National Insurance Trust Fund Board - 2022

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the National Insurance Trust Fund Board ("Board") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 Board. 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 board'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 board or to cease operations, or has no realistic alternative but to do so.

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

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

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 board'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 board 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 board, and whether such systems,
 procedures, books, records and other documents are in effective operation;
- Whether the board has complied with applicable written law, or other general or special directions issued by the governing body of the board;
- Whether the board has performed according to its powers, functions and duties; and
- Whether the resources of the board 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

(a.) Weak Control Environment had been observed due to following reasons.

(i.) Three (03) out of ten (10) higher management positions were filled on acting basis. Those were Chief Executive Officer. Assistant General Manager - Finance and Manager – Reinsurance & SRCC. Further, there were six (06) vacant positions and one (01) position was filled on acting basis out of 20 middle level managers. Some acting positions were held by officers who did not fulfill the qualifications required experiences for a long time. Therefore, the possibility of development of sound system of internal control, effective monitoring of implementation of control system internal

Management Comment

CEO & AGM-Finance positions are vacant due to litigations on the interdicted officers. With the filling of the key position recruitments, it is expected that the internal control system will be strengthened.

Recommendation

The management should take necessary actions to fill key management positions and strengthen the control environment.

developments to strengthen the internal controls is minimized.

- (ii.) The actuarial function and risk management function had not been effectively carrying out due to unavailability of responsible divisions and officials required skills specified in the recruitment procedure to carrying out those functions. Therefore, timely identification of risks and implementing strategies mitigation of those risks and provision of accurate information to make actuarial estimations could not be effective

(iii.) Internal audit function had not been carried out for the period of February 2020 to October 2021 months). (20)Subsequently, Assistant Manager – Research and Analysis Department had been internally appointed as internal auditor with effect from 01 November 2021. However, he had been transferred to his previous position with effect from 20 September 2022 neither without referring to any reason nor without a board decision. Thereafter, an insurance officer of SRCC and Tr Department had been internally transferred as Actuary division will be established as per the Corporate plan 2023- 2027. However, the actuarial function was outsourced to the appointed actuary, which is a one of the leading actuarial firm in the local as well as in the global context. The board appointed a subcommittee for risk management and will be functioned from 2023. We are aware of the value of having dedicated staff and actions have already been taken to fill vacancies. However, as pointed out above, the current situation of the country and the said low salary scales of the NITF, have adversely affected the timely ability in attracting suitable human capital. NITF have identified the lacking areas in internal controls, poor supervision and monitoring. Subsequently, steps have already been taken up to mitigate the system and operational risk by improving system

NITF agree that the internal audit had not been functioning due to the vacant position of the head of the division. Required procedure was followed for the staff transfers

The management should take effective actions to establish and functioning of those key divisions with required resources for effective running of the board.

The management should ensure the effective functioning of the internal audit.

internal auditor for the period from 20 September 2022 to 14 July 2023 on acting basis. At present an internal auditor had been recruited with effect from 15 July 2023. Thereafter, the experienced audit staff had been transferred to other divisions without the recommendation of the Audit Committee and the approval of the board after recruiting the Internal Auditor on permanent basis. Therefore, it was observed that a history of weak internal audit function in the board during the recent past. Further, the Audit Committee had not been conducted for the year 2021 and only 03 audit committees had been conducted for the year under review. Therefore, the internal audit functions such as revision and evaluation of internal control systems, risk management and compliance functions and the review of financial statements to compliance with ensure Accounting Standards had not been effectively carried out.

(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 discovered financial loss as per the internal audit report is Rs. 5,136,000. At present, according to the internal investigations of the organization, 13 other officers have also been involved frauds in similar nature and revealed that the value of the

Loss of the fraud recovered subsequently from the court procedures.

The management should ensure sound system of internal control to avoid, detection of frauds and minimize the fraud risk.

financial loss is Rs. 6,572,300. This was happened due to lack of design and implementation of the sound system of internal control with proper supervision and monitoring. At present the loss of Rs. 5,746,571 had been recovered from the fraudster and the court proceedings are still on going. However, a penalty had not been imposed to fraudster to recover the loss caused to the board due to loss of investment income.

(b.) Integrated system for handling Agrahara Claims from acceptance of the claim applications to settlement of the claims had not been available for the board. Therefore. irregularities acceptance of claim applications, loss of claim information, delays rectifying errors and unnecessary delays of claim processing had been occured. In the recent past the board had taken actions to improve the efficiency and effectiveness of the claim handling process. However, a substantial time will be taken to measure the success of the aforesaid improvements.

