

Sri Lanka Insurance Corporation Limited – 2017

The audit of the financial statements of the Sri Lanka Insurance Corporation Limited (“The Company”) and the consolidated financial statements of the Company and its Subsidiaries (“The Group”) for the year ended 31 December 2017 comprising the statements of financial position as at 31 December 2017 and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes comprising summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice. My comments and observations on the performance of the company which I consider should be tabled in the parliament in terms of Article 154 (6) of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation of these financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements that give a true and fair view 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 entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

- a) According to the judgment delivered by Supreme Court of Sri Lanka on 04th June 2009, the legal ownership of the majority of shares of the Company was vested with the Secretary to the Treasury to be held on behalf of the Government of Sri Lanka. Further, according to the said

judgment, the Secretary to the Treasury was directed to cause profits of the Company during the period Distilleries Company of Sri Lanka PLC was the parent of the Company, be computed and the profits attributable to the previous parent be settled. No adjustments have been made in the Financial Statements pending determination of the aforesaid attributable profits.

- b) In the absence of confirmation of balances, I was unable to verify the completeness, existence and accuracy of the amounts receivables from Distilleries Company of Sri Lanka PLC Group of Companies disclosed in Note 16 to the financial statements.

2 Financial Statements

2.1 Qualified Opinion

In my opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without further qualifying my opinion, I draw attention to the note 45.2.1 to the financial statements which describes the uncertainty related to the outcome of the arbitration which has been established against Sino Lanka Hotels & SPA (Private) Limited, a sub subsidiary of Sri Lanka Insurance Corporation Ltd.

2.2 Report on Other Legal and Regulatory Requirements

- a) As required by section 163 (2) of the Companies Act No. 07 of 2007, I state the following:
- i. The basis of opinion, scope and limitations of the audit are as stated above.
 - ii. In my opinion, except for the matters described in the Basis for Qualified Opinion paragraphs:
 - I have obtained all the information and explanations that were required for the audit and, as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of the financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company and the Group comply with the requirements of section 151 and 153 of the Companies Act No. 07 of 2007.
- b) As discussed in Note 47 to the financial statements, the company has not segregated the long-term insurance business and the general insurance business being carried on by it into two separate companies, in accordance with section 53 of Regulation of Insurance Industry

(Amendment) Act No. 03 of 2011.

As required by Section 47(2) of the Regulation of Insurance Industry Act, No. 43 of 2000, as far as appears from my examination, except for the matter described in the previous paragraph, the accounting records of the Company have been maintained in the manner required by the rules issued by the Insurance Board of Sri Lanka, so as to clearly indicate the true and fair view of the financial position of the Company.

2.3 Non-compliance with Laws, Rules, Regulations and Management Decision

The following Non compliances were observed in audit

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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| (a) Section 33 B (1) of the Regulation of Insurance Industry Act No. 43 of 2000 | Two Non Executive Directors of the Sri Lanka Insurance Corporation appointments had not yet been approved by the Insurance Regulation Commission of Sri Lanka (IRCSL) |
| (b) As per Section No. 89A of the Regulation of Insurance Industry Act No. 43 of 2000 | Person shall act or hold out as a loss adjuster to any insurer, unless such person is the holder of a Certificate of Registration as a loss adjuster. However as per the discussion held with the chief officer general, SLIC loss adjusters are still in the process of obtaining the certificate of registration as a loss adjuster. |
| (c) Paragraph 53 of the Insurance Industry (Amendment) Act, No.03 of 2011 | Sri Lanka Insurance Corporation Limited both classes of insurance businesses (Life and Non Life) have not yet been treated separately and this is still under progress. |

2.4 Transactions not supported by adequate Authority

During the year, a sum of Rs. 284,213,832 had been written off by the management as bad debts from loans to policy holders' balance without having board approval.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the operations of the Company and the Group for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs. 5,890 million and Rs. 8,980 million respectively as compared with the corresponding pre-tax net profit of Rs. 13,791 million and Rs. 13,814 million of the Company and the Group respectively for the preceding year, thus indicating a decrease of Rs.7,901 million and Rs.4,834 million in the financial results of the Company and the Group respectively.

4. Operational Review

4.1. Performance

4.1.1 Planning

The Business Continuity Plan, Disaster Recovery Plan and Information Security Policy and the ICT End User Security Policy had not been reviewed, approved and finalized by the management.

