

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka (“Commission”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in net assets and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector 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 Commission’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 Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission’s financial reporting process.

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

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission'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 Commission 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Documentary Evidences not made available for Audit

Evidence not available	Management Comment	Recommendation
<p>The insurance core principles (ICPs) are globally accepted framework of principles developed by the International Association of Insurance Supervisors (IAIS). Those principles are key to assess the quality of regulatory and supervisory function of the insurance regulators and use as a framework to introduce regulations for the insurance sector in the country. As a member of the IAIS, the Commission had paid Rs. 5,999,664 as a membership fee for the year 2022. The information had been requested during the audit in the year 2021 to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.</p>	<p>ICP 1, 2, 9, 10 where assessment is largely observed. There are currently 25 ICPs recognized by the International Association of Insurance Supervisors.</p> <p>A review of all ICPs is being carried out by a committee formed by the Ministry of Justice to make amendments to the Insurance Act. The reviews will be shared once finalized.</p> <p>The IRCSL has provided comments and presentations on ICP 1-4 to the committee. The committee is in the process of reviewing the collated ICPs.</p>	<p>The management should submit the requested information for the audit in timely manner.</p>
<p>(b.) The Commission had transferred surplus of the funds of the Commission to the Policy Holders Protection Fund for the respective years until 2020. However, this policy had been suddenly changed in the year 2021 and the surplus of the commission funds had been carried forward as accumulated fund. However, the approval of the Commission in this regard had not been submitted to the audit.</p>	<p>The 1st Audit Committee (AC) meeting held on the 20 April 2023, following recommendations have been made to the Commission:</p> <ol style="list-style-type: none"> 1. Continue with two segregated funds (Commission Fund and PPF) and retain surplus of Commission Fund as accumulated Fund. 2. Continue the maximum transferrable percentage at 20% of annual interest income of the PPF to cover the Board's Expenses (recurrent 	<p>The accounting policies shall be changed in accordance with the provisions of the reporting framework and with the appropriate authority.</p>

and capital) if necessary.

The Commission approved the above Audit Committee recommendation at its 237th meeting Held on 03 August 2023.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a.) Inland Revenue Act No. 24 of 2017	The Commission is liable to pay income tax for surplus of the Policy-Holder's Protection Fund. However, the commission had not paid income tax since 2018. Therefore, Inland Revenue Department had charged a penalty and the interest over non-payment of income tax for the Year of Assessments of 2018/19 to 2022/23. The total tax liability as of 31 December 2022 was Rs. 909,009,476.	Income tax liability of the PPF has been paid to date amounting to Rs. 1,265,453,413. The IRD has imposed an interest amounting to Rs. 153,621,910 and Rs. 62,509,715 as penalty for delaying of income tax payments for year 2018/19 and 2019/20. IRCSL has requested to waive off the penalty and interest from the IRD. As IRCSL has received a notice demanding payment from the IRD on 25 October 2023, the Audit Committee has instructed to get tax consultant's input and remit the interest component immediately as there is no provision to get waiver with the existing Inland Revenue Act No.24 of 2017. Further, IRD has sent a letter dated 31 October 2023 mentioning that to pay the total accumulated interest for Y/A 2018/19 and 2019/20 in order to consider a deduction for the penalty.	The pending tax matters shall be dealt with the tax authorities and should be cleared.
(b.) Guideline 2.2.2 (a.) (i) of the Guidelines on Corporate Governance	The Chairman shall ensure that proper proceedings are followed during the meetings of the Commission. However, the audit has not been provided a documented policy	Commission meetings are held according to the RII Act. Paragraph 8 (1) of the First Schedule to the Act specifically states Board proceedings and such requirements are followed by IRCSL.	The documented policy shall be presented to the audit.

for State Owned Enterprises 2021 for proceedings of the meetings in terms of the paragraph 4 (3) and first schedule to the Regulation of Insurance Industry Act No. 43 of 2000.

Further a procedure manual for submission of papers and taking of minutes has been approved by the Commission at its 223rd meeting held on 16 August 2022 and is being implemented.