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. This initial stage of claim processing system modifications were considered in the corporate plan 2023- 2027 and are currently progressing. Agrahara claim processing is currently being done by using ORACLE system. NITF However. have already identified gaps and areas that should be immediately developed. Infact, some of the changes have been made recently to the system. Further with the support of the finance ministry, a committee was formed with a specialist to identify internal control issues, IT controls, technical requirements and gaps to expedite claim processing. Steps have already been taken for online submission of spectacles claim as the first step in the said implementation.

(c.) The transactions of the Strike, Riot, Civil Commotion and Terrorism Fund (SRCC & Tr Fund) had been recorded in the NITF agree with the observation. NITF is currently updating Sage accounting system and can be finalized in near future. The management should ensure that timely updating of

financial

The management should take necessary actions to introduce sound system of internal control for the Agrahara insurance scheme.

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 (SRSS & Tr) Fund. Therefore, duplicate of works and high risk of data duplication and errors may occur during same data processing among both systems. Therefore, it seems that the lower level of data integrity in financial information of SRCC and Tr Fund.

information systems and ensure the information integrity.

(d.) Contribution for the Agrahara insurance scheme had been recognized as one item of income in the financial statements for Agrahara Normal, Silver and Gold schemes. There were no proper and updated database and proper mechanism reconciliation process of Agrahara collection revenue system. Therefore, 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. Further, the board has introduced some recent developments to the Agrahara revenue collection process. However, the success of this will

NITF agreed with the observation on the basis that unavailability comprehensive updated data base. However, in the existing system, the Agrahara normal, silver and gold premiums can be provided separately few except for a institutions. However, a new comprehensive information system has implemented with the support of the Ministry of Finance and is in operation since December 2022. The said requirement mentioned in the report is available from 2023.

The management should take necessary actions to ensure effective system for premium collection and claim processing for Agrahara insurance scheme.

take substantial time, resources and commitments of the management of the board and connected institutions.

(e.) Financial information of reinsurance outstanding claims of Rs. 3,283,936,585 and reinsurance claims paid of Rs. 1,153,035,170 had been maintained manually in excel Therefore, sheets. it was observed that there was no proper system in place to handling transactions and keep records in the reinsurance section. This creates 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 information those questionable.

Even though, there is no existing system, there general controls are assure the accuracy completeness of data. Accounts payable module of Sage ACCPAC is currently in operation for claim processes. Further, NITF is currently in the process of developing a system for claim handling of the RI division as per corporate plan 2023-2027.

The management should ensure that the effective reporting system in place.

(f.) Even though quarries have been made by the audit in many times, 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 format, 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 of history of the information. The total balance of staff loans as at 31 December 2022 as per the financial statements was Rs.49,815,840.

After the audit recommendation of the audit in 2021, in addition to the excel file a manual register is being separately maintained for the accuracy of the information.

The management should take necessary actions to maintain staff loan register in an acceptable manner in manually or electronically.

(g.) According to the guidelines 2.3 of the Operational Manual for State Owned Enterprises (SOE's), all SOEs should have their own systems, processes, and protocols defined clearly in Manuals covering all major operations, which are periodically reviewed updated. However, approved Information Technology and Information System Policy were not available for the board. Therefore, an IT security policy, records management policy. business continuity management and disaster recovery plan, breach response plan and privacy policy were not available for the board. Therefore, this will impact to validity, completeness, integrity, security and availability of data and processed information.

The Information technology and Information system policy will be developed as per the guideline.

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

(a.) LKAS 07 - Cash Flow Statement

(i.) According to the paragraph 06 of the standard, operating activities are the principal revenue-producing activities of the entity and other activities that are not investing or financing activities. However, the adjustments made to the Statement of Changes in Equity (Other Comprehensive Income) of Net Unfavorable Fair Value Change of Rs. 2,796,453,741, which had no effect to the profit before tax, had been adjusted under the cash flows from operating activities.

Management Comment

It should be noted that these adjustments are not an exclusion from profit before tax. These fair values gain and Prior vear are adjustments come from other comprehensive items, which do not form part of profit before tax and required be included arriving at the other operating cash flows. In other words, it was adjusted because profit

Recommendation

The management should make required cash flows disclosures according to the standard.

