

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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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 |
|---|--|--|
| Long outstanding excess premium balance of Rs. 70 Mn was remained in outstanding for more than a year as of 31 December 2021. A debit note is issued when a policy is raised for the exact premium amount as per the policy. However, this does not reflect the excess if any, remaining in the customer account. Therefore, in case the customer is unaware of the excess premium available in their account, the payment will be made by the customer for the balance that is reflected in the debit note without any deductions. Hence, those excess premiums that are not flagged to the customer accumulate in the excess premium account. | Through a debit note customer is informed on the premium amount, therefore excess pays with the knowledge of the customer. Utilization or a refund will take place upon customer request and balance will remain as excess until such request. | The Insurance system needs to be modified to identify the customers who have excess premiums and premium outstanding. An automatic or manual matching process needs to be developed. |

1.5.2 Accounting Deficiencies Unreconciled records

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| Unidentified credits have been accumulated in the bank reconciliations and have not been recorded in the accounts as of 31 December 2021. Currently there is no identified process to record these balances in the financials. | In 73Mn include 44Mn single credit which is not tally with the investment related entry due the Rs.13,878 difference in amount probable the bank chargers. Once the bank confirmation is received the transaction will match in subsequent period. | Need to take actions to clear these balances immediately. |

| | |
|----------------------------------|---|
| Bank Account | Unidentified Credits as at 31 December 2021(LKR.) |
| Peoples Bank HQ Branch 1776 | 67,105,272 |
| People's Bank HQ Collection 2897 | 6,755,391 |
| Total | 73,860,663 |

Daily fund transfer from other A/C amount of Rs. 1.6Mn, which the entry was passed in subsequent date. Other balance were unidentified due the non-availability of transaction details in the bank statement, however these amount will be clear as data received.

1.6 IT General Controls

| Audit Issue | Management Comment | Recommendation |
|---|---|--|
| (i) It was noted that the company had not performed any privileged user account monitoring function for application, database and operating system levels of HR and GIS systems during the financial period. | Agreed. Privileged user account monitoring function for HR and GIS systems will be started from July – 2022 onwards. | Establishing a privileged user account monitoring function would facilitate the investigation of security breaches, program change deployments and user activities done using privileged user accounts. The company should conduct the privileged user account monitoring function periodically to ensure that only authorized activities are performed in the IT environment. Further, the company should ensure adequate security monitoring controls are available for third party activities associated with privileged account management procedures. |
| (ii) It was noted that there have been no reviews performed by any independent party to monitor the change management process of GIS and HR systems in order to ascertain appropriate segregation of duties in the change management process and whether inappropriate changes are being committed to the live environment. | Agreed. However, since an independent party should do this, it has been discussed to perform this function by the Internal Audit department. Action Required : Implement a change management monitoring Procedure Target Date of completion : Q1 2023 | Periodic reviews on program change management would facilitate identification of the progress of program changes from submission through review, approval, implementation and closure. Furthermore, it results in the ability to trace developments which are pending for a long period and to instigate corrective measures for their implementation or closure. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 1,169,088,455 and the corresponding profit before tax in the preceding year amounted to Rs. 1,667,521,268. Therefore, a deterioration amounting to Rs. 498,432,813 of the financial result was observed. The reasons for the deterioration are decline in both underwriting profit and other income and industry challenges during the year.

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 | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---------|---------|-------|--------|-------|
| Gross written premium (Rs. Mn) | 5,968 | 6,012 | 6,030 | 5,592 | 4,782 |
| Percentage of Increase/(Decrease) compare to the preceding Year (%) | (0.73) | (0.03) | 7.83 | 16.94 | 43.17 |
| Net Claims (Rs. Mn.) | 2,994 | 2,700 | 3,553 | 3,237 | 2,841 |
| Percentage of Increase/(Decrease) compare to the preceding Year (%) | 10.92 | (24.01) | 9.76 | 13.94 | 8.11 |
| Profit Before Tax (Rs.'Mn) | 1,169 | 1,668 | 912 | 847 | 867 |
| Percentage of Increase/(Decrease) compare to the preceding Year (%) | (29.92) | 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) Rs. | Variance % | Reason for the variance |
|---|--|------------|--|
| Change in reserve for unearned re-insurance premium | 780,455 | 1.35 | Higher reinsurance expense on non-motor business based on the reinsurance arrangement. As a result, overall reinsurance expense has increased by 37%. Change in Motor/non-motor GWP composition to 80:20 in 2021 from 84:16 in 2020 also contributed for the same. |
| Premium ceded to reinsurance | 248,883,908 | 36.88 | |
| Net claims | 294,765,136 | 10.92 | Claims were reported in the latter part of the year 2021 and motor claim outstanding were increased by 618Mn compared to 2020. |

| | | | |
|---|--------------|--------|---|
| Other operating and administrative expenses | (12,504,507) | 1.03 | The reversal of impairment in 2021 comparing to the higher impairment expense in 2020 due to complete lockdown. |
| Net realised gains/(losses) | (15,829,700) | 46.46 | The company exited from the equity investments 2020. |
| Net fair value gains/(losses) | 35,724,843 | 185.26 | Fair value gains recognized from Unit Trust |

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 | 2021 | 2020 |
|------------------------|-------------|-------------|
| Net claim ratio | 58.48 | 50.90 |
| Net expense ratio | 34.03 | 33.86 |
| Net combined ratio | 92.50 | 85.76 |
| Return on equity | 20.26 | 25.88 |
| Return on asset | 8.86 | 11.28 |
| Capital adequacy ratio | 317 | 304 |