National Insurance Trust Fund - 2021

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the National Insurance Trust Fund Board ("Fund") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, 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 report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Fund. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed 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.

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 fund'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 fund or to cease operations, or has no realistic alternative but to do so.

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

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

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

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund 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 Observations	Management Comment	Recommendation
(a.) Weak Control Environment had been observed due to following reasons. (i.) There were three (03) vacant positions from four (04) key management positions. The Chief Executive Officer had been filled on acting basis and the Assistant General Manager – Finance position had been filled on acting basis in addition to permanent responsibilities. The Assistant General Manager – Operation position is vacant since the carder approved date of 01 November 2016. Further five (05) positions had been vacant out of seven (07) management positions and three (03) Management positions had been filled on acting basis in additions to their permanent responsibilities. Therefore, the opportunity of development, implementation, supervision and monitoring and strengthen the internal control system is minimal.	Even though, it is essential to fill those vacancies for the smooth functioning of the organization to achieve organizational goals, the entity has done recruitment processes for all vacant positions. Further. the government has stopped all recruitments since 2019 onwards. However, due to severity of this issue with the board approval, the fund has obtained special approval from Department of Public Enterprises to recruit the vacant positions. Accordingly, the recruitment process has already commenced and expect to fill the vacancies during first quarter of 2023.	The management should take necessary actions to fill key management positions and strengthen the control environment.
(ii.) It is observed that the actuarial function, risk management function and investment function had not been effectively carrying out due to	Although the actuarial function, risk management function and investment function were not filled with dedicated staff, it doesn’t mean that those functions was not carried	The management should take necessary actions to establish those key divisions with required resources for effective

	unavailability of responsible divisions and officials with required skills specified in the recruitment procedure to carrying out those functions. Therefore, timely identification of risks and implementing strategies to mitigation of those risks, the provision of accurate information to make actuarial estimations had not been effective.	out successfully and effectively or not operated at all.	running of the fund.
(iii.)	Internal audit function had not been carried out for the period of February 2020 to October 2021 (20 months) and the Audit Committee had not been conducted for the year 2021. Therefore, the review and strengthen internal control systems on regular basis, review financial statements and financial statements preparation process to ensure compliance with Accounting Standards had not been carried out.	NITF agree that the internal audit and audit committee had not been functioning due to the vacant position of the head of the division. Filling the position and functioning of audit committee was delayed due to Covid 19 pandemic situation that prevailed during the year 2021.	The management should ensure the effective functioning of the audit committee and the internal audit.
(iv.)	A fraud done by an employee in the Agrahara Insurance Scheme had been discovered accidently in October 2022. This fraud had been committed from the year 2018 and the discovered financial loss as per the internal audit report submitted to law enforcement authorities is Rs. 5,136,000. This was happened due to lack of design and implementation of the sound internal control system with proper supervision and monitoring. Further, this evident that the non-existence of the sound system of control environment for the fund. Further, the	The primary investigation of the fraud has been completed and report will be submitted to the board of directors. The fraud was accepted by the employee and the financial loss amounting to Rs. 5,136,000 was paid to the magistrate court which will be recovered by the fund after proper procedures.	The management should ensure sound system of internal control to avoid frauds and minimize the fraud risk.

	current status in this regard had not been presented to the audit		
(b.)	Integrated system for handling Agrahara Claims from acceptance of the claim applications to settlement of the claims had not been available for the fund. Therefore, due to acceptance of claim applications in an irresponsible manner, loss of claim information and unnecessary delays of claim processing had been observed.	However, Agrahara claim division is functioning with an integrated system except acceptance and identification of claim liability which is done in the very first stage of the claim process. These initial stages of claim processing system modifications were considered in the corporate plan 2022- 2025 and it is currently progressing.	The management should take necessary actions to introduce sound system of internal control for the Agrahara insurance scheme.
(c.)	The transactions of the Strike, Riot, Civil Commotion and Terrorism Fund (SRCC & Tr Fund) had been recorded in the excel files using source documents and at the end of the year all transactions recorded in the excel files had been updated to a manual ledger and submitted to the audit. Even though, the facility had been provided in the SAGE Accounting System in the year 2019, that facility had not been used in real time basis for the financial reporting process of the Strike, Riot, Civil Commotion and Terrorism (SRCC & Tr) Fund. Therefore, duplication of works and high risk of data duplication and errors during data processing among systems. Futher, it seems that, there are high probability of data manipulation during integrations.	The way of invoicing SRCC premium is not in line with the SAGE accounting system, caused the difficulty of one time updating GL in SAGE. However, in 2023 after issuing guidelines to SRCC, NITF is collecting premium details from General insurance Companies within 10 days after end of each month. Since NITF issued guidelines to insurance companies, this additional control will be discontinued. Further, this parallel work ensure cross checking of GL balances and detecting errors if any in the manual system. This duplication is a risk mitigation way of reporting and in fact this is kind of control as it assures accuracy of the GL and figures.	The management should ensure that timely updating of financial information systems and ensure the information integrity.
(d.)	Contribution for the Agrahara insurance scheme had been recognized as one item of	Agreed with the observation on the basis that unavailability of comprehensive updated data base.	The management should take necessary actions to ensure effective system for