- (ii.) According to the paragraph 20 of the standard, the net cash flow from operating activities is determined by adjusting profit or loss for the effects of the non-cash items such as depreciation, provisions and unrealized foreign currency gains and losses. However, the board has not adjusted unrealized exchange gain of Rs. 1,340,224,161 when arriving net cash flows from operating activities.
- (iii.) According to the calculation of the audit, the increase/(decrease) in other liabilities under change in operating liabilities is increase by Rs. 779,228,773. However, as per the cash flow statement increase/(decrease) in other liabilities is an increase of Rs. 15,634,934. Therefore, a difference of Rs. 763,593,839 had been observed. This difference was occurred due to the board has not taken in to consideration of increase of income tax payable for the year of Rs. 716,489,107.

(b.) LKAS 24 - Related Party Disclosures

- (i.) The paragraph 3 of the standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the financial statements. However, it was observed that, the board has no internal control system to identify related parties and transactions with those related parties.
- (ii.) Further, no disclosures had been made for the relationships with the related parties and the transactions with them in accordance with the paragraph 13 of the standard. Some of the identified related parties and transactions with those related parties during the year under review were as follows.

Related	Relationship	Transaction	Rs./USD
Party			
Asian	Member	In star and	USD
Reinsurance	Country and	Investment	980,000
Corporation	Council	Reinsurance	Rs.
	Representative	premium	28,383,473

before tax does not include these adjustments.

NITF agrees with the observation. Gratuity and unrealized exchange gains will be adjusted accordingly.

NITF agree with the observation.

All the allowances are being paid to directors and chairman as per the PED circular number 3/2015 and no control over those directors to influence to increase their allowances. regard of the treasury contribution and cash transferred to consolidated fund was disclosed in the financial statements clearly as line items in the financial statements. Therefore. this information has been clearly disclosed in the notes to the financial statements. As per the

The management should make required related party disclosures according to the standard.

paid Chairman Mr. Mawahib Short-term Mowjood (05.02.2020 employee Rs. 20.05.2023) benefits 2,692,735 Other Board Member Members of the Board

paragraph 11 of LKAS 24, directors and the line ministry are not considered as related parties. Refer subsection and c(iv). (a) Departments and agencies of government that does not control, control jointly significant influence the reporting entity, simply by virtue of of their normal dealings with an entity (Even though they may affect the freedom of action of an entity or participate in its decision making

1.5.3 Accounting Policies

Audit Issue

(a.) The board has made impairment of Rs. 138,603,776 for the year under review on **SLDB** and the interest receivable on SLDB. However, the board has not disclosed the accounting policy for recognition of provision for impairment over SLDB.

Management Comment

Under policy No: 19, financial investments, table of summery which contains category of financial instruments clearly categorized and disclosed Sri Lanka Development Bond as held to maturity.

Recommendation

The management should take necessary actions to disclose accounting policy for recognition and measurement of impairment for SLDB in the financial statements.

1.5.4 Accounting Deficiencies

Audit Observation

A difference of Rs.9,770,983 had been observed in one bank account in relation to eleven (11) months between the cash book balances attached in the bank reconciliation statement and the cash book balance as per the system as at audit date of 18 April 2023.

Management Comment

NITF requires more detailed information to respond to this observation.

Recommendation

The management should identify the differences in bank balances in timely manner and take appropriate actions to rectify those differences.

1.5.5 Unauthorized Transactions

Description of unauthorized transaction

According to the Cabinet Decision No. 1989/107(85) dated 27 September 1989 and the paragraph 3(1) of the Extraordinary Gazette No. 1542/11 dated 25 March 2008, the premium collected by primary insurance companies from issuance of policies for strike, riot, civil commotion and terrorism (SRCC & Tr) shall be credited to the fund. However, the board has collected only 12 per cent of motor insurance and 80 per cent of non-motor insurance from those insurance premiums. Therefore, the Gross Written Premium for the year had been understated by Rs. 12,369,745,744. In 2005, when this fund was handed over to the board, the SRCC & Tr Fund was 10.9 billion rupees. In the year 2022, the fund was 17.8 billion rupees. If all the funds accruing to this fund were received according to the provisions mentioned in the said legal provisions, this fund should have been 68.9 billion rupees. Accordingly, the loss incurred by the fund during the last 17 years was approximately 51 billion rupees. If all the funds related to the fund were received during the last 17 years, the effective growth of the fund should have been 11.5 per cent. However, it was observed that the current effective growth of the fund is only 3 per cent. According to the management of the board this practice had been continued when the administration of the fund had been transferred to the board by the Ministry of Finance in the year 2006. Further, this matter was discussed at the Committee on Public Enterprises (COPE) on 11 May 2023 and 03 October 2023 and the COPE was of the view that there is a fundamental error caused by disregarding the decision of the Cabinet of Ministers. However, no effective measures were taken to resolve this matter. Further, the documents in relation to the management of this fund had not been handed over to the board by the Ministry of Finance when transferred of the

