

Management Services Rakshana (Pvt) Ltd - 2022

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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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
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 (Sri Lanka Insurance Corporation Ltd). The total amount of the staff loans balances as at 31 December 2022 was Rs. 155,295,603.	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 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available Rs.	Management Comment	Recommendation
(a.) Medical Leave Allowance	23,572,912	Documented payment policy and board approval	Sick leave has been paid as per the company past practice.	The company shall develop formal policies and get the prior approval from the relevant authorities to process the employment benefit schemes.
(b.) Vehicle Loan	75,802,708	Board approved policy	No comments provided by the management.	
(c.) Distress Loan	79,492,895	Board approved policy		

(d.) Payment of profit bonus	39,377,303	Board paper		
(e.) Gift voucher payments	1,305,000	Board approval and board paper		

1.6 Accounts Receivable and Payable

Audit Issue	Management Comment	Recommendation
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 Rs. 4,346,862 and ESC payable amount of Rs. 1,940,901 had been observed as at 31 December 2022 without taking necessary steps for settlement.	Reversed the original journal entry and approval will be taken before passing the journal entry.	The management shall take necessary actions to settle those outstanding balances with tax authorities.

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 for the period of 01 December 2019 to 31 October 2022 for Executive Grade Salaries.	Already forwarded the responsible officers to respond.	The management should ensure whether the all-trade unions were active and valid before parties to the Collective Agreement.
(b.) Code of Best Practice on Corporate Governance 2017	According to the section B.3, the Company's Annual Report should contain a statement of remuneration policy. However, it was not observed that the remuneration policy of the company and the parent had not been disclosed in the Annual Report of the parent.	No comments provided by the management.	

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)	
	2022	2021	2022	2021	2022	2021
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	%	%
Management Fees	783,149	739,905	43,244	38,983	5.8%	5.6%
Salaries	329,201	304,247	24,954	11,157	8.2%	3.8%
Total Staff Cost	756,065	729,351	26,714	35,600	3.7%	5.1%
No of Employees	91	85	06	05	7.1%	6.25%

2.3 Ratio Analysis

Ratio	2022	2021	2020	2019
Cost per employee per month (Rs.)	692,619	715,148	722,658	683,284
% of total Staff Cost to Gross Written Premium of Sri Lanka Insurance Corporation Limited (SLIC)	1.83%	1.69%	1.76%	1.70%
% of total Staff Cost to Net Profit for the year of Sri Lanka Insurance Corporation Limited (SLIC)	7.17%	7.26%	11.98%	8.17%

3. Operational Review

3.1 Achievement of Objectives

Audit Issue	Management Comment	Recommendation
According to the Article of Association of the company the objectives of the company were provide insurance management and technical services, provide insurance advisory and consultancy services, provide insurance research and development services and provide general management and consultancy services to the parent. However, it is observed that the company had not taken necessary actions to achieve those objectives.	Management is planning to restructure the MSRPL and accordingly this objective will be discussed under the new structure.	The management should take necessary actions to achieve the objectives of the company.

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.) According to the payroll, there were 91 officers in the company as at 31 December 2022 and seconded to the parent. However, I was not received information in relation to Job Descriptions of those officers.	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.) A Recruitment Plan and Recruitment Committee had not been available for the company for the year 2022. According to the payroll, two (02) management positions had been retired/ resigned during the year under review. Further, six (06) persons had been recruited for the company and seconded to the parent during the year under review.	Recruitments are done based on the SLIC strategic plan and business requirements.	There should be formal recruitment plan for the company.

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| (d.) | The collective agreement signed for the period from 01 December 2019 to 31 October 2022 had been lapsed. However, the company had not signed the new collective agreement even as of 15 March 2023. Further, the company had used the lapsed collective agreement to process salaries for employees those who covered under the collective agreement. | No comments provided by the management. | The management shall take necessary steps to regularize the payment of salaries to the employees. |
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4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
An internal audit had been carried for the year under review. However, the report had not been furnished to audit.	We will issue the audit report when it is finalized.	The internal audits report shall be available to the audit.