

## **MBSL Insurance Company Limited – 2017**

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The audit of the financial statements of the MBSL Insurance Company Limited (“the Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and 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. My comments and observations which I consider should be furnished to the parliament in terms of provisions in Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements 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 misstatements, whether due to fraud or error.

### **1.3 Auditors’ Responsibility**

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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 requirement and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and the 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 consider internal control relevant to the Company’s preparation and fair presentation of the financial statements 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. 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 audit opinion.

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### **Emphasize of Matter**

Without qualifying my opinion I draw attention to Note 33 of the financial statements on going concern assumption in the preparation of the financial statements.

#### **2.1.1 Report on Other Legal and Regulatory Requirements**

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As required by Section 163(2) of the Companies Act No. 07 of 2007, I state the followings:

- (a) The basis of the opinion and the scope and the limitations of the audits are stated above.
- (b) In my opinion:
  - I have obtained all the information and explanation that 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 comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.
- The Company has not segregated the long-term insurance business and 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, 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.

However, as disclosed in Note 33 to the financial statements, the Non-life business does not fulfill the minimum required thresholds set for Capital Adequacy Ratio and Total Available Capital by the Regulation of Insurance Industry Act, No.43 of 2000. “the Solvency Margin (Risk Based Capital) Rules 2015” while the life business does not fulfill the minimum required threshold set for Total Available Capital.

## 2.2 Non-compliance with Laws, Rules, Regulations and Management Decisions

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

<b>Reference to Laws, Rules, Regulations and Management Decisions etc.</b>	<b>Non – Compliance</b>
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(a) Section 08 of Nation Building Tax Act No. 09 of 2009 read with Section 163 of the Inland Revenue Act No. 10 of 2006.	NBT on salvage income of Rs. 9,349,718. had not been paid by the company and outstanding amounts of tax and penalty were Rs.93,498 and Rs. 46,749 respectively.
(b) Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.	Life and Non- Life Insurance business have to be segregated and Company should obtain a new business license for Life business as a result of the segregation process. However, new license had not been obtained by the company even up to the date of this report.
(c) Section 53 of the Insurance Industry Act No. 43 of 2000 and Extraordinary Gazette No. 1848/26 of 06 February 2014.	Life Insurance business has not satisfied the minimum capital requirements.

## 3. Financial Review

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### 3.1 Financial Results

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According to the financial statements presented, the operations of the Company for the year ended 31 December 2017 had resulted in a pre-tax net loss of Rs.46,436,000 as compared with the corresponding pre-tax net loss of Rs.220,524,000 for the preceding year. Thus the pre-tax net loss had decreased by Rs. 174,088,000.

## 4. Operational Review

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### 4.1 Performance

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#### 4.1.1 Planning

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Action Plan, Corporate Plan, Procurement Plan, Annual Budget and Internal Audit Plan should be prepared and get approved from the Board of Directors prior to the commencement of the every financial year. However, the above documents related to year 2017 had not been presented to the audit since the business license was suspended from 04 October 2016.

## **5. Accountability and Good governance**

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### **5.1 Audit Committee**

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As per section 7.4.1 of the Hand Book on Public Enterprises Guideline for Good Governance issued under the Public Enterprises Circular No . PED 12 dated 02 June 2003, it is required to conduct Audit and Management committee meetings at regular basis at least once in three months. However, the company had not conducted even a single Audit and Management Committee meeting during the year under review.

### **5.2 Investment Committee**

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The Company does not have a formally appointed Investment Committee. The day to day investment decisions were made by the Chief Financial Officer and Chief Executive Officer. However, all significant investment decisions were made with the approval of the Board of Directors.

## **6. Systems and Controls**

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Deficiencies observed in the systems and controls of the company 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 of control.

<b>Area of Control</b>	<b>Weaknesses Observed</b>
IT Control	A proper control not being implemented over IT system and Internal Audit relating to the IT field not being carried out.