Management Comment

As per the Motor XOL arrangement implemented for motor class from inception of the SRCC and the Fund was continued to practice by NITF. Accordingly, time to time the percentage of premium charged under the motor class Excess of Loss arrangement (XOL) was determined and as per the board decision no. 53-16 the money obtained as premium is 12% of the total premium collected bv companies. insurance However. before deciding 12%. 15% of the total premium was requested in the same year, but as the industry opposed to that decision, it was finally reduced to 12%. In 2021 as management of NITF noted the opportunity to discontinue the present practice of XOL arrangement. Therefore, 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 April 2022. As the industry the said opposed implementation, it was postponed. As per the board decision number 189-1, 100% premium on motor policies will be implemented with

Recommendation

The board shall collect SRCC & Tr premium from the insurance companies in accordance with the applicable legal provisions.

fund to the board in the year 2006. Therefore, it effect from 01 January 2023 was difficult to find the period of occurrence of this fundamental error and the persons responsible in this regard.

and again the industry has written a letter requesting to date change the implementation with effect from 01 October 2023.

1.5.6 **Un-reconciled Control Accounts or Records**

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a.) Outstanding claim provision for reinsurance	3,257,556,048	3,084,608,000	172,948,048	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 and the same will be forwarded to NAO.	The management shall reconcile their financial records with other relevant corresponding records in timely manner to identify differences and correct them.
(b.) Outstanding inward reinsurance premium receivable and SRCC & Tr receivables	4,988,247,662	5,665,899,000	677,651,338	NITF has already sent emails to get the third party confirmations for RI premium receivables. However, all pending confirmations are being flowed up and as soon as NITF get those confirmations and the same will be forwarded to NAO. However, alternative procedure for verifications can be carried out as performed by NAO officers previously.	

1.5.7 Documentary Evidences not made available for Audit

Item		Amount Rs.	Evidence not available	Management Comment	Recommendation
(a.) Surcharge receivable	tax	1,196,274,044	written communicatio ns with IRD or confirmation from IRD	NITF agree with the observation.	The management should ensure the availability of information timely for effective audit function.

(b.) Income	tax	22,465,243	Tax	NITF has already the
receivable			computation	submitted the necessary
			and	details.
			confirmations	
(c.) - Rent Dep	posit	2,180,969	Payment	NITF will provide necessary
Receivable			voucher and	information for this
			agreement	observation.
(d.) Long		785,493,566	Invoices,	NITF requires more detailed
outstanding			agreements	information to respond to this
payable				observation.
balances				
(e.) Payment		2,139,623	Thirteen (13)	NITF requires more detailed
Voucher			payment	information to respond to this
			vouchers	observation.
			along with the	
			supporting	
			documents	

1.6 Accounts Receivable

Audit Issue

Management Comment

Recommendation

(a.) The reinsurance premium receivable of Rs. 267,629,300 was outstanding over one (01) year which represent 15 per cent from the total Reinsurance Premium Receivable and the amount of Rs 147,908,237 was outstanding over two (02) years which represent 8 per cent from total receivable amount. The amount of Rs. 689,634,512 outstanding over three (03) years and which represent 39 per cent from the total outstanding balance. Accordingly, it is observed that, the entity had not taken sufficient actions to recover long outstanding reinsurance receivable balances.

NITF is sending reminders monthly to insurance companies. At the time of NITF settling the claims, it is possible to setoff these receivables, therefore, these balances will be recovered in future.

The board shall take necessary actions to recover outstanding balances.

(b.) It was observed that Inward NITF
Reinsurance Premium reminer receivable amount of Rs 1,105 compa

NITF is sending monthly reminders to those insurance companies.