(c.) Guideline 2.2.2 (b) (vi) of the Guidelines on Corporate Governance for State Owned Enterprises 2021 The Commission must enter into a performance contract with the Director General (DG) which is a reflection of the Strategic Plan, against which the DG's performances must be evaluated annually and the incentives including bonuses must be decided. However, the Commission had not entered into a performance agreement with the DG. Further, it was observed that, annual performance appraisal of the DG had not been carried out by the Commission. Instead, it had been carried out by the Chairman alone and paid performance incentive for the year under review. This may lead to poor division of responsibilities and accountability between two powerful positions in the commission.

Commission at its 238th meeting held on 24 August 2023 agreed to the KPIs of the Director General. A Committee comprising of Commission Members have been appointed by the Commission to review the performance and report to the Commission.

The KPI's of the Director General shall be agreed and performance shall be evaluated by the Commission as a whole to enhance clear division of responsibilities and accountability.

(d.) Guideline 2.4 of the Guidelines on Corporate Governance for State Owned Enterprises 2021 The members of the Commission should individually declare their relationship, annually to the Secretary to the Commission using the format given in the Annexure II to the guideline. However, such a declaration had not been declared by the members of the Commission for the year under review.

Annual declarations for the year 2023 have been obtained from the members of the Commission. The requirement will be complied with continuously.

The annual declaration shall be presented by the members annually to the Secretary to the Commission.

- (e.) Guideline 2.6 of the Guidelines on Corporate Governance for State Owned Enterprises 2021
- The board secretary is mainly responsible for guiding the board on the discharge of its responsibilities and should ensure that all procedures are followed in compliance with statutory requirements and industry best practices and must possess the required qualifications stipulated in the guideline. Further, any employee already engaged in another function, should not be appointed as Board Secretary and Board Secretary shall function as the Secretary to Board sub-committees. However, there is no qualified secretary for the Commission. At present, the Director Investigation is functioning as Secretary to the Commission and Assistant Director – Legal is the Secretary to the Audit Committee in addition to their permanent responsibilities in contrary to the guideline.
- Request For Proposals (RFP) were sent to the top five audit firms. The closing date for sending the proposal was 26/09/2023. However, IRC SL did not receive any proposal in response to our request. The same was informed to the Commission at its 239th meeting held on 27 September 2023 and members of the Commission advised to extend the calling of applications to Legal Firms, Secretarial and audit firms. The procurement process is expected to be completed before 31 December 2023.
- The secretary with required qualifications to the Commission shall be appointed in terms of the provisions of the guideline and such Secretary shall functioning as the Secretary of the sub-committees of the Commission as well.
- (f.) Section 7 of the Chapter XXIV of the Establishment Code of the Government of the Democratic Socialist Republic of Sri Lanka
- Although the provisions had been made for granting loans through the banks for the purchase of vehicles for executive category employees, vehicle loans amounting to Rs. 1,200,000 had been provided to an employee from the commission funds during the year under review at the interest rate of 4.2 percent and 9 percent respectively for Rs. 600,000 each tranche.
- IRC SL follows the Commission approved Administrative Manual developed as per section 2.3 of the Operational Manual issued by the Department of Public Enterprises (PED) on 16 November 2021. The vehicle loan scheme is part of the Administrative Manual.
- The Commission should adhere to the policies of the government when deciding benefits of the employees of the Commission.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 155,220,568 and the corresponding surplus in the preceding year amounted to Rs. 86,790,315. Therefore, an improvement amounting to Rs. 68,430,253 of the financial result was observed. The reasons for the improvement were increase of Annual Fees & Renewal Fees Income by Rs. 35,295,181 and increase of interest income by Rs. 46,211,898 for the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Description	Amount (Rs.)				Percentage of change			
	2022	2021	2020	2019	2022	2021	2020	2019
Income								
Recognition of Grant	-	-	2,905,041	2,324,391	-	-100%	25%	20%
Income from FSMP	750	255,150	12,344,401	81,620,094	-100%	-98%	-85%	-
Interest on Repo and Call Account	16,437,636	6,893,783	479,514	3,698,834	138%	1,338%	-87%	9,976%
Interest on Treasury Bond Investment	-	-	33,151,511	92,882,074	-	-	-64%	-2%
Interest on Fixed Deposits	1,231,844,234	515,764,257	588,341,378	477,484,713	139%	-12%	23%	33%
Expenditure								
Staff Costs	127,680,340	127,134,065	109,096,963	112,323,915	0.5%	17%	-3%	42%
Commission Members - Sitting Allowance	1,754,354	1,384,859	865,972	540,000	27%	60%	60%	2%
Staff Welfare	867,855	4,459,324	2,038,778	841,693	-81%	119%	142%	-28%
Staff Medical Insurance	2,785,293	2,328,894	2,001,327	1,615,932	20%	16%	24%	45%
Staff Training Local & Subscription	1,168,025	921,188	401,492	1,610,639	27%	129%	-75%	27%
Leave Encashment	744,985	1,796,425	1,673,310	1,218,344	-59%	7%	37%	77%
Printing & Stationary	1,560,693	2,764,004	2,413,783	3,406,080	-44%	15%	-29%	106%
Public Awareness	8,570,966	1,814,843	1,459,568	9,834,508	372%	24%	-85%	309%
Office Equipment Maintenance EDP & Others	2,969,581	2,103,839	3,298,073	2,107,863	41%	-36%	56%	21%
Directors Vehicle Allowance	4,487,603	4,570,890	3,166,986	3,246,712	-2%	44%	-2%	4%
Directors Fuel Allowance	3,364,460	1,356,590	1,030,514	1,066,755	148%	32%	-3%	6%

