

Insurance Regulatory Commission of Sri Lanka - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, statement of changes in equity and cash flow statement 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 and Finance Act, No.38 of 1971. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Commission as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). 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 qualified 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 Commission'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 intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Commission 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 Commission.

1.4 Scope of Audit

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 Commission'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 Commission'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 Institute 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;

- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliances with Sri Lanka Accounting Standards

Non-compliance with Reference to the relevant Standard	Comment of the Management	Recommendation
a) Sri Lanka Public Sector Accounting Standard, 01.		
(i.) Comparative information had not been presented in the statement of changes in equity included in the financial statements of the Commission.	It is noted to present comparative information in the year 2019.	Action should be taken in accordance with the requirements of the Standard.
(ii.) The financial risks and management of financial risks that should have been shown under non-financial disclosures in terms of Section 129 (d) (ii), had not been disclosed.	Action will be taken to separately include the risk assessment and amend the accounting policies in the financial year, 2019.	Action should be taken in accordance with the requirements of the Standard.
b) Sri Lanka Public Sector Accounting Standard, 02.		
(i.) The net cash flows generated through the investments made in fixed deposits, and the re-purchases, had not been separately shown in the cash flow statement.	In terms of Sub-section 2(32) of the Standard, the cash flow statements are prepared under indirect method thus adjusting to the net value. Adjustments had been made to the cash flow statement as the net value of cash inflow and outflow generated through the investments (Rs. 40,000,000/=)	Action should be taken in accordance with the requirements of the Standard.
(ii.) When preparing the cash flow statement, the cash flow generated from the operating	It is noted to rectify in the year 2019.	Action should be taken in accordance with the requirements of the Standard.

activities on the pre-tax profit, should be computed. But, it was observed that the cash flow generated from the operating activities on the post-tax profit had been computed.

c) Sri Lanka Public Sector Accounting Standard, 07.

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| (i) In terms of Section 90, if a class of Property, Plant and Equipment is stated at revalued amounts, the entity should be disclosed relating to the revalued amounts. However, it had not been so done. | Not commented. | Action should be taken as required by the Standard. |
| (ii) In terms of Section 07, the useful life of assets should be revised annually, and the adjustments should be made in accordance with Public Sector Accounting Standard, 03. However, it had not been so done with respect to fully depreciated assets worth Rs. 36,332,454. | Not commented. | Action should be taken as required by the Standard. |

1.5.2 Transactions without Authority

Description on the Transactions without Authority	Comment of the Management	Recommendation
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Discrepancies were observed between the salary scales approved for the Commission and the ones currently in effect. Despite being informed by the National Salaries & Cadre Commission and the Line Ministry that increasing salaries could not be recommended, it was observed that salary scale had been increased by 25 per cent of the basic salary based on a letter issued in the year 2012 by the Treasury representative of the Board.	The Insurance Regulatory Commission functions in accordance with provisions of the Acts in relation to the similar regulatory commissions. Accordingly, the salaries and wages of the Insurance Regulatory Commission of Sri Lanka has been decided in accordance with powers vested in the Regulation of Insurance Industry Act, No. 43 of 2000.	Proper approval should be obtained before increasing salaries. Action should be taken to recover the payments made without approval, from the relevant officers.

1.5.3 Suspense Accounts

The following observations are made.

Subject	Amount	Period of Suspense	Comment of the Management	Recommendation
Profit and Loss Suspense Account.	Rs. The initial debit balance of Rs. 31,150 and the closing debit balance of Rs. 192,578,152.	A Profit and Loss Suspense Account was observed in the trial balance obtained from the accounting software (DMS). An initial debit balance of Rs. 31,150, and a closing balance of Rs. 192,578,152 were observed therein. As such, the accuracy in accounting was not satisfactory in audit. Action had not been taken to identify and correct that error.	As the accounts relating to the year 2018 had not been settled in the DMS software used by the Insurance Regulatory Commission, a balance existed in the Profit and Loss Suspense Account. Once the final accounts are settled, that account shall become a zero value.	After settlement of all the accounts, the financial statements should be prepared based on those balances.

1.6 Non-compliances with Laws, Rules, Regulations, and Management Decisions

The following observations are made.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
(i) Regulation 371 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The ad hoc Sub-Imprest should be settled immediately after completion of the purpose for which it was obtained. However, advances totaling Rs. 554,497 issued in the years 2016, 2017, and 2018 had not been settled even up to 30 April 2019.	Once the intended purposes are fully completed in regard to those capital expenses, it is expected to capitalize them in the year 2019.	Action should be taken to settle the advances after obtaining the services efficiently by discussing and entered into agreements with the relevant institutions.