Mn, Primary Insurance SRCC (Non-Motor) receivable amount of Rs. 49 Mn, Primary **SRCC** Insurance (Motor Receivable) receivable amount of Rs. 28 Mn and General Insurance (Non – Motor) receivable amount of Rs. 18 Mn as at 31 December 2022 were outstanding for more than 1 to 3 years. However, the board had not taken effective measures to collect those long outstanding receivable balances.

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

Reference to Non-compliance Management Comment Recommendation Laws, Rules Regulations etc.

(a.) Section 13(e) According the to of the provisions of the act a National general account in respect Insurance of the fund and separate Trust Fund individual accounts in Act No 28 of respect of each member 2006 needed to be maintained. However separate accounts for individual members had not been properly maintained by the fund.

Individual accounts details are maintained in the information system; it is possible to access them using clients NIC.

The board should comply with the applicable provisions of the Act.

(b.) Paragraph 23
of the
National
Insurance
Trust Fund
Act, No.28 of
2006

According to the provisions of the act, the board had not taken sufficient actions to inspect records of the insurance companies to whether verify such insurance companies have invoiced and remitted amount accrued to the fund accurately. It was

The board agreed with the observation. Usually Internal Audit division is carrying out income verification of insurance companies. However, due to lack of staff, this verification was not executed satisfactorily. However, after strengthening internal audit division with

The board should comply with the applicable provisions of the Act and take necessary actions to collect revenue in complete and timely manner.

observed that only one insurance company had been inspected by the internal audit department for the year under review.

additional staff, these verifications will be done effectively.

(c.) F.R. 261(1) The sequential

The sequential order of the payment vouchers had not been properly maintained. Agreed with observation. However, this order is out in investment and fund transfers' transaction. For those types of transaction, a separate sequence is being maintained.

The management should adhere to the requirements in the financial regulations.

(d.) F.R. 386(7)

Even though, the cancelled cheques must be affixed to the counterfoil and retained in the cheque book. The board has attached cheque counterfoils with payment voucher. As a result, in the case of any misplacement of voucher all the details related to cancelled cheques may get lost.

NITF agreed with the observation.

The management should adhere to the requirements in the financial regulations to secure financial information.

(e.) F.R. 446(1)(c)

Strike Riot Civil Commotion and Terrorism (SRCC & Tr) Department not had written the cash books up to date, not totalled and balanced daily nor monthly basis and Supervisory or Staff Officer responsible has not signed the Cash Book in relation to three (03) bank accounts.

NITF agreed with the observation. However, at present, this is continuing accurately.

The management should adhere to the requirements in the financial regulations.

(f.) Section 04 of Public Enterprises Circular No. PED 2/2022 dated 18 According to the provisions of the circular the cost of purchasing mobile phones should be personally born by the

It is clear fact that to meet business requirements NITF has to purchase mobile phones for employees in order to the official

The management should adhere to the requirements in the circular.

January 2022

officers. However, the board has purchased mobile phones for employees by incurring Rs.220,000 and has repaired mobile phones employees for by incurring Rs.12,200 for the years 2022. Further, total cost of Rs. 2,821,071 had been incurred to purchased mobile phones for the period from 2016 to 2022 by the board.

functions. In addition to that they are recorded as NITF assets (taken the to inventory) 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 NITF. Therefore, this is not a reimbursement of private mobile phone referred in the circular. Accordingly, Laptops, mobile phones, Tabs can be provided to staff depending on the requirements.

(g.) 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 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 board agree with the observation. Due to pandemic situation this was not practical. Further, no significant related party transactions were occurred during the period to be reviewed.

The management should adhere to the requirements in the corporate governance.

(h.) Principle G.2
Code of Best
Practice on
Corporate
Governance
2017

The board had not appointed a Chief Information Security Officer (CISO) nor had the cyber security risk management policy been developed for the entity.

At present the code of best practice of corporate governance 2017 is widely used by companies that are publically listed and other larger companies. NITF 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.) According to the Guideline 6.2(iii.) of the Operational

An Investment committee was appointed on 27th December 2022. However, the

The board shall ensure the effective functioning of

Manual for State Owned Enterprises, the investment committee must report every month to the board, its decision for concurrence and will have to seek approval to with proceed investment recommendations beyond the limits as authorized by the board. Further, according to the paragraph 17 of the Policy Investment the Investment Committee should meet at periodically and the responsibilities of the Investment Committee had been defined. However, it was observed that the Investment Committee had not been met for the year under review.