2.3 Ratio Analysis

Key ratios calculated for the commission and the industry for the last five years were as follows.

Commission	2022	2021	2020	2019	2018	2017
Growth of Policy Holders Protection Fund	11%	12%	19%	24%	23%	25%
Growth of Annual Cess Income	8%	7%	3%	3%	15%	2%
Cess Income as a percentage of GWP	0.23	0.23%	0.24%	0.25%	0.26%	0.29%
Growth of Annual Fees Income	8%	5%	3%	33%	19%	13%
Annual Fees Income as a % of GWP	0.11	0.11%	0.12%	0.11%	0.09%	0.09%
Industry						
Insurance Gross Written Premium as a percentage of Gross Domestic Production	1.07%	1.38%	1.39%	1.27%	1.24%	1.19%
Total Assets in Insurance Sector Rs. Billion	947.3	879.8	789.7	689.6	606.6	564.9
Total Assets growth of Insurance Sector	8%	11%	15%	14%	7%	8%
Assets in Insurance Sector as a Percentage of Total Assets of Finance Sector	3.02	3.29%	3.37%	3.44%	3.32%	3.31%

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a.) The official activities of the Commission were carried out at an external building, and a sum of Rs. 47,178,758 has been paid in the year 2022 (2021 – Rs. 44,631,663) as lease rent of the building. It was observed that the lease rent had been increased by 6 per cent when compared to the previous year. The commission rented in 8741 square feet and incurred Rs. 351 and Rs. 78 per square feet as rent and service charge respectively. Further, the percentage of the lease rent of the building represented 22 per cent of the total expenditure or 13 per cent of the total income for the year 2022.	The IRCSL had carried out a cost-benefit analysis for the premises. Considering the location, investment cost, age and condition of the premises the Commission at its 239th meeting has decided to continue to occupy the current premises.	The commission should search for economical location which suitable for carrying out their functions.
(b.) The Commission is supposed to be an entity, which needs to be closely dealing with public in performing its role as per the Insurance Industry	The IRCSL had carried out a cost benefit analysis for premises. Considering the location,	The commission should take necessary actions to extent efficient service to the public by providing

Regulation Act No. 43 of 2000. However, its current location, culture and the entry doors being under strict security conditions make it difficult for the vulnerable general public to access them. Further, it was observed that their website and all the information (except policyholder complaints page) only in English language. Therefore, the Commission had not complied with the official language policy of the Chapter IV of the Constitution of the Democratic Socialist Republic of Sri Lanka. Therefore, it seems that, it may very difficult for the vulnerable groups such as disables, IT illiterate persons and persons who has language issues to get the services of the Commission. Further, this may an indication of discouraging and minimizing public complaints.

investment cost, age and condition of the premises the Commission at its 239th meeting has decided to continue to occupy the current premises.