	income in the financial statements for Agrahara Normal, Silver and Gold schemes. Since there was no proper and updated database, it is difficult to obtain information for contributions made to each Agrahara Insurance Schemes and to obtain a detailed record of the monthly contributions made by each institution and by each policy holder to the Fund.	However, in the existing system, the Agrahara normal, silver and gold premiums can be provided separately except for a few institutions. However, a new comprehensive information system has been implemented with the support of the Ministry of Finance and is in operation since December 2022. The said requirement mentioned in the report will be available from 2023.	the premium collection and claim processing for Agrahara insurance scheme.
(e.)	Financial information of reinsurance outstanding claims of Rs. 2,623,829,593 and reinsurance claims paid had been maintained manually in excel sheets. Therefore, it is observed that there was no proper system in place to handling transactions and keep records in the reinsurance section. Therefore, there is a greater risk of data integrity due to weaknesses in financial information reporting in the reinsurance section. Further, timely actions for collection of reinsurance claims and accuracy of those information are questionable.	Even though, there is no system in place, there are general controls to assure the accuracy and completeness of data. Accounts payable module of Sage ACCPAC is currently in operation for claim processes. Further, the fund is currently in the process of developing a system for claim handling of the RI division as per corporate plan 2022-2025.	The management should ensure that the effective reporting system in place.
(f.)	A Staff Loan Register had not been maintained by the entity in an acceptable manner. Instead, a staff loan register had been prepared in an excel file, which cannot be accepted and trust since the lower level of data integrity due to possibility of unauthorized changes, recorded incidents of deletion and edition of information in the history and inability to verify the accuracy	No answers provided by the management.	The management should take necessary actions to maintain staff loan register in an acceptable manner in manually or electronically.

	of history of the information. The total balance of staff loans as at 31 December 2021 as per financial statements is Rs. 47,326,145.		
(g.)	According to the guidelines 2.3 of the Operational Manual for State Owned Enterprises (SOE's) introduced by the Public Enterprises Circular No. 01/2021 dated 16 November 2021, all SOEs should have their own systems, processes, and protocols clearly defined in Manuals covering all major operations, which are periodically reviewed and updated. However, an approved Information Technology and Information System Policy were not available for the fund. Therefore, an IT security policy, records management policy, business continuity management and disaster recovery plan, breach response plan and privacy policy are not available for the fund. Therefore, this will impact to validity, completeness, integrity, security and availability of data and processed information.	No answers provided by the management.	The management should take necessary actions to implement approved Information Technology and Information System Policy.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non-Compliance with the reference to particular Standard		Management Comment	Recommendation
(a.)	**SLFRS 07 – Financial Instruments: Disclosures**	NITF agree with the observation.	The management should make required disclosures according to the standard.
(i.)	According to the paragraph 33(a) of the standard, the entity has not made required disclosures regarding exposures to risk and how they		

arise in relation to reinsurance receivables, motor premium receivables and non-motor receivables. (ii.) According to the paragraph 33(b) of the standard, the entity had not provided sufficient disclosures regarding its objectives, policies and processes for managing the risk and the methods used to measure the risk in relation to reinsurance receivables, motor premium receivables and non-motor receivables.		
(b.) **LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors** According to the paragraph 42 of the standard, an entity shall correct material prior period errors retrospectively in the first set of financial statements for authorized for issue after their discovery. The Adjustment premium of National Natural Disaster Insurance Scheme (NNDIS) of Rs. 123,387,679 for the period of 26 May 2018 to 31 July 2018 and the Adjustment premium of Retrocession Reinsurance of Rs. 466,292,684 for the period of 15 March 2018 to 15 September 2019 had been recognized for the year under review. Therefore, this error had not been corrected as per the provisions of the standard. As a result, the profit for the year had been understated by Rs. 589,680,363.	There is no accounting error to adjust in the financial statements.	The management should adjust material prior period errors in the financial statements retrospectively in accordance with the provisions of the standard.
(c.) **LKAS 12 – Income Tax** An accounting policy for recognition and measurement of deferred tax had not been disclosed in the financial statements. Further, the fund had	with the observation. Deferred tax calculation will be made and disclosed in future reporting.	management should take necessary actions to accounting for deferred taxation.

not recognized the deferred tax asset amounting to Rs. 4,081,840 as at 31 December 2021.		