Committee had to be re-appointed due to the resignation of a member from the board who was the Chairman of Investment Committee. Therefore, the investment committee meeting was not conducted as scheduled in March 2023. With the replacement of a new committee member, NITF will arrange an Investment committee meeting to review the investment activities on 04/07/2023.

However, as per the Operational 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.

Investment Committee to ensure the prudent investment decisions.

(b.) There are no provisions in the Investment Policy (IP) to review the IP on regular basis even at least in annually. The IP had been reviewed by the board in the year under review. However, required improvements had not been incorporate to the IP as of 31 May 2023.

Current IP was reviewed and updated. It will be submitted to the Investment committee to further review.

The board should review the internal policies and procedures periodically on regular basis.

(c.) According to the investment policy, selection of investments is based on evaluation of economic conditions. interest rates behaviour, future trends, and the operational cash flow requirement of the Board. However, there was no cash flow forecasts had been prepared to identify excess cash flows and timing

Cash flows are not prepared for a particular period. Depending on the nature board's business, liquidity and fund availability is requirement 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

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.

investment decisions prudent manner.

of those cash flows to take taken, under delegation of Financial in Authority, The Board had delegated its authority to relevant officials Investment Committee.

2. **Financial Review**

2.1 **Financial Result**

The operating result of the year under review amounted to a profit after tax of Rs. 6,049,158,366 and the corresponding profit in the preceding year amounted to Rs. 5,127,770,399. Therefore, increase amounting to Rs. 921,387,969 of the financial result was observed. The reasons for the increase were, increase of net earned premium by Rs. 2,305,263,773, increase of other revenue by Rs. 3,497,689,632 when compared to preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Year	2022 Rs.	2021 Rs.	Variance Rs.	Variance as a percentage
Net earned premium	19,917,476,462	17,612,212,689	2,305,263,773	13%
Other revenue	5,087,817,415	1,590,127,783	3,497,689,632	220%
Net benefits and claims	(14,693,275,021)	(10,761,281,045)	(3,931,993,976)	37%
Underwriting and acquisition cost	(1,996,068,323)	(1,863,920,737)	(132,147,586)	7%
Other operating and administrative expenses	(560,176,052)	(388,977,070)	(171,198,982)	44%
Income tax	(1,698,105,721)	(1,047,206,674)	(650,899,047)	62%
Profit for the year	6,049,158,368	5,127,770,399	921,387,969	18%

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	2022	2021	2020	2019	2018
Retention ratio	177%	174%	161%	143%	138%
Total claim ratio	48%	58%	46%	60%	72%
Expenses ratio	13%	8%	12%	16%	16%
Combined ratio	61%	67%	57%	76%	87%
Revenue growth	30%	1%	6%	18%	18%
Profitability ratio	69%	56%	90%	24%	34%
Net profit	24%	26%	40%	18%	21%
Return on Asset	21%	20%	37%	17%	19%
Return on Equity	43%	38%	83%	43%	47%

Liquidity ratio	1.0	1.4	1.2	0.68	0.74
Current ratio	8.27	8.78	6.26	8.92	9.34
Financial assets to total assets	71%	81%	82%	77%	76%
Assets turnover	1.34	1.12	1.34	2.46	2.17

3. Operational Review

3.1 Identified Losses

Audit Issue

The board had paid Surcharge Tax of Rs. 1,196,274,044 in the year 2022 by using funds of the Strike Riot Civil Commotion and Terrorism (SRCC) Fund by two equal instalments to the Inland Revenue Department for the year under review. However, as per the section 06 of the Surcharge Tax Act, No. 14 of 2022, the board had excluded from the meaning of the Company for the purpose of surcharge tax. Therefore, the board is not liable for Surcharge Tax. Therefore, it was observed that the SRCC fund had incurred a loss of Rs. 1,196,274,044 due payment of non-liable income tax. Due to this erroneous tax payment a loss of interest income of Rs. 274,542,926 to the SRCC fund had been observed as at 31 May 2023 based on average treasury bill interest rate of 23.73per cent for the year under review.

Management Comment

NITF agrees with the observation. NITF has immediately taken actions to set off against the other tax liability of NITF. Since, surcharge tax already paid can be deducted from other tax liability. However, NITF shall make sure that these types of incidents will not repeat in future.

Recommendation

The board shall properly evaluate the tax legislation and identify their tax liability before payment of tax payments.

