Sri Lanka Insurance Corporation Limited and its Subsidiaries - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Insurance Corporation Limited ("Company") and the Consolidated Financial Statements of the Company and its Subsidiaries ("Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement 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 to the financial statements, including a 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 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. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2019, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

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 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 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 intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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 Group'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 Group'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 Group 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 Group, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company and the Group have complied with applicable written law, or other general or special directions issued by the governing body of the Company and the Group*;*

- Whether the Company and the Group have performed according to its powers, functions and duties; and

- Whether the resources of the Company and the Group have 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 Payable

Audit Issue	Management Comment	Recommendation
According to the judgment delivered by Supreme Court of Sri Lanka on 4 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	According to the judgment given by Supreme Court of Sri Lanka, the Secretary to the Treasury was directed to re compute the profits. Accordingly, the Secretary to the Treasury has assigned this task to the Auditor General. However, during Auditor General's review, he has concluded that the available evidence was not sufficient to re-compute the profit during the private management. Further we are discussing this matter with SLIC Board of Directors and we will inform you accordingly.	Steps should be taken to speediest the process and obey to the court direction.

1.5.2 Receivable

Audit Issue	Management Comment	Recommendation
In the absence of confirmation of balances, it was unable to satisfy by alternative means concerning amount receivable from Distilleries Company of Sri Lanka PLC Group of Companies amounting to Rs.175.926 Mn as at reporting date. Accordingly, it was unable to verify the completeness, existence and accuracy of the amounts receivable and was unable to determine whether adjustment might be necessary to the financial statements for the year ended 31 December 2019.	This balance includes receivables from Distilleries Group of Companies. This amount will be adjusted upon finalization of the payment as per the Supreme Court order dated 04th June 2009.	Steps should be taken to obtain relevant confirmations and finalize the settlement to show the correct figures in the financial statement

1.5.3 Investment in subsidiaries

Audit Issue	Management Comment	Recommendation
The Canwill Holdings had invested Rs.8.5 Billion and Litro Gas had invested Rs. 5 Billion in Canwill Holdings (Pvt) Ltd whereas Canwill Holdings (Pvt) Ltd had invested Rs. 18 Billion in Sinolanka Hotels & Spa (Pvt) Ltd & Rs. 500 Million in Helanco Hotels & Spa (Pvt) Ltd. However, the company had not made any assessments of impairment in relation to this investment in subsidiary at the year-end despite the difficult conditions of the subsidiaries of the Canwill Holdings. In the absence of a valuation as at 31 December 2019, it was unable to obtain sufficient and appropriate audit evidence confirming that the said asset value has not changed as at 31 December 2019 had a valuation been performed which would have affected the recognized impairment provision.	The Management of Sino Lanka Hotels and Spa assess the impairment of assets on 10 April 2019 and made adjustment of Rs. 100.6 Million in the financial statement.	Management must obey to the compliance requirement of Sri Lanka Accounting Standards and reflect the correct amounts in the financial statement to overcome the noncompliance risk to the company.

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

1.6.1 Sri Lanka Financial Reporting Standard (SLFRS) 16

Audit Issue	Management Comment	Recommendation
SLFRS 16 – Leases is applicable to accounting periods beginning on or after 1 January 2019. However, the Company had started to account for the SLFRS 16 in the month of June and adjusted the accounts for the cumulative effect for the past months.	Auditor Comment noted SLIC has adopted the SLFRS 16 on June 2019 and cumulative impact from 1 January 2019 has been taken into the accounts. However, the impact of first quarter financial statements were informed to the IRCSL subsequently.	Management should adhere to the compliance requirement of Sri Lanka Accounting and Auditing Standard Board to avoid any noncompliance and harm to the reputation of the company.

1.7 Premium Receivables – Database Difference

Audit Issue	Management Comment	Recommendation
There were difference between the General ledger balance and the system generated schedule of premium receivable account provided was not reconciled. Details are	This difference of Rs. 141,061,557 was arised in 2016 and up to now we have reconciled Rs.101Mn.	Management must take immediate steps to identify the differences and show

Description — **Amount (Rs.)** Balance as per schedule — 4,090,450,561 Balance as per ledger — 3,703,246,642 Difference — 387,203,919 Reconciled before the audit — 347,461,711 Unreconciled difference — 39,742,208	The current un-reconciled amount is Rs. 39Mn and we are in the process of reconciling the above amount and planning to complete in 2020.	the accurate figures in the Financial Statements

1.8 Data Base Differences – Claims Outstanding

Audit Issue	Management Comment	Recommendation
Company had two separate systems for front end users and back end users to record the transactions. The finance department uses SAP ERP system for the purpose of keeping books of accounts and front-end users use MIS system for recording initial transactions. These two systems were not inter-linked and the front-end system data was manually updated into the SAP system on daily basis. Due to the same, the finance department carries out a reconciliation on quarterly basis and adjust the SAP to agree with the MIS report provided by the Life department. However, upon inquiry it was explained that the finance department did not carry out a detailed analysis to identify the reasons for the differences.	Auditor's comment noted This is due GTLA and health claim. These two types of claims were settled without prior registration, accordingly, claims were recorded in the system on cash basis at the time of payment. In order to comply with accounting standards. journal entries passed at the quarter end for outstanding claims.	Management should take immediate steps to link all subsystems together and all policies underwritten by the company should be issue through the system to show the accurate production

1.9 Un reconciled balances in agent commission payable

Audit Issue	Management Comment	Recommendation
There were differences between the commission payable age analysis report and the general ledger amounting Rs. 17.1 Million and 18.8 Million in non-life and life respectively.	Auditor's comment noted This will be analyzed and reconciled by the end of year 2020.	Management should be keen in system generated reports and accuracy of the same and it should be reconciled on periodic basis to avoid the year end differences.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.7029 million and the corresponding profit in the preceding year amounted to Rs.5245 million. Therefore an improvement amounting to Rs 1784 million of the financial result was observed. The reasons for the improvement are increase of net earned premium, investment income and net realized gains.

2.2 Trend Analysis of major Income and Expenditure items

The following table indicates a summary of major Income and Expenditure items of the company in the year under review and the preceding four years.

Description	2019 Rs.000	2018 Rs.000	2017 Rs.000	2016 Rs 000	2015 Rs 000
Revenue	48,608,571	44,379,869	39,399,737	42,107,760	31,156,767
Gross Written Premium	33,794,347	31,737,894	31,437,682	27,614,433	24,520,012
Operating and Admin Expenses	9,133,838	8,822,546	7,484,404	6,446,601	4,975,705
Net profit/ loss after tax	7,028,952	5,244,795	4,569,150	12,741,317	3,439,357

2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

Ratios	2019 - %	2018 - %
Profit Before Tax		
Company	16.87	16.11
Group	8.46	11.31
General Insurance		
Claim Ratio	61	66
Expense Ratio	35	30
Life Insurance Business		
Expense Ratio	46	51

2.4 Growth rate Company verses Industry

Description	Company %	Industry %
General Insurance	2.2	5
Life Insurance	12.2	11

3. Operational Review

3.1 Management Inefficiencies - Unclaimed Cheques

Audit Issue	Management Comment	Recommendation
Rs.116 Million of unclaimed cheques were shown under other liabilities in the financial statement as of 31 December 2019.	The management adjusted unclaimed cheques over 3 years amounting to Rs. 60 Mn to the financial statements.	Management must take immediate steps to identify the reason for accumulation of unclaimed cheques and adjust the accounts accordingly.