

People's Insurance PLC - 2020

1. Financial Statement

1.1 Opinion

The audit of the financial statements of the People's Insurance PLC ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of Profit or Loss, statement of 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, 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 reported 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, 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 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 intend to liquidate the Company 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 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 Auditor's Responsibility for the audit of the Financial Statements

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 ----- |
|---|---|---|
| During the year, there were back-dated, and forward-dated entries posted into the General Insurance system. | <p><u>Back dated entries</u> These entries have been backdated mainly due to the COVID-19 lockdown.</p> <p><u>Forward dated entries</u> These transactions have taken place on 2020.12.28 and posted into the GL on the same day. However, due to a system complication/error, the system has recognized the initial policy issued date as the system entered date.</p> | Should not post back-dated and forward-dated entries. The risk of those entries is that the cut-off of transactions is not correct resulting in overstated or understated amounts in the financial statements. Back-dated/forward-dated journal entries can also be an indicator of fraudulent financial reporting. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 1,667,521,268 and the corresponding profit in the preceding year amounted to Rs. 912,029,738. Therefore, an improvement amounting to Rs. 755,491,530 of the financial result was observed. The reasons for the improvement are effective claims management and strong growth in net realized gains.

2.2 Trend Analysis of major Income and Expenditure items

2.2.1 The following table summaries the financial results of the Company in the year under review and the preceding four years period.

| Year | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|---------|-------|--------|-------|-------|
| Gross written premium (Rs. Mn) | 6,012 | 6,030 | 5,592 | 4,782 | 3,340 |
| % of Increase/(Decrease) compare to the preceding Year | (0.03) | 7.83 | 16.94 | 43.17 | |
| Net Claims (Rs. Mn.) | 2,700 | 3,553 | 3,237 | 2,841 | 2,628 |
| % of Increase/(Decrease) compare to the preceding Year | (24.01) | 9.76 | 13.94 | 8.11 | |
| Profit Before Tax (Rs.Mn) | 1,668 | 912 | 847 | 867 | 733 |
| % of Increase/(Decrease) compare to the preceding Year | 82.89 | 7.67 | (2.31) | 18.28 | |

2.2.2 Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

| Description | Variance Amount Increase/ (Decrease) | Variance % | Reason for the variance |
|--|--------------------------------------|------------|--|
| Change in reserve for unearned insurance premium | (137,660,528) | (60.22) | Unearned premium is the proportion of premium that relates to the unused period of time. This provision amount mainly depends on the GWP pattern during the period. Due to the higher rate of GWP growth rate of 7.8% in 2019 compared to 2018, amount of Rs. 228.5Mn was transferred to unearned premium reserve in 2019. However, due to the lower growth rate reported in 2020 at negative 0.3%, only Rs. 90.9Mn has transferred to unearned premium reserve. |
| Premium ceded to reinsurance | 94,151,316 | 16.21 | This is mainly due to increase in non-motor premiums which are subject to a higher reinsurance premium by 10% and change of reinsurance arrangements in 2020. |
| Net claims | (853,021,800) | (24.01) | Overall net claim ratio decreased from 68% in 2019 to 51% in 2020. This is mainly due to the lower motor claim occurred during the lockdown and travel restriction period amid COVID-19. Motor claims reduced by 25% in 2020 compared to 2019. |

| | | | |
|---|-------------|---------|--|
| Other operating and administrative expenses | 115,503,856 | 10.49 | Debtor impairment charges increased by Rs. 30Mn as a result of drop in collection due to the COVID-19 pandemic. Salary and wages cost also increased by Rs. 61Mn as a result of operation expansion and provisions made for salary adjustments. Further, depreciation has increased by Rs. 8Mn due to the increase in right of used assets and purchase of intangible assets. Administration expenses have increased by 16.1Mn due to the additional expenses incurred during pandemic period such as staff transport, laptop hiring, sanitization and PCR testing & welfare expenses. |
| Net realised gains/(losses) | 37,139,369 | 1211.44 | Treasury bill/bonds trading commenced in 2020 recorded realized gain of Rs. 34Mn. |
| Net fair value gains/(losses) | 16,204,120 | 526.22 | This is due to significantly higher investments made in unit trusts in 2020. |

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.

| Ratio | 2020 | 2019 |
|------------------------|-------------|-------------|
| Net claim ratio | 50.90 | 67.52 |
| Net expense ratio | 33.86 | 31.24 |
| Net combined ratio | 85.76 | 98.76 |
| Return on equity | 25.88 | 17.78 |
| Return on asset | 11.28 | 6.76 |
| Capital adequacy ratio | 304 | 248 |

3. Operational Review

3.1 Procurement Management

| Audit Issue | Management Comment | Recommendation |
|--|--|--|
| <p>i. It was observed that the company does not have a list of registered suppliers. Instead of that, company uses the suppliers list of the parent company (Peoples Leasing & Finance PLC). It was further observed that the goods had been procured by calling the quotations from the suppliers who were not on that list.</p> | <p>Following the parent company list only and do not have a separate list as of now. However from January 2022 a DMU approved company specific new supplier will be created for all additional suppliers.</p> | <p>Need to have a list of registered suppliers within the company.</p> |
| <p>ii. It was observed that the price levels were not specified relevant to each procurement method in the procurement policy and company generally using the method of calling quotations from the registered suppliers and certain instances where the Decision Making Unit (DMU) decides the method of procurement according to the nature of the procurement when it is necessary.</p> | <p>No changes made with the price levels.</p> | <p>Need to update existing Procurement Policy with needful sections in order to maintain transparency and existence.</p> |
| <p>iii. Although the form of Capital Assets Requisition states that technical evaluation recommendations are required when necessary, company has not appointed a Technical Evaluation Committee (TEC). It was further observed that the absence of definition, composition, responsibilities and duties of the TEC in the procurement policy.</p> | <p>The TEC is formed at the Operation Management Committee (OMC), comprising of DMU + Head of IT + Head of Reinsurance. The names of the new committee will be forwarded for the Board approval at the next meeting.</p> | <p>Need to be document for formalize the technical evaluation process.</p> |

3.2 Human Resources Management

| Audit Issue | Management Comment | Recommendation |
|---|--|---|
| <p>Although every enterprise need to have an Organizational Chart with an approved cadre for the institution, board approved cadre for the company was not available.</p> | <p>Organization Chart is finalized and to forwarded to HR subcommittee and to the next Board meeting for approval. Deadline given by the board to close this is 15 January 2021.</p> | <p>There should be a board approved Organization chart with the board approved carder, prepared after the carder assessment of the company.</p> |