3.2 Operational Inefficiencies

Audit Observation

(a.) The recommendations in relation to data capturing, splitting major class of business, provide claim counts and claim handling expenses were made since 2019. However, it was not able to obtain sufficient evidence whether the actuarial report had been discussed at the board level or the appropriate level of management from 2019 to make required improvements to increase the data confidence level of the entity.

Management Comment

Kindly note that there is no further increase or decrease data confidence level requirement, since **NITF** possesses 75% data confidence level as required by IRCSL guideline. NITF will take necessary actions to discuss actuarial reports at the board level.

Recommendation

The management should take necessary actions to implement recommendations made by the actuary to improve data confidence level of the board.

- (b.) An Actuarial Division was not established by the Board to collect, retain and provide required actuarial information to the actuary and required parties for decision making.
- (c.) A documented policy for handling reinsurance claim process and to identify payable obligation had not been available for the board. Hence, the board identified and record reinsurance obligation from the primary intimation document.

(d.) 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 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 According to the sample audit, 40% of the benefit applications paid daily are applications without defects and 60% are applications with defects. According to Section 7(ii) of Public Administration Circular 12/2005 dated 18 May 2005, these benefits should be paid within 10 working days of the week. However, it usually takes about 40 days to pay claims for applications without defects and for applications with defects it takes more than a year (420 days).

An actuarial division had not been established for the board. However, relevant data are being provided by finance division.

Currently, the claim reserves are made based on the primary intimation document. However, it is obvious that the final claim amounts are decided after the receipt of technical opinions, loss adjusters report etc. as per the nature of the business. Further, a new reinsurance claim handling system was internally developed and all the intimations are updated through the system.

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 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

The management should ensure the effective functioning of actuarial function.

The management should ensure availability of Policies for major functions of the board.

The management should improve the efficiency in claim handling by improving its internal claim handling procedure.

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.
- (e.) Due to non-payment of finalized insurance claims to be paid of Rs.71,478,209 to the general insurance companies by the National Insurance Trust Fund, the amount of Rs.2,046,620,122 to be recovered to the fund from the primary insurance companies had not been settled for the 15 months from January 2022 to March 2023. Due to this, the interest income lost to the fund was Rs. 567,853,300.

Answers to be provided by the board.

The board shall timely pay the insurance claims to the primary insurance companies to collect the insurance premium from the primary insurance companies to avoid losses to the board.

(f.) According to the Extra Ordinary Gazette No. 1791/4 dated 31 December 2012, thirty per centum as being the percentage payable by the insurer on the total liability arising out of every general re-insurance, such insurer is required to re-insure with National Insurance Trust Fund Board. However, without a formal study, the reinsurance responsibility undertaken by the National Insurance Trust Fund Board in the year 2009 was limited to a maximum of Rs. 5 billion, and in the board meeting No. 163-06 held on 12 June 2020, it was revised to Rs. 7.5 billion. Due to this, the thirty percent risk is not accepted as per the above gazette from reinsurance contracts and due to this the total income lost to the fund in the year 2021 and 2022 alone is Rs. 657.2 million.

Answers to be provided by the board.

The board shall act prudently in accepting insurance risk from general insurance companies to better management of risk and profitability.

- (g.) A fully equipped call centre was implemented in the year 2021 at a cost of Rs.. 21.5 million to provide quality and prompt service to the
- Presently, the call center is fully occupied and running.
 Earlier, due to the high

The management should allocate sufficient and skilled

clients. It has the ability to provide services to 15 clients at the same time. 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 centre from the date of establishment of the telephone call centre (February 2021) to December 2022 is 734,626. The total number of calls answered was 312,350 and the number of calls rejected was 422,250. Accordingly, fifty-seven per cent (57%) of the total number of calls received to the call centre in the last two years were rejected without being able to respond. Therefore, it was observed that the clients had expressed their displeasure about their problems and the services provided 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 centre. Although facilities were provided for 15 users in the call centre, it was observed that the number of employees employed in the call centre was as few as 4-5 people, according to the physical observations on some days of the audit. Furthermore, it was observed that the reason for the daily increase in the number of calls to the call centre is that the applications for Agrahara benefits are not paid within a reasonable time.

backlog of claims, 50% calls received to call center got abandoned automatically. However, currently, the backlog is minimal and the sufficient agents are fully occupied. Therefore, number of calls received to call center are in a manageable level.

Agrahara human resources to the of calls call center to handle enter got customer service and matically. process claim applications in timely all and the manner.