Steps are underway to translate the contents of the IRCSL website in English to Sinhala and Tamil.

required facilities.

3.2 Under -utilization of Funds

Audit Issue	Management Comment	Recommendation
<p>The commission had not taken necessary actions to introduce self-contributory insurance scheme for their employees. Instead he commission spent funds of Rs. 6.3 million for the year 2022 (2021 – Rs. 6.2 million) for obtaining insurance cover without any contribution from the employees. However, it was observed that in the year 2017, the National Insurance Trust Fund has extended self-contributory insurance scheme for semi-government sector employees by charging a contribution of Rs.1000 per employee per month. It was observed that the commission has spent the funds of the commission of Rs. 132,038 per employee for the</p>	<p>The non-contributory insurance cover has been provided to staff from the inception of the IRCSL as a part of their benefits and included in the letters of appointment. Accordingly, a self-contributory scheme will not be acceptable.</p>	<p>It is recommended to introduce self-contributory insurance scheme for the employees.</p>

year 2022 for the medical insurance cover.

3.3 Defects in Project Administration

Audit Issue	Management Comment	Recommendation
<p>(a.) The amount of USD 945,450 (SDR. 0.67 million) had been allocated for the segregation of National Insurance Trust Fund (NITF)'s Insurance and Reinsurance Business under the supervision of the IRCSL under the financial sector modernization project (FSMP). However, this money had not been utilized for this purpose..</p>	<p>IRCSL's responsibility in relation to the DLI arises only once NITF submits its proposal to segregate. However, NITF did not submit the proposal for segregation as per their policy decision, Therefore it is impossible to achieve this task by the IRCSL by coordination and influential measures.</p>	<p>The commission should have to had proper coordination and influential measures to get the project success.</p>
<p>(b.) To achieve the objectives of the above project, the experts and the consultants work shall be interrelated. However, it was observed that, the consultants for the project had been recruited from time to time and it was not observed strong interrelationship among those consultants to achieve the common objectives of the project. Due to this weak project management, the expected project objectives and the outcomes had not been achieved and finally had to abandoned the project.</p>	<p>The two consultants hired by the IRCSL under the FSMP, HR Expertise had discussions with Actuarial Expertise, since both served the IRCSL at the same period.</p>	<p>The project management team should have to had proper coordination and appropriate measures to get the project success.</p>
<p>(c.) The Actuary Consultant recruited for the above project had terminated his contract with effect from 29 March 2022. According to the report named as "Consultant's Evaluation of the Insurance (Actuarial) Project to date" as at 24 January 2022 by the Actuary</p>	<p>The contract has been terminated. However, the opinions submitted in reports will be considered with the appointment of Consultancy Actuarial Firm.</p>	<p>The Commission should execute the terms of the agreement with the Actuary Consultant and get the agreed work done or execute</p>

Consultant the reasons for termination were actuary had not provided comments for his recommendations by the management, no steps had been taken by the Commission to implement action plans and follow up, component leaders had not responded to his proposals with fair arguments, the actuary's work had been done without any support of insurance experts who required to recruit under this project, the Commission was obligated to provide insurance and IT experts, but not provided and ignore his advices without providing proper explanations by the Commission. Based on the above observations, it was observed that the payment of USD 168,000 for the consultant actuary is an uneconomic transaction.

the terms of the contract.

(d.) According to the information available for audit the actuarial consultant had not issue any report or working for 3 components according to the given work plan. Therefore, the final and draft reports for 14 components out of 17 components had been submitted. As per the detail available for the audit, those reports had not been submitted to the commission and no any evidence was available that those reports had been discussed with relevant parties who are responsible for commenting, developing and making policies as regulator.