1.5.3 Accounting Policies

Audit Issue	Management Comment	Recommendation
(a.) According to the paragraph 36 and 37(a) of SLFRS 4 – Insurance Contracts, an insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts. However, the entity had not disclosed accounting policy for recognition and measurement of reinsurance gross written premium income for the year under review. The reinsurance gross written premium recognized for the year under review is Rs. 3,548,784,649.	A policy was disclosed in 2022 financial statements.	The management should take necessary actions to disclosed accounting policy for recognition and measurement of reinsurance gross written premium income in the financial statement.
(b.) According to paragraph 13 of LKAS 08 – Accounting Policies, Changes in Accounting Estimates and Errors, the entity shall select and apply its accounting policies consistently for similar transactions. However, the fund had used different policies for the valuation of treasury bills and treasury bonds. The fund had used average yield to calculate the treasury bill and treasury bond in 2019. However, buying yield had been used to calculate the treasury bills and treasury bonds in 2020 and 2021. Further, investment policy had not been defined the valuation method of treasury bills and bonds.	Agree with the observation	The management should value bonds and Treasury bills using a consistent accounting policy.

1.5.4 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a.) Reinsurance receivable balances in accordance with the Control General Ledger Account is Rs. 1,590,481,053 and Reinsurance Receivable Age Analysis Report submitted to the audit is Rs. 1,581,447,299. Therefore, it was observed that, the difference of Rs. 9,033,754 between Reinsurance Receivable Control General Ledger Account and Reinsurance Receivable Age Analysis. According to the reconciliation prepared by the fund, this difference represents the omission of Rs. 9,053,364 receivable balances from an insurance company from the age analysis and further unidentified difference of Rs.19,610 had been observed. However, the evidence had not been available for identified omission of Rs. 9,053,364 for the audit to decide whether any adjustment shall be required for the financial statement for the year under review.	As per the nature of reinsurance business, treaty accounts are finalized and reported on a quarterly basis. i.e. depending on the treaty terms within 45days or 60days after the end of the quarter`s treaty accounts are informed to reinsurer (NITF) for checking and invoicing purpose. Therefore, every reinsurer, maintains a cutoff to invoicing of business. Generally, the cutoff is set on third quarter of each year. Hence the practice for the recognition of RI premium income is to get the premium income of last quarter of previous financial year and first three quarters of the current financial year. Therefore, all treaty arrangements of NITF are invoiced as considering the cut off as at 30 September of each year. Kindly note that the proposed method of recognition of GWP based on underwriting year basis cannot be applied for reinsurance business class.	The management should identify the differences in timely manner and take appropriate actions to rectify those differences.
(b.) A difference of Rs. 568,087 had been observed between staff loan balance as per financial statements and the detailed schedule submitted for the audit.	Agreed with the observation	The management should identify differences in financial records and correct those records in timely manner.
(c.) Administration Expenses amounting to Rs. 3,445,057 for the year 2020 had been accounted in the year 2021. Furthermore, Administration Expenses amounting to	Agree with the observation.	The management should ensure that appropriate process in place to identify expenses for the correct accounting period and prepare financial statements on accrual basis.

	Rs. 2,280,680 for the year 2021 had been accounted in the year 2022. Therefore, total expenses for the year had been overstated and the profit for the year had been understated by Rs. 1,164,377.		
d.)	According to the Revised Financial statements of 2020, the Company had introduced a revenue recognition policy for re-insurance. However, such policy had not been consistently disclosed for the year under review as per the paragraph 13 of LKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. As per the policy disclosed in the revised financial statements for the year 2020, the Proportional Treaty Re-insurance premium shall be recognized when the periodic advice received from cedants with the leader confirmation. However, it was observed that the re-insurance premium relevant prior to 2021 of Rs.723,971,289 had been recognized for the year under review. Further re-insurance premium of Rs.684,791,928 relevant for the period had been recognized for the year 2022, due to the leader confirmation and periodic advice had been received in delay. Due to this, the revenue for the year had been overstated by Rs.39,179,361.	Even though, the fund did not disclose the revenue recognition policy for RI, it doesn’t mean that the same policy was not consistently applied since, the fund has applied the same policy for underwriting for both years, 2020 and 2021. Further, the fund disagrees with the overstated amount of Rs. 39,179,361. As per the policy for premium recognition of RI, disclosed in 2020, Inward proportional treaty reinsurance premiums are recognized on the basis of periodic advices received from cedants with the leader confirmation.	The management should develop revenue recognition accounting policy based on the applicable reporting framework and recognize the revenue accordingly.
(e.)	According to the accounting policy introduced by the revised financial statements for the year 2020, the re-insurance	The fund agree with the observation.	The management should develop revenue recognition accounting policy based on the applicable reporting framework and recognize the revenue

	premium for Non-Proportional Treaty Re-Insurance Agreement has been recognized based on the contractual premium already established at the start of the Treaty Gross Written Premium (GWP) for the year. However, it was observed that the re-insurance premium relevant prior to 2021 of Rs.35,138,723 has been recognized for the year under review. Further re-insurance premium of Rs.15,800,799 relevant for the year had been identified in the year 2022. This was occurred due to relevant adjustments had not been made by reviewing the agreements with available additional information and developments at the end of the period. Due to this the revenue for the year had been overstated by Rs. 19,337,924.		accordingly.
(f.)	According to the accounting policy for Facultative Re-insurance Agreement the insurance premium has been recognized after receiving the leader confirmation. Therefore, re-insurance premiums of Rs.143,783,983 relevant for the prior periods had been recognized for the year under review. Further, re-insurance premium of Rs. 170,065,932 relevant for the period had been recognized in the year	NITF disagree with the understated amount of Rs. 26, 281,949/-. since, as per the policy for premium recognition of RI, disclosed in 2020, Inwards facultative reinsurance premiums are recognized in the financial year in respect of the facultative risks assumed during the particular financial period after receiving the leader confirmation. Accordingly, facultative insurance premium has recognized after the receipt of confirmation as per the policy.	The management should recognize the revenue in compliance with relevant accounting policy.

