People's Insurance PLC - 2024

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1. Financial Statements

1.1 Opinion

The audit of the financial statements of the People's insurance PLC (the "Company") for the year ended 31 December 2024 comprising the statement financial position of as at 31 December 2024 and the statement of comprehensive income,, statement of changes in equity and statement cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 .
My comments and observations which I consider should be report to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

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

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annu~~al and~~ periodic financial statements to be prepared of the Company.

1.4 Auditor's Responsibilities 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

	Audit Issue	Management Comment	Recommendation
a.	It was observed that the client does not maintain a system-generated ageing analysis for reinsurance receivables and payables. The absence of such a structured analysis limits the ability to obtain a comprehensive view of outstanding positions with reinsurers. System-generated ageing analysis is a critical tool for ensuring the accuracy and transparency of balances, supporting timely settlement of amounts due, and proactively identifying long-outstanding or disputed items.	Noted. A system development has been carried out to get the aging for the reinsurance payables and currently at the testing stage. Thereafter, the system will be developed to get the aging for the reinsurance receivables. This will be completed by 31st October 2025.	It is recommended that management implement a system-generated ageing analysis for reinsurance receivables and payables. This should be integrated into the financial reporting process to ensure accurate monitoring of outstanding balances, timely settlement of amounts due, and early identification of long-outstanding or disputed items.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
a. It was observed that reinsurance recoverable on paid claims amounting to Rs. 105.5 million remains outstanding for more than 365 days. Out of this balance, Rs. 73 million is due from foreign reinsurers and Rs. 31 million from the National Insurance Trust Fund (NITF). This situation persists despite the fact that the underlying claims have already been fully settled as of 31 December 2024. The prolonged non-recovery of these balances indicates potential delays in settlement processes and may expose the company to increased credit risk, liquidity constraints, and challenges in reconciling reinsurance accounts.	Noted. We have recovered LKR 12,701,544.78 out of LKR 30,476,246.25 over 365 days reinsurance receivables. In future, reinsurance recovery process will be closely monitored in accordance with the reinsurance receivable aging report generated through the system. Process has been implemented to obtain the reinsurance receivable within 300 days. If not received within 300 days, necessary action will be taken to set off the dues against the premium payables to the respective reinsurers. If there are no premium payables, a Letter of Demand will be sent to respective reinsurer.	It is recommended that management strengthen the monitoring and recovery process for reinsurance receivables, particularly those outstanding beyond 365 days. This should include establishing a structured follow-up and escalation mechanism with both foreign reinsurers and the NITF, maintaining regular reconciliations of reinsurance accounts, and documenting communication trails to support recovery efforts.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
a. It was observed that an excess premium balance of Rs. 227,582,132 which consists from unidentified deposits has remained outstanding for more than 365 days as at 31 December 2024. This balance has increased significantly compared to the previous year. According to the established process, after identify the depositor a debit note is raised for the excess premium amount when a new policy is issued to the customer. The prolonged accumulation of this balance indicates delays in settlement and requires closer review and follow-up to ensure timely recovery and proper management of excess premium accounts.	We initiated new process to reconcile excess premium on 10th April 2025. Since then LKR 269 Mn was collected to the main collection account and LKR 233 Mn was settled (87%) by 31st July 2025. The remaining unsettled balance as at 31st July 2025 was LKR 36 Mn (13%). There is an ongoing reconciliation process.	It is recommended that management conduct a detailed review of the long-outstanding excess premium balance of Rs. 227.6 million and establish a structured process to ensure its timely recovery. This should include reconciling excess premium accounts, strengthening follow-up mechanisms with customers, and introducing escalation procedures for balances outstanding beyond defined timelines.
b. There was a long outstanding Motor Claim balance of Rs. 238,706,772 which has been outstanding for more than 365 days.	Noted. Out of these long outstanding balance, more than 81% of the claims are third party claims with pending court decisions. The Legal Department has a structured process to handle these claims. The balance 19% of the long outstanding Motor claims are own vehicle damaged claims, which are settled within 2 working days after receiving all the required documents and all the requirements are fulfilled.	It is recommended that management implement a structured follow-up and settlement process for long-outstanding motor claim balances. This should include regular reconciliation of claim accounts, timely escalation of overdue claims, and clear accountability for settlement delays.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a. Determination No 03 of Insurance Regulatory Commission of Sri Lanka	According to the determination, the period for settlement of premium to be set at 60 days from the date on which the premium is payable. However, company had been used the credit period contrary with the determination No 03 of Insurance Regulatory Commission of Sri Lanka and without obtaining approval for deviation. Details are as follows. • Reinstated Broker, Finance Company, Bank, PLC, People's Micro –finance, group staff policies to be cancelled in 100 days (from the inception date) if the full premium is not settled. • Government Tender policies for the Motor & Non- Motor to be cancelled in 180 days if the full premium is not settled • All direct, Agent, business Promoter policies to be cancelled on the 65th day if the full premium is not received. • Policies with People's Bank financial interest to be cancelled in 120 days if the full premium is not settled. • Co-insurance (inward) policies to be cancelled in 360 days, if full premium is not received. • Marine Cargo policies 120 days of credit can be allowed.	Noted. Insurance companies have different credit arrangement with different segment of customers and there have been discussion on the matter at insurance industry forums. It is disadvantages to limit the overall credit period to 60 days. However, the Regulation is currently involved in discussions with the insurance companies in respect of credit periods.	It is recommended that management ensure full compliance with Determination No. 03 of the Insurance Regulatory Commission of Sri Lanka, which requires settlement of premiums within 60 days from the date on which the premium is payable. Any deviation from the prescribed credit period should only be undertaken with prior approval from the regulator.

