as payment vouchers or other source documents were also not available.	This is available in the system. However, it has not come to the ledger print out. Informed the matter to the software development company and they agreed to rectify the matter immediately.	The management should take necessary actions to customize the system according to the user requirement and there should be clear link between system records along with the source documents of the transactions.
b. An approved summary of journal entries provided by the company. However, no physical journal vouchers provided along with narrations and relevant supporting documents.	All the journal entries are passed through the accounting system and no print outs are taking monthly. Payroll summaries are used as supporting documents for journal entries and action will be taken to include the narrations under each journal entry.	The management should introduce a sound system of internal controls to pass journal entries.
c. All the payments of the company had been made using the payment vouchers of the Sri Lanka Insurance Corporation (Parent). Therefore, the serial number ordering had not been observed during the audit. As an independent entity, a unique payment voucher process had not been introduced for the company.	Action will be taken to introduce payment voucher for the company payments with effect from 2022.	The management should introduce a unique payment voucher system to the company with sound system of internal control.
d. The Loans paid to the employees of the company and its recoveries had not been recorded in the books of Company. Instead, those balances had been recorded in the books of the parent company. The staff loans balance as at 31 December 2021 is Rs. 46,379,431.	Already started to maintain the loan register.	The staff loans also the part of the employment benefit. Therefore, the management should take necessary steps to record staff loans in the books of the company

1.5.2 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Current Account With the parent Company	153,395,391	152,798,293	597,098	Already provided the reconciliation.	Management should reconcile intercompany current accounts periodically to identify the reasons for differences and correct them timely manner.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available Rs.	Management Comment	Recommendation
Medical leave allowance	24,149,399	Documented payment policy and board approval	Sick leave has been paid as per the company past practice.	The company should develop a formal policy and get the approval of the relevant authorities prior to processing the payment.

1.6 Accounts Receivable

Audit Issue	Management Comment	Recommendation
a. VAT receivable amount of Rs. 218,482 had been carried forward from the year 2019. The necessary actions had not been taken to identify and recover the balance by the company.	This was arrived from the input VAT claim from the VAT payable. This is an accounting error. Will set off from the VAT payable account from next year with proper justification.	Management should been taken necessary actions to identify and recover the balance
b. According to the Economic Service Charge (Amendment) Act No. 04 of 2020, Economic Service Charge (ESC) had been withdrawn from 01 January 2020. However, ESC receivable amount of 4,346,862 had been observed as at 31 December 2021 without taking necessary steps to recover.	Reversed the original journal entry and approval will be taken before passing the journal entry.	Management should been taken necessary actions to recover the balance

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a. Article 8(1), 8 (2) of 1935 Trade Union Ordinance (Act) and the Gazette No.8160/25-10-1935.	The documentary evidences were not available for the audit to prove whether the six (06) trade unions are active and valid, which are parties to the Collective Agreement on Executive Grade Salaries.	Already forwarded the responsible officers to respond.	Management should ensure whether the all-trade unions were active and valid before parties to the Collective Agreement.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
a. The company has a favorable bank balance of Rs.356,677 in its current account maintained with Bank of Ceylon, Corporate Branch, which had not been used for active transactions or for any income generating investment from the year 2018.	This was received by the service provided to SLIC. We are planning to recruit new Accounting Officer to MSRPL and start the payment process within the MSRPL and funds will be utilized at that time.	Review the purpose of maintain the bank account and take appropriate actions.
b. A fixed deposit of Rs. 1,000,000 was observed from the year 2018 and by 31 December 2021 its value was Rs. 1,282,857. In terms of the objectives and the nature of operations of the company, there was no reasons or rational of maintaining this fixed deposit.	This was received by the service provided to SLIC. We are planning to recruit new Accounting Officer to MSRPL and start the payment process within the MSRPL and funds will be utilized at that time.	Review the purpose of maintain this fixed deposit and take appropriate actions to make better use of this funds.

2. Financial Review

2.1 Financial Result

The all cost incurred by the company had been reimbursed by Sri Lanka Insurance Corporation Limited. Hence, no profit or loss had been recognized. The company had been established to achieve the following objectives of the company according to its articles of association.

- To provide insurance management and technical services
- To provide insurance advisory and consultancy services
- To provide insurance research and development services
- To provide General Management and Consultancy Services

2.2 Trend Analysis of major Income and Expenditure items

Line Item	Amount		Variance		Increase/ (Decrease)	
	2021	2020	2021	2020	2021	2020
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	%	%
Management Fees	739,905	700,922	38,983	117,370	5.6%	20%
Salaries	304,247	293,090	11,157	48,323	3.8%	20%
Total Staff Cost	729,351	693,751	35,600	119,792	5.1%	21%
No of Employees	85	80	05	10	6.25%	14%

2.3 Ratio Analysis

Ratio	2021 Rs.	2020 Rs.	2019 Rs.
Cost per employee per month	715,148	722,658	683,284
% of total Staff Cost to Gross Written Premium of Sri Lanka Insurance Corporation Limited (SLIC)	1.69%	1.76%	1.70%
% of total Staff Cost to Net Profit for the year of Sri Lanka Insurance Corporation Limited (SLIC)	7.26%	11.98%	8.17%

3. Operational Review

3.1 Achievement of Objectives

Audit Issue	Management Comment	Recommendation
<p>According to the Articles of Association, the management had not taken necessary actions to achieve the following objectives of the company.</p> <ul style="list-style-type: none"> - To provide insurance management and technical services - To provide insurance advisory and consultancy services - To provide insurance research and development services 	<p>Management is planning to restructure the MSRPL and accordingly this objective will be discussed under the new structure.</p>	<p>The management should take necessary actions to achieve the objectives of the company.</p>

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
a. A one of the company objectives is recruit and seconded the key management position (KMPs) of the Sri Lanka Insurance Corporation Ltd. However, the company had not recognized KMPs which required to recruit through the company. Further the organization structure of the company had not been submitted for the audit.	Organization Structure is available and it will be submitted to the Audit.	The company should recognize the Key Management Positions (KMPs) which required to be seconded through the company.
b. The Company had employed 85 employees as at 31 December 2021. However only 26 employees had been provided job descriptions. Job descriptions had not been provided for other 59 employees.	Human Resources Department has confirmed that, they have issued JDs for all employees and will make necessary arrangements to provide copies for personal files.	The Company should identify the roles and responsibilities of each employee and issue job descriptions to all officers.
c. Recruitment plan had not been prepared by the company for the year 2021. Even though, five management positions vacant and two management positions will be resigned during the year. Further, seventeen officers had been recruited during the year 2021.	Recruitments are done based on the SLIC strategic plan and business requirements.	There should be formal recruitment plan for the company.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
Internal audit had been carried out for the year 2021. However, the internal audit report had not been submitted for the audit.	We will issue the audit report when it is finalized.	The internal audits report shall be available to the audit.