	2022. Due to this the revenue for the year had been understated by Rs. 26,281,949.		
(g.)	A difference of Rs. 3,408,464 had been observed in four (04) bank accounts in relation to nine (09) months between the cash book balances attached in the bank reconciliation statement and the cash book balance as per the accounting system as at audit date of 19 May 2022.	These differences can be in four bank accounts maintained in Zillion CB system whereas other bank accounts are maintained in SAGE. In the case of Zillion bank reconciliations, the bank reconciliations are saved after the preparation as subsequent reconciliations changes the original reconciliation.	The management should identify the differences in timely manner and take appropriate actions to rectify those differences.
(h.)	Right of Use Asset amounting to Rs 5,351,298, the lease liability on right of use asset amounting to Rs.7,339,958 and the finance cost of right of use asset amounting to Rs.2,259,970 had been overstated for the year under review.	The fund has identified this error in the year 2022 and relevant adjustments were made in the year 2022.	The management should take necessary actions to rectify accounting deficiencies in timely manner.

1.5.5 Documentary Evidences not made available for Audit

Item		Amount Rs.	Evidence not available	Management Comment	Recommendation
(a.)	Income tax receivable	22,465,243	Tax computation and confirmations	The fund maintains two separate GLs for SRCC and NITF. However, NITF has one registered TIN with IRD. ESC amounting to Rs 22,465,243 has claimed as tax credit in the previous year of assessment. CIT liability was arisen due to the tax profit of SRCC segment whereas ESC has paid under non SRCC segment. Therefore, in one GL this claim amount appears as tax payable (Negative) balance.	The management should ensure the availability of information timely for effective audit function.

(b.)	- Rent Deposit Receivable - Refundable deposit payable	2,180,969 892,693	Payment voucher and agreement Receipt and agreement	The balance rent deposit amounts in relation to store provided by the CGIR. All source documents are available for your verification.
(c.)	Long outstanding payable balances	282,865,828	Receipt and agreements	NITF requires more detailed information to respond to this observation.
(d.)	Payment Voucher	2,490,462	Payment Vouchers with supporting documents	All payments vouchers are available for your verifications.
(e.)	Journal vouchers	2,584,778,761	Journal vouchers along with supporting documents	All journal vouchers with relevant source documents are available for your verifications
(f.)	Reinsurance claims paid for flood and non-flood	1,298,922,574.	Detailed schedule along with supporting documents for payments	Information in relation to RI claim paid on flood and non-flood for 2021 are available for your verifications.
(g.)	Reinsurance outstanding claim provision	2,341,883,754	Third-party confirmations, intimations, reconciliation, claim settlement schedules and management comments	NITF has already sent emails to get the third parry confirmations for RI claim payables. However, all pending confirmations are being flowed up and as soon as NITF get those confirmations, will be forwarded to NAO
(h.)	Outstanding inward reinsurance premium receivable	1,457,619,423	Third party confirmations, invoices, receipts, reconcilliations, recovery schedules, age analysis and management comments	NITF has already sent emails to get the third parry confirmations for RI premium receivables. However, all pending confirmations are being flowed up and as soon as NITF get those confirmations, will be forwarded to NAO. However, alternative procedure for verifications can be carried out as performed by NAO officers previously.

(i.)	Retro and NNDIS reinsurance receivables	1,102,142,174	Age analysis	NITF will submit the figures in due course.

1.6 Accounts Receivable

Audit Issue	Management Comment	Recommendation
The reinsurance premium receivable of Rs. 149,602,423 outstanding over one (01) year which represent 9% of the total Reinsurance Premium Receivable and the amount of Rs. 104,522,202 outstanding over two (02) years which represent 7% of total receivable amount. The amount of Rs. 290,717,054 outstanding over three (03) years which represent 18% of the total outstanding balance. Accordingly, it was observed that, the entity had not taken necessary actions to recover long outstanding reinsurance receivable balances.	The fund is monthly sending reminders to insurance companies.	The management should take necessary actions to recover outstanding balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a.) Sections 7, 31(2) and 49 (b) of Regulation of Insurance Industry Act No.43 of 2000	Four (04) quarterly returns containing information as rules made in that behalf should be submitted to the Insurance Regulatory Commission. However, quarterly return had been submitted with delay of 17 to 362 days to the Insurance Regulatory Commission.	There are only 04 quarterly returns need to be submitted to IRCSL for a year. Returns of 1Q, 2Q, 3Q and 4Q were submitted with the delay of 23,32,46 and 17 days respectively. However, annual returns could be submitted two days before the due submission date on 28/04/2022.All these delays were due to the Covid 19 pandemic impacts such as travel restrictions, lock downs, cases of tested positive number of staff etc.	The management should take necessary actions to avoid future delays in submission of regulatory returns.