4.2 Management Activities

- a) Action had not been taken by management to renew the useful life time of assets and to take the change in to accounts. As a result fully depreciated assets amounting to Rs. 217,095,039 were in use without making necessary adjustment.
- b) There were no valid agreements for the rented premises listed down below for the period under the audit.
 - Life Department
 - Sampath Bank
 - Presidential Secretariat Building
- c) During the walk through test , it was identified that valuation files (.txt file) which were generated from the General and Life system are manually uploaded to the prophet system in order to determine the liability. However, it was noted that the valuation reports to be edited.
- d) It was also noted that reports which consist of claim details, payment details and underwriting income details (.txt files) are generated from the Bee insurance system and manually uploaded to SAP for GL transactions to be recorded. However it was observed that said reports need to be edited.
- e) Differences observed between the Financial Statements and tax returns amounting to Rs. 53,704,603 and Rs. 10,660,417 relating to VAT and NBT respectively had not been reconciled properly and timely.
- f) A total sum of Rs. 142,413,864 had been brought forward in the accounts as receivables more than a period of 8 years without being taken action to recover or without being considered for impairment. The total of two negative balances of Rs. 9,589,066 had included in the said balances.
- g) The company has two separate systems for front end users and back end users in the finance department. These two systems are not inter-linked. Senior Manager Finance manually updates front end system data in to the SAP System. Generally, the front end system and back end system should be agreed and if not a reconciliation needs to be done by the finance department.

Improvements were observed in reconciliation process of the company in respect of gross written premium, claims and reinsurance etc However, there were differences between the ledger accounts and reconciled data bases unattended. Examples are as follows,

- **Difference between ledger balance of claims expense – general and claims data base**

	Rs.
Balance of claim as per ledger	9,998,370,273
Balance as per reconciled database	10,024,648,053
Difference	26,277,780

- **Difference between ledger balances of gross written premium– life and its data base**

	Rs.
Balance as per ledger	12,517,119,093
Balance as per reconciled database	12,467,370,030
Difference	49,749,063

- **Difference between ledger balances of premium receivable – general and balance of receivables aging**

	Rs.
Balance as per ledger	3,291,309,062
Balance as per reconciled debtors' aging	3,148,919,523
Difference	142,389,539

- h)** There were differences noted in Treasury bond valuation under held in maturity as per the ledger and the auditor's computation performed as per the information included in the supporting documents. The differences in the financial asset valuation also leads to differences in interest income as shown below. However, since this differences were not material to the financial statement these amount booked under uncorrected misstatement and concluded the audit, details are,

Financial Asset

	Rs.
Ledger balance as at 31.12.2017	52,472,450,423
Balance as per auditor computation (Extrapolated)	52,703,501,641
Difference	231,051,218

Interest income

Ledger balance for period ended 31.12.2017	5,436,257,173
Balance as per auditor computation (Extrapolated)	5,300,085,163
Difference	136,172,010

- i) Direct confirmations for the following balances were not received for the year under review.
Other asset life - FI customers

Name	Amount (Rs)
Lanka Bell (Pvt) Ltd	43,605,226
Ministry of Botanical Garden	8,248,008
Ameer Building Presidential Secretarial	141,767,727
Ministry of Tourism and Sports	5,743,138
Ministry of Tourism Development and Cristian Affairs	6,348,683

Reinsurance receivable – General

Reinsurer	Balance as at 31December 2017 (Rs)
Acme Insurance Services(Pvt) Ltd	31,161,961
American Home Assurance Company	25,310,914
AON BENFIELD	(34,292,673)
AON Group Ltd.	86,306,167
J.B.Boda (Singapore)	1,034,126,032
J.B.Boda & Co. (U.K) Ltd.	(18,729,914)
JLT Risk Solution Asia (Pvt) Ltd	20,400,400
National Insurance Trust Fund	475,769,466
Zurich Insurance Services	28,227,281

5. Systems and Controls

Deficiencies in system and control observed during the course of audit were brought to the notice of the Chairman of the company from time to time. Special attention is needed in respect of the following areas on control.

Area of Control	Observation
a) IT Environment	➤ IT organization structure not having prepared. ➤ Job descriptions not given to IT staffs.
b) Organization IT Systems	➤ The window not being updated properly
c) Access Rights	➤ User access right not being reviewed periodically.
d) Password Controls	➤ Six password and three account lockout settings not being configured according to industry standards and best practices.
e) Backup Process	➤ It was observed that it was in practice to move backup tapes to a locker at the Sri Lanka Insurance branch which is located at Union Place, Colombo 02

on a daily basis. However, it was identified that the off site is located within the radius of 10km from the primary site (Head office).

f) Change Management

- It was noted that it is in practice to perform User Acceptance Testing (UAT) for system modification made on the HRIS system. However, the results of UATs were not documented.