The contract has been terminated. However, the opinions submitted in reports will be considered with the appointment of Consultancy Actuarial Firm.

The Commission should take necessary steps to get the agreed work from the Actuary Consultant.

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| <p>(e.) According to the work plan Consultant actuary’s task had connect with other consultants such as Consultant Insurance and Consultant IT. Therefore, it was observed that the Commission had not facilitated them to coordinate among those consultants.</p> | <p>As per the provisions of the agreement/ procurement plan etc., the IRCSL intended to apply part of proceeds for consulting services.</p> <p>The consulting services were:</p> <p>I. Actuarial Expertise</p> <p>ii. Insurance However, due to reasons beyond the control, IRCSL did not procure Consultant and Consultant IT to facilitate such consultants to coordinate among other consultants. The HR Consultant had discussions with Actuarial Expertise, since both served the IRCSL at a same period</p> <p>Expertise</p> <p>iii.IT Expertise</p> <p>iv.HR Expertise</p> <p>v. Consultancy Firm for Modernize the Regulatory and Supervisory Framework of the insurance Regulatory Commission of Sri Lanka.</p> | <p>The project management team should have proper coordination among consultants for the success of the project and submit requested information for the audit.</p> |
| <p>(f.) According to the task assigned to Human Resources consultant, the final task is the consultant should liaise with other consultants hired under the project in order to obtain views on future developments of the client when performing the consultant’s work. According to the project progress only actuarial consultant had been appointed. There is no evidence that, Human Resources consultant had able to contact and discussed with other consultants in this project. Therefore, the project will not be achieved expected results due to no proper coordination and communication among consultants.</p> | <p>Proper coordination was facilitated. Further the Consultant Actuary failed to work on-site at IRCSL as per the agreement.</p> | |

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>(a.) Based on the Attorney General’s opinion the commission had decided their own carder and the salary scheme. By the Memorandum dated 31 May 2019, Director General sought the approval of the chairman to effect the salary adjustment, carder revision, payment of cost-of-living allowance of Rs. 7,800, Competency Allowance of 15</p>	<p>The Committee appointed by the Commission on remuneration of the IRCSL, noted that only one salary revision has been granted in 2012 for the last 13 years and hence staff salaries were not comparable with market rates, particularly with the remuneration offered by the other financial sector regulators.</p> <p>As a result, the IRCSL will not be in a position to hire qualified and experienced staff and to retain the existing qualified and experienced staff to</p>	<p>The Commission shall obtain approval from the Ministry of Finance for their cadre positions and remuneration structure.</p>

per cent from Basic Salary and Special Living Allowance of Rs.12,500 for the commission staff with effect from 01 July 2018. Even though the commission is an entity subject to the purview of the Ministry of Finance the commission had not obtained the clearance or concurrence from the General Treasury to decide their carder and increase of salaries and allowances.

- (b.) The salaries of the commission had increased between 12.98 per cent to 59.73 per cent in the year 2019 based on Attorney General's opinion without obtaining the prior approval of the Management Services Department in contrary to the Management Service circular 03/2018 dated 18 July 2018 and the Good Governance Guideline.

meet the ever-increasing complex challenges in the insurance industry, more so in the context of investigations, mergers and takeovers. There is also a need for the current framework to be enhanced in order to be in line with international insurance practices to enhance the effectiveness, efficiency and relevance of the Regulator. Further, we wish to highlight the following facts related to having a good compensation package like other regulators. Recruitments for each and every position of the IRCSL are made with previous experience in reputed organizations and all Executive & above staff should have appropriate qualifications.

Section 10 of the Regulation of Insurance Industry Act, No. 43 of 2000 states that:

“The Commission may appoint such officers as it considers necessary for the efficient discharge of its functions and the officers so appointed shall be remunerated in such manner and at such rates and shall be subject to such conditions of service as may be determined by the Commission.” In view of the statutory authority, IRCSL can be categorized as an institution listed in Annex A of PED 01/2021. Accordingly, the Commission will write to Ministry of Finance in terms of PED 01/2021.