(b.)	Section 6(1)(e) of the National Insurance Trust Fund Act, No. 28 of 2006	According to the provisions of the Act, three (03) persons to be nominated by the Minister from among persons possessing qualifications or expertise in the fields of finance, banking, insurance, management or law to the board of the fund. However, it is observed that, two (02) board positions are still remaining vacant as at 31 December 2021.	As per the section 6.1 of the National Insurance Trust Fund Act No. 28 of 2006, the Board of the fund consists of seven members including the Chairman. Accordingly, two vacant positions were filled by the Minister as per the Section 6 (1) (e) of the Act on 16 November 2022. Therefore, from the date of 16 November 2022, the composition of the Board of the fund is completed.	The management should comply with the provisions of the act.
(c.)	Section 13(e) of the National Insurance Trust Fund Act No 28 of 2006	According to the provisions of the act a general account in respect of the Fund and separate Individual accounts in respect of each member needed to be maintained. However separate accounts for individual members had not been maintained by the fund.	Individual accounts details are maintained in the information system; it is possible to access them using clients NIC.	The fund should comply with the applicable provisions of the Act.
(d.)	Paragraph 23 of the National Insurance Trust Fund Act, No.28 of 2006	According to the provisions of the act, the fund had not taken necessary actions to inspect records of the insurance companies to verify whether such insurance companies have invoiced and remitted amount accrued to the fund accurately.	The fund agreed with the observation. Usually, Internal Audit division is carrying out income verification of insurance companies. However, due to the Covid pandemic, this verification was not executed.	The fund should comply with the applicable provisions of the Act and take necessary actions to collect revenue in complete and timely manner.
(e.)	Paragraph 40(1) of the National Audit Act No. 19 of 2018	The governing body of the entity shall appoint an internal auditor for the fund. However, the internal audit function had not been carried out for the period of February 2020 to October 2021.	As per the direction given by the IRCSL, the internal auditor has to be replaced. Therefore, the position of internal auditor was fallen vacant. However, the function of the division was continued. Vacant position in a division does not mean that the discontinuation of its functions.	The management should ensure the effective functioning of the audit committee.
(f.)	F.R. 386(7)	Even though, the cancelled cheques must be affixed to the counterfoil and retained in the cheque book. The fund has attached cheque counterfoils with the payment voucher. As	As NITF is using continuous cheque roll for printing purposes (as cheques are not manual written and therefore cheque books are not used, it is not practically possible to file	The management should adhere to the requirements in the financial regulations to secure financial information.

		a result, in the case of any misplacement of the voucher all the details related to cancelled cheques may get lost.	cheque counterfoil separately. Therefore, Cheque counterfoil is attached and filed along with the payment Voucher. In case of any misplacement of the voucher, all the details are available in the ACCPAC system where any voucher details cannot be changed after posting. However, Cancelled cheques are affixed to the counterfoil.	
(g.)	F.R. 395(b)	Bank Reconciliation Statements should be certified by the Paying Officer concerned, and made available to Audit for inspection. However, the Bank Reconciliation Statements prepared for eighteen (18) bank accounts had been certified without name, designation and date.	Section (h.)F.R. 395(b) says, “In order to reconcile the balance according to the Cash Book of the department, with the balance as shown in the Bank's Certificate, a statement known as a Bank Reconciliation Statement, should be prepared. It should be certified by the Paying Officer concerned, and made available to Audit for inspection.” According to the said section all reconciliation had been certified by the paying officer considered, therefore no violation.	The management should adhere to the requirements in the financial regulations.
(h.)	F.R. 446	The petty cash book of SRCC & Tr Fund had not been maintained properly due to non-availability of serial number order and non-availability of authorized signatures for the alternations.	NITF agreed with the observation.	The management should adhere to the requirements in the financial regulations.
(i.)	F.R. 446(1)(c)	Strike Riot Civil Commotion and Terrorism (SRCC & Tr) Department had not written the cash books up to date, not totaled and balanced daily nor monthly basis. Further, a Supervisory or Staff Officer responsible has not signed the Cash Book in relation to three (03) bank accounts.	NITF agreed with the observation.	The management should adhere to the requirements in the financial regulations.

