

Management Services Rakshana (Pvt) Ltd – 2020

1. Financial Statement

1.1 Opinion

The audit of the financial statements of the Management Services Rakshana Private Ltd (Company) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flow 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 report to Parliament appear in this report.

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 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 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 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
<p>(a) No proper system in place to recording transactions in the books of the company whether in electronic or manual form. Instead all transactions extracted from the source documents directly posting to the excel sheet developed for preparation of financial statements without maintaining a general ledger.</p>	<p>Appropriate actions had been taken to purchase automated accounting package. The system has been already installed and this year annual financial statements will be generated from this system.</p>	<p>The management should introduce a sound system of internal controls to reporting transactions.</p>
<p>(b) The company had maintained journal entries in soft format (in excel sheet) and no physical journal vouchers with serial order number had been prepared and passed with proper approval of the responsible officer.</p>	<p>As recommended by the auditor we will take necessary action to file the hard copies of relevant journal entries with the proper approval.</p>	<p>The management should introduce a sound system of internal controls to pass journal entries with appropriate authority.</p>
<p>(c) All the payments of the company had been made using the payment vouchers of the Sri Lanka Insurance Corporation Ltd (The Parent). As an independent entity, a unique payment voucher process had not been developed for the company.</p>	<p>Currently, all the payments are handled through SLIC bank accounts. However, after recruiting a Finance officer to MSRPL, all the payments will be handled through MSRPL bank accounts and action will be taken to use MSRPL voucher at that time.</p>	<p>The management should introduce a unique payment voucher system to the company with sound system of internal controls.</p>

- (d) The Loans paid to the employees of the company and its recoveries had not been recorded in the books of Company. Instead those balances had been recorded in the books of the parent company. The staff loans balance as at 31 December 2020 is Rs. 134,742,311.
- Even though this is separate company, employees are direct with seconded to SLIC. Accordingly, staff loans are granted from SLIC from the inception.
- The staff loans also the part of the employment benefit. Therefore the management should take necessary steps to record staff loans in the books of the company.

1.5.2 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Current Account with SLIC	116,188,025	115,305,296	882,729	We have already stated the reconciliation and we are planning to complete this before finalization of 2021 financial statements.	Management should identify the reasons for difference and reconcile periodically

1.5.3 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management Comment	Recommendation
	Rs.			
(a) The medical leave allowance	20,789,305	Approved policy and the approval of the Board for payment	This was the practices of the company from the inception and we will communicate to HR department of SLIC to include this to their policy.	The company should develop a formal policy and get the approval of the relevant authorities
(b) New Year Gift allowance	1,215,000	Approved policy and the approval of the Board for payment	For this payment , the BORD approval is available.	The company should develop a formal policy and get the approval of the relevant authorities

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Article 8(1), 8 (2) of 1935 Trade Union Ordinance (Act) and the Gazette No.8160/25-10-1935.	The documentary evidences were not available for the audit to prove whether the six (06) trade unions are active and valid, which are parties to the Collective Agreement on Executive Grade Salaries.	HR Department is coordinating with EFC on this matter and will come up with their clarification once sorted –out.	Check whether the trade unions are active and valid trade unions before parties to the Collective Agreement
(b) Employees’ Provident Fund Act No 15 of 1958	The balance of Rs.47,545 brought from the previous year had not been remitted to the fund.	This amount is not payable to EPF. Accordingly, will take necessary action to reverse it in next year.	Comply with the provisions of the act
(c) Employees’ Trust Fund Act No 46 of 1980	The balance of Rs. 5,706 brought from the previous year had not been remitted to the fund	This Amount is not payable to ETF. Accordingly, will take necessary action to reverse it in next year.	

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
(a) The company has a favorable bank balance of Rs.356,677 in its current account maintained with Bank of Ceylon, Corporate Branch, which had not been used for active transactions from the year 2018	This was received by the service provided to SLIC. We are planning to recruit new Accounting Officer to MSRPL and start the payment process within the MSRPL and funds will be utilized at that time.	Review the purpose of maintain the bank account and take appropriate actions to use or close if not required
(b) There is a fixed deposit of Rs. 1,000,000 from the year 2018 which has a balance of Rs. 1,213,750 as at 31 December 2020. In terms of the objectives and the nature of operations of the company, there was no sufficient reasons or rational of maintaining this fixed deposit.	This was received by the service provided to SLIC. We are planning to recruit new Accounting officer to MSRPL and start the payment process within the MSRPL and funds will be utilized at that time.	Review the purpose of maintain this fixed deposit and take appropriate actions to make better use of that.

1.8 Non-compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
Even though the ESC had been revoked with effect from 01 January 2020. The company had continued ESC payable balance of Rs. 1,940,901 and ESC receivable balance of Rs. 4,346,862 in the Financial Statements for the year ended 31 December 2020	This will be addressed once we complete the reconciliation.	The company should comply with the changes to the tax law

2. Financial Review

2.1 Financial Result

The all cost incurred by the company had been reimbursed by Sri Lanka Insurance Corporation Limited. Hence, no profit or loss had been recognized for the year under review. The company had been established to achieve the following objectives of the company according to the articles of association.

- To provide insurance management and technical services
- To provide insurance advisory and consultancy services
- To provide insurance research and development services
- To provide General Management and Consultancy Services

2.2 Trend Analysis of major Income and Expenditure items

Line Item	2020	2019	Variance	Increase/ (Decrease)
	Rs. 000	Rs. 000	Rs. 000	%
Management Fees	700,921.9	583,552.2	117,369.7	20%
Salaries	293,089.6	244,766.5	48,323.1	20%
Total Staff Cost	693,751.2	573,958.8	119,792.4	21%
Actuarial Gain/(Loss) on Gratuity	(34,355.6)	(33,871.1)	(484.5)	1%
provision for Gratuity	175,732.0	117,737.6	57,994.4	49%
No of Employees	80	70	10	14%

2.3 **Ratio Analysis**

Ratio	2020	2019
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	Rs.	Rs.
Cost per employee per month	722,657.50	683,284.25
% of total Staff Cost to Gross Written Premium of Sri Lanka Insurance Corporation Limited (SLIC)	1.76%	1.7%
% of total Staff Cost to Net Profit for the year of Sri Lanka Insurance Corporation Limited (SLIC)	11.98%	8.17%

3. **Accountability and Good Governance**

3.1 **Internal Audit**

Audit Issue	Management Comment	Recommendation
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No internal audit had been carried out for the year ended 31 December 2020	We have appointed an internal Auditor to conduct the audit on quarterly basis.	It is recommended to have periodic internal audits or reviews