The IRCSL officials had discussion with the MOF officials in this regard.

- (c.) A performance incentive from the year 2010 had been paid without approval of the General Treasury. As per the scheme, incentive payment basis of one (01) month basic salary had been changed to one and half months (1 ½) gross salary from the year 2019 onwards without obtaining the approval of the General Treasury. Due to this, the total incentive payment had been

The existing performance appraisal system has been implemented after scrutinizing various performance appraisal systems and covered many aspects with regard to the performance of an employee.

We have submitted the performance-based incentive scheme implemented by the Commission to the Ministry of Finance throughout the years. IRCSL has shared the performance incentive scheme and all amendments made thereto to the Ministry of

The Commission should obtain the prior approval from the General Treasury for the performance incentive scheme.

increased by Rs. 4,605,381 during the year under review which is 105 per cent more compared to the previous year. Further, all employees had earned 100 per cent marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.

Finance from time to time. However, acted in terms of PED 01/2021 with the new PA system which was submitted to the Ministry on 31 March 2023.

The Commission at its 195th meeting granted the approval to pay a maximum of 1.5 months' gross salary as performance-based incentive for the staff of the IRCSL after having evaluated their performance for the period. Based on the Commission decision payments have been made. The IRCSL forwarded the new Performance Appraisal Scheme to the Department of Public Enterprise on 31 March 2023. Further details requested by PED were forwarded on 10 October 2023.

(d.) According to the Management Services Circular No. 03/2018 dated 18 July 2018 and Section 3 of the Operational Manual for State Owned Enterprises instructed that all ministries and other relevant authorities should refrain from recruiting employees and increasing the salaries and cadres without prior approval from the General Treasury. However, one (01) Director, thirteen (13) Managers/Assistant Managers and one (01) Secretary positions had been filled without the approval of the Department of Management Services, General Treasury.

The Commission has obtained approval from the Ministry of Finance for 57 positions. All new recruitments into IRCSL are with the approval of the Ministry of Finance.

Employees to the promotional grades, which has no effect to the total cadre has been written to the Ministry of Finance in terms of PED 01/2021 on 05 July 2023.

The IRCSL officials had discussion with the MOF officials in this regard.

The Commission shall obtain prior approval of the Department of Management Services, General Treasury for salaries and cadre revisions.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
According to the Article 40 of the National Audit Act No.19 of 2018, every auditee entity shall have	Internal Auditor for year 2023 – 2025 has been appointed.	The Commission shall appoint an internal

its own Internal Auditor, who is to perform an internal audit duly appointed by the governing body of such auditee entity. Where an Internal Auditor has not been appointed under subsection (1), such appointment shall be made within a period not exceeding two years from the date of operation of this Act. However, an internal auditor had not been appointed by the Commission for the year under review.

auditor for the Commission immediately

4.2 Audit Committee

Audit Issue	Management Comment	Recommendation
<p>(a.) According to the Guideline 4.2(d.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021, the Chief Internal Auditor (CIA) of the Line Ministry could serve as observer of the Audit Committee. However, the CIA of the line ministry had not been invited to the Audit Committees for the year 2022.</p>	<p>The Committee observed that a necessity has not arisen for the moment to invite the Chief Internal Auditor for the Audit Committee meetings as obtaining services of an internal auditor. Further, as the comment is only a suggestion and the same incurs additional costs the Committee is of the view that the comment is not required to be considered at this time.</p>	<p>The Commission should be adhered to the provisions of the guideline</p>
<p>(b.) According to the Guideline 4.2(h.) of the Guidelines on Corporate Governance for State Owned Enterprises 2021, the Audit Committee (AC) should meet at least once in three months. However, it was observed that the Commission had not conducted Audit Committees on regular basis throughout the year under review. This was occurred mainly due to non-availability of a Board Secretary to the Commission with required qualifications in terms of the Section 2.6 of the Guideline.</p>	<p>Audit Committee meetings are held on quarterly basis after appointing of Members for the same.</p>	<p>The Commission shall held Audit Committee meetings on regular basis and effective manner.</p>