(j.) Section 04 of Public Enterprises Circular No. PED 2/2015 dated 25 May 2015.	According to the provisions of the circular the cost of purchasing mobile phones should be personally born by the officers. However, the fund has purchased mobile phones for employees by incurring Rs. 168,700 for the years 2021. Further, total cost of Rs.2,601,071 had been incurred to purchased mobile phones for the period from 2016 to 2021 by the fund.	To meet business requirements the fund has to purchase mobile phones for employees in order to the official functions. In addition to that they are recorded as assets of the fund and allocated to staff for the use and when resign from the job or at the end of period the mobile phone allocated has to be returned to the fund. Therefore, this is not a reimbursement of private mobile phone referred in the circular.	The management should adhere to the requirements in the circular.
(k.) Guideline 2.2.2(a)(ii) of Guidelines of Corporate Governance for State Owned Enterprises 2021	The Board meetings need to be held regularly, at least once a month in accordance with the provisions of the Act. However, the Board meetings had not been held for the months of April, June, July, September, October, and November 2021.	Agree with the observation. Due to pandemic situation this was occurred.	The management should adhere to the requirements in the corporate governance.
(l.) Guideline 2.2.2 (b) (xii) of Guidelines of Corporate Governance for State Owned Enterprises 2021	According to the guideline, the board should ensure the appointment and the proper functioning of Board sub-committees. However, the board sub committees such as Risk Committee, Related Party Transactions Review Committee had not been functioned in the year under review.	The fund agree with the observation. Due to pandemic situation this was not practical. Further No related party transactions were occurred during the period to be reviewed.	The management should adhere to the requirements in the corporate governance.
(m.) Principle G.2 Code of Best Practice on Corporate Governance 2017	The board had not appointed a Chief Information Security Officer (CISO) nor the cybersecurity risk management policy had been developed for the entity.	At present the code of best practice of corporate governance 2017 is widely used by companies that are publicly listed and other larger companies. The fund is currently available and designated with the IT manager.	The management should adhere to the requirements in the corporate governance.

1.8 Investment Activities

Audit Observation	Management Comment	Recommendation
(a.) An approved investment policy had not been available for the fund. The draft policy had been submitted to the board and board recommend to submit the draft policy with proposed investment limits. However, resubmission had not been done.	The fund has a board approved investment policy. Further limits of authority for the investment are approved by the board in the delegation of authority. However, as per the operation Manual for state owned enterprises issued by the Department of Public Enterprises Boards of SOEs with a consistent revenue of at least Rs. 30 billion per annum in the last two years. Therefore, there is no requirement applicable to NITF under this section.	The management should ensure that effective functioning of the investment of funds.
(b.) As per paragraph 17 of the Draft Investment Policy of the fund, the investment committee should meet periodically and the responsibilities of the investment committee had been defined. However, the investment committee had not been met for the year under review.	As per the operation Manual for state owned enterprises issued by the Department of Public Enterprises Boards of SOEs with a consistent revenue of at least Rs. 30 billion per annum in the last two years. Therefore, there is no requirement applicable to the fund under the said section.	The management should take necessary actions for effective functioning of investment committee.
(c.) There is no provision in the investment policy to review the same on regular basis. Further, the investment policy had not been reviewed by the board after its implementation and incorporate required improvements to the policy on timely basis.	Agree with the observation. However, there is no requirement applicable to the fund under the said section	The board should review the internal policies and procedures periodically on regular basis.
(d.) Even though the role of the investment manager has been defined in paragraph 13 of the draft investment policy this position had been vacant since 13 August 2020.	As per the operation Manual for state owned enterprises issued by the Department of Public Enterprises Boards of SOEs with a consistent revenue of at least Rs. 30 billion per annum in the last two years. Therefore, there is no requirement applicable to the fund under the said section.	The management should take necessary actions to effective functioning of the investment activities of the fund.

(e.)	According to the investment policy, selection of investments is based on evaluation of economic conditions, interest rates behavior, future trends, and the operational cash flow requirement of the fund. However, there was no cash flow forecasts had been prepared to identify the excess cash flows and timing of those cash flows to take investment decisions in prudent manner.	Cash flows are not prepared for a particular period. Depending on the nature of the fund's business, liquidity requirement and fund availability is monitored daily before making investment decision about the tenner and amount. Therefore, decisions are taken based on actual figures not on cash flow forecast. Daily cash availability and excess funds are identified based on Daily balances and investment report. Since the daily investment decisions need to be taken, under delegation of Financial Authority, The Board had delegated its authority to relevant officials and Investment Committee.	The management should take action to prepare cash flow forecast to identify future cash flows and its timing to take investment decisions in prudent manner.
(f.)	The financial assets of the fund (Investments) amounting to Rs. 24,954,265,916 represent 79% of the total assets of the fund. However, the delegation of financial authority for investment decisions had not been defined in the Investment Policy based on the value of the investments and the sources of investments. All investments were approved only by the Investment Committee irrespective of the value and the sources of the investments.	All approval limits for investments are given in the delegation of financial authority.	The management should delegate the financial authority based on the value of the investment and the sources of investment for effective functioning of the investment activities.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit after tax of Rs. 4,944,217,918 and the corresponding profit in the preceding year amounted to Rs7,526,099,442. Therefore, decrease amounting to Rs. 2,581,881,524 of the financial result was observed. The reasons for the decrease were, increase of net benefits and claims from amount of Rs. 2,806,764,782, decrease of net earned premium from amount of Rs.96,123,417 and increase of underwriting and acquisition cost from amount of Rs.249,059791 when compared to preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Year	2021 Rs.	2020 Rs.	Variance Rs.	Variance as a percentage
Net earned premium	17,378,904,399	17,475,027,816	(96,123,417)	-1%
Other revenue	1,590,127,784	1,387,023,110	203,104,674	15%
Net benefits and claims	(10,761,281,045)	(7,954,516,263)	(2,806,764,782)	35%
Underwriting and acquisition cost	(1,863,920,737)	(1,614,860,946)	(249,059,791)	15%
Other operating and administrative expenses	(392,242,269)	(409,175,576)	16,933,307	-4%
Income tax	(991,504,005)	(1,339,826,929)	348,322,924	-26%
Profit for the year	4,944,217,918	7,526,099,442	(2,581,881,524)	-34%