- (ii) Section 9.14 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. It was observed that miscellaneous payments were being made in accordance with the administrative manual for which consent of the Secretary of the Treasury had not been granted even up to 30 April 2019. When state Circulars are followed external to the administrative manual, it was agreed at the 182nd session of the meeting of the Commission held on 2018.05.18 that proceeding with the functions of the Commission would be difficult. Approval has been granted to use the administrative manual for the moment. The administrative manual should be approved formally, and the payments of miscellaneous nature should be made only under the relevant approval.
- (iii) Section 48 (1) of the Regulation of Insurance Industry Act, No. 43 of 2000. As the post of Actuary of the Commission remained continuously vacant, it is observed that the actuary reports furnished annually by the insurers were not reviewed from the year 2016 up to this day. The non-availability of an Actuary has given rise to this situation. However, action has already been taken to appoint an Actuary under the Financial Sector Modernization Project (FSMP) from the year 2019. Action should be taken to obtain the services of an Actuary for such activities in terms of provisions of the Act.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a surplus of Rs. 41,337,937 as compared with the corresponding surplus of Rs. 31,220,674 in the preceding year, thus observing an improvement of Rs. 10,117,263 in the financial result. The increase in the income had mainly attributed to that improvement.

3. Operating Review

3.1 Uneconomic Transactions

The following observations are made.

Audit Observation -----	Comment of the Management -----	the Recommendation -----
The official activities of the Commission were maintained at an external building, and a sum of Rs.	All the efforts in finding a suitable place less than the current cost with an	Buildings with economical expenses should be

38,533,202 was paid in the year 2018 as the lease rent of the building which was observed to have been a 13 per cent increase as compared with the year 2017. Accordingly, the percentage of the lease rent of the building represented 27 per cent of the total expenditure and 21 per cent of the total income.

environment suitable for maintaining a regulatory institution, were in vain. An agreement has been reached after discussions on the lease rent of the building for the next 5 years as well, and approval of the Commission has also been obtained.

3.2 Management Inefficiencies

Audit Observation

According to the Action Plan, monthly reports, quarterly reports and annual reports of the insurance companies should be reviewed within a period of 02-03 months once received by the Commission. However, delays ranging from 38 to 84 days were observed in reviewing the annual reports of 04 institutions.

Comment of the Management

Certain delays were caused by the necessity to conduct detailed analyses on some of the observations. Furthermore, action has been taken to continuously send reminders and observe the reviews in order to avoid delays.

Recommendation

Action should be taken in accordance with the Action Plan.

3.3 Human Resources Management

Audit Observation

Since its inception in the year 2016, the Commission had entertained a model of Risk Based Capital introduced in substitution for the solvent legal framework of the insurance companies. Accordingly, approval had been obtained by December 2016 for 4 posts to establish an Actuary Division. Nevertheless, those posts remained vacant even as at 30 April 2019.

Comment of the Management

It is expected to make recruitments to the posts of Actuary and Assistant Actuary remaining vacant at present, with the implementation of World Bank Project by the Commission.

Recommendation

To avoid affecting the performance of the Commission, vacancies in the staff should be filled promptly.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(i) Accounts should be settled and transactions should be completed as at the last date of the year of accounts. However, recording the transactions by settling the computerized accounting system had not been completed even by 25 March 2019, the date of audit.	As the accounts relating to the year 2018 had not been settled in the DMS software being used by the Insurance Regulatory Commission, a balance existed in the Profit and Loss Suspense Account. Once the final accounts are settled, the said account will become a zero value.	At the time of preparing financial statements for the audit, all the accounts should remain settled.
(ii) Two items of fixed assets worth Rs. 1,569,187 received by the Commission, and fixed assets acquired by the Commission in the year 2019 to the value of Rs. 319,890, had not been shown in the financial statements as an acquisition of current assets.	As the expenditure relates to the year 2018, it is accurately brought to the accrual expenses account. The assets of the year 2019 should comply with the relevant Standards. Once so confirmed, they will be brought to accounts as assets. The relevant provision had been allocated and ordered in the year 2018. It is recorded as accrual expenses relating to the year 2018. Once the relevant assets were received by the Commission in the year 2019, such assets have been brought to the assets account accurately.	The current assets and fixed assets should be properly identified and brought to accounts.
(iii) The consultancy fees amounting to Rs. 200,000 payable on the air-conditioning system had been brought to accounts as a current asset instead of being accounted as work in progress.	It was in the year 2019 that those assets were confirmed to be in order. As such, the relevant asset had been transferred to the assets account in the year 2019 after the confirmation.	The expenses should be classified properly.

4.2 Sustainable Development Goals

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
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Every public institution should act in accordance with the “2030 Agenda” on Sustainable Development adopted by the United Nations. Information as to how the Insurance Regulatory Commission should execute the activities under their scope, was not made available to the Audit.	In order to achieve the sustainable development goals, it is expected to consult the Ministry of Finance in regard to the scope of the Insurance Regulatory Commission.	It is necessary to take action on the sustainable development.