2.3 Ratio Analysis

According to the financial statements and information's made available to the audit, some important ratios for the last four years were as follows.

Ratio	2021	2020	2019	2018
Retention ratio	174%	161%	143%	138%
Total claim ratio	58%	46%	60%	72%
Expenses ratio	8%	12%	16%	16%
Combine ratio	67%	57%	76%	87%
Revenue growth	1%	6%	18%	18%
Profitability ratio	56%	90%	24%	34%
Net profit	26%	40%	18%	21%
Return on Asset	20%	37%	17%	19%
Return on Equity	38%	83%	43%	47%
Liquidity ratio	1.4	1.2	0.68	0.74
Current ratio	8.78	6.26	8.92	9.34
Financial assets to total assets	81%	82%	77%	76%
Assets turnover	1.12	1.34	2.46	2.17

3. Operational Review

3.1 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a.) The recommendations in relation to data capturing, splitting major class of business, provide claim counts and claim handling expenses were made since 2019 by the actuary. However, the actuarial report had not been discussed at the board level or the appropriate	There is no further increase or decrease data confidence level requirement, since NITF possesses 75% data confidence level as required by IRCSL guideline.	The management should take necessary actions to implement recommendations made by the actuary to improve data confidence level of the fund.

	level of management from 2019 to make required improvements to increase the data confidence level of the fund.		
(b.)	An Actuarial Division was not established by the fund to collect, retain and provide required actuarial information to the actuary and required parties.	An actuarial division had not been established for the fund. However, relevant data are being provided by finance division.	The management should ensure the effective functioning of actuarial function.
(c.)	A documented policy for handling reinsurance claim process and to identify payable obligation had not been available for the fund. Hence, the fund identified and record reinsurance obligation from the primary intimation document.	Based on the primary intimation document claim reserves are made. However, it is obvious that final claim amounts are decided after the receipt of technical opinions, loss adjusters report etc. as per the nature of the business.	The management should ensure availability of Policies for major functions of the fund.
(d.)	Recovery reminders of 03 lapse soft loan account balances of Rs.2,726,557 had not been followed up by the entity until the 31 December 2021. After requesting by the audit, recovery reminders had been sent on 23 August 2022.	We have already taken action to send reminders and recover. As a result of that, a significant amount was recovered during year 2022.	Management should take action to recovery of soft loan balance.
(e.)	According to the Extra Ordinary Gazette No. 1824/23 dated 23 August 2013, penalty had not been imposed and collected by the fund from the overdue crop levy payment amounting Rs.2,681,980 from 10 banks and financial institutions for the year 2020 and 2021 and further actions had not been taken in terms of provisions of paragraph 24 of the National Insurance Trust Fund Act No. 28 of 2006 for non-payment of the levy	NITF agree with observation. Even through, the fund has send reminders recovery has not possible yet.	The company should take necessary actions to collect crop levy on timely manner.
(f.)	It was observed that there is a long delay in payment of Agrahara benefits due to absence of an efficient screening system and payment process for Agrahara claim applications. The	Currently, Agrahara claim applications which submitted to the counters are checked & accepted and payments are made within two weeks. Also follow the same procedure for fault	The management should improve the efficiency in claim handling by improving its internal claim handling procedure.

	weaknesses of not registering and accepting applications for the payment of Agrahara claim benefits in order of the date of receipt, not checking and accepting its accuracy at the time of receipt, not giving written confirmation of receipt of claim applications and weaknesses in the computer system and internal control problems etc. were observed. Further, it was observed that the delay usually takes about 200 to 240 days.	handling. Now, it is planned to improve this process further to apply for the applications received by post, as follows. - Check & accept the Agrahara claim applications received by post. - Issue acknowledgement for duly completed applications with required documents. - Arrange to send a letter requesting further documents for incomplete claim applications at the first step. - Also, to expedite the process of backlog within next two weeks, deploy separate team. - When any error occurs in the computer system, the error is corrected by IT division and it make several developments on the system to minimize the errors and make some limitations for internal controls.	
(g.)	A fully equipped call center was implemented in the year 2021 at a cost of Rs. 21.5 million to provide quality and prompt service to the clients. It has the ability to provide services to 15 clients at once. At present, it was observed that the average number of telephone calls received per day is about 1700, and the total number of calls received to the call center from the date of establishment of February 2021 to December 2022 is 734,626. The total number of calls answered were 312,350 and the number of calls rejected was 422,250. Accordingly, 57 percent of the total number of calls received to the call center were rejected without responding. Therefore, the clients had expressed their displeasure about their problems	NITF agrees to the recommendation given and would like to mention the current status as follows; - It is observed that the number of calls received have been increased up to around 2,000 calls a day due to the delay of Agrahara payments. Even the 15 call center agents are unable to cater the limit of 2,000 where average 1,200-1,500 calls can be handled daily. - Further with the government sector recruitment restrictions in 2021-2022, call canter had to be handled only with the 4-5 permanent Management Assistants by the end of December 2022. However, from the year 2023, 12 trainee staff with the 04 permanent	The management should allocate sufficient and skilled human resources to the call center to handle customer service and process claim applications in timely manner.

handling and the services providing through the corporate official social media. During the investigation, it was revealed that the management of the fund has failed to assign sufficient and trained staff to the call center. As per the physical observation it was observed that the number of employees employed in the call center was as few as 4-5 people. Furthermore, it was revealed that the reason for the daily increase of number of calls to the call center is due to not paying the Agrahara claims within a reasonable period of time.	Assistants were assigned and call center is functioning with full 15 agents as since January 2023. - NITF has expedited the Agrahara Backlog processing & planned to complete the arrears within 02 months and the number of calls will be reduced in the due course.	

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(a.) According to the paragraph 3(1) of the Extraordinary Gazette No. 1542/11 dated 25 March 2008, the premium collected from the issuance of policies for strike, riot, civil commotion and terrorism shall be credited to the account maintained in a State Bank. However, the fund has paid 20% commission to the insurance companies without proper legal provisions to do so. The amount paid as commission on non-motor policies for the year under review is Rs. 1,087,484,898.	Non-Motor gross premium (100%) are invoiced and recorded as premium income. However, 20% commission is need to be paid by NITF to cover the primary insurer's marketing and administration cost. The credit notes are received from general companies for 20% commission and supposed to be settled by NITF. Instead NITF allow to deduct the credit note commission payable from the invoice in the settlement.	The company should evaluate and take necessary actions for the legality of paying commission for premium collected from the issuance of non-motor policies for strike, riot, civil commotion and terrorism cover.
(b.) According to the paragraph 3(1) of the Extraordinary Gazette No. 1542/11 dated 25 March 2008, the premium collected from the issuance policies for strike, riot, civil commotion and terrorism shall also be credited to the account maintained in a State Bank. However, the fund has	As per the Motor XOL arrangement implemented for motor class from the inception of the SRCC & Tr Fund was continued to practice by the fund. Accordingly, time to time the percentage of premium charged under the motor class Excess of Loss arrangement (XOL) was determined and thus the board decision no. 53-16 the money obtained as premium is	The company should evaluate and take necessary actions for the legality of paying commission for premium collected from the issuance of motor policies for strike, riot, civil commotion and terrorism cover.

	recovered only 12% of the total premium collected by the insurance companies for strike, riot, civil commotion and terrorism cover from motor policies without proper legal provision to do so. Therefore, the reduction of premium to the fund for the year under review is Rs. 9,596,748,087.	12% of the total premium collected by insurance companies. However, before deciding 12%, 15% of the total premium was requested in the same year as industry was opposed to that decision it was finally come down to 12%. In 2021 as management of NITF noted the opportunity to discontinue the present practice of XOL arrangement, it was decided to change the present practice of the Motor premium collection and accept 100% as per the Board Paper No. 172-03 liability in the motor insurance class with 100% premium with effect from 01.04.2022, in implementing this decision as industry was opposed the implementation was postponed. As per the board decision, 100% premium on motor policies will be implemented with effect from 01/01/2023.	
(c.)	According to the National Insurance Trust Fund (amended) Act No 28 of 2007 and Extraordinary Gazette Notification No 1791/4 dated 21 December 2012, the fund has the mandatory cession of 30% of general (non-life) reinsurance in Sri Lanka. However, it was observed that, the fund had paid a commission to insurers who reinsure the mandatory portion. The fund had paid Rs. 7,390,263,635 as reinsurance commissions for 13 general insurance companies for the period of 2017 to 2021 for the aforesaid mandatory portion without proper legal provisions to do so.	According to the nature and practice of the reinsurance business, the primary insurance companies in Sri Lanka are arranging their reinsurance covers with the foreign panel of reinsurers and NITF under the mandatory 30% cession become only one reinsurer to the panel. However, the terms and conditions of the reinsurance agreement is declared by the lead reinsurer as being the underwriter. As per the reinsurance norms, all the other reinsurers in the panel are following the same terms and conditions. NITF participates to the treaty agreement usually as a follower. From the inception of RI underwing of NITF, this was continuing norm followed. The percentage of the commission is originally agreed by the leader has to be accepted by NITF.	The company should evaluate the legality and reasonableness of paying commission for the mandatory 30 percent reinsurance cover and take appropriate actions accordingly.