1.8 Cash Management.

Audit Issue	Management Comment	Recommendation
a. It was observed that an unidentified credit balance of Rs. 26,666,225 has been consistently appearing in the bank reconciliations and has not been recorded in the company's accounting records.	Unidentified credits reported at month-end will remain in the bank reconciliation for a period of two months until they are identified and cleared. This is the standard timeline procedure adopted by the Company.	It is recommended that management review the unidentified credit balance of Rs. 26,666,225 appearing in the bank reconciliations and take appropriate action to identify its source. Additionally, management should strengthen bank reconciliation procedures, including timely review and follow-up of unexplained balances, to prevent recurrence and ensure the accuracy and completeness of financial reporting.

1.9 IT General Controls

Audit Issue	Management Comment	Recommendation
a. It was observed that the company has not established an adequate monitoring mechanisms over the privileged activities performed by deployment officers within the General Insurance System. The absence of such oversight increases the risk of unauthorized system changes, data manipulation, or undetected errors, thereby weakening the overall effectiveness of IT general controls and compromising the integrity, confidentiality, and reliability of critical business data.	Agree with the observations and Implemented.	It is recommended that management should implement a robust monitoring controls over privileged activities performed by deployment officers in the General Insurance System. This should include maintaining detailed audit logs, implementing periodic independent reviews of privileged actions, and enforcing segregation of duties where feasible.

b. It was observed that user accounts of resigned employees had not been deactivated in a timely manner within the General Insurance System (GIS) and the People's HR System as of 31 December 2024. In the GIS, nine instances were noted, with maximum delays of up to 21 days, while in the People's HR System, 12 instances were identified, with maximum delays of up to 18 days.	System is in place to deactivate accounts of resigned employees in a timely manner.	It is recommended that management should strengthen user access management controls to ensure timely deactivation of accounts belonging to resigned employees in both the General Insurance System and People's HR System.
c. It was observed that user accounts of resigned employees were not promptly deactivated in both the General Insurance System and the People's HR System. Consequently, three user accounts remained active beyond the respective resignation dates and were utilized to access the People's HR System. This indicates a weakness in user access management controls and exposes the systems to potential risks of unauthorized access or misuse.	Immediate deactivation of user accounts is place.	It is recommended that management should establish and enforce a formal process to ensure the immediate deactivation of user accounts upon employee resignation. This process should include automated triggers linked to the HR exit procedures, periodic reviews of active accounts, and monitoring mechanisms to detect and remediate any exceptions promptly.
d. It was observed that the company's current change management practices deviate from the standards and procedures defined in the "ICT Procedure Manual," indicating gaps in adherence to established IT governance frameworks. Such deviations may result in increased risk of system errors, and potential disruptions to critical business operations.	Agree with the observation and completed.	It is important to update the "ICT Procedure Manual" to accurately reflect the current change management practices, specifically incorporating the involvement of the Change Management Committee (CMC) into the documented procedures to align with the actual practice.

e. It was observed that the Disaster Recovery (DR) site does not have a perimeter firewall implemented, exposing critical systems and sensitive data to potential unauthorized access and external cyber threats. The absence of this fundamental network security control increases the risk of data breaches, system compromise, and disruption to business continuity in the event of a disaster.	Agree with the observation and Completed.	It is recommended that management implement a perimeter firewall at the Disaster Recovery (DR) site to protect critical systems and data from unauthorized access and external cyber threats. Additionally, network security controls at the DR site should be periodically reviewed and tested to ensure they are effective and aligned with the organization's IT security policies.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 701,615,545 and the corresponding profit before tax in the preceding year amounted to Rs. 784,475,986. Therefore, a deterioration amounting to Rs. 82,860,441 of the financial result was observed. The reasons for the deterioration is increase of underwriting and net acquisition costs by Rs 231,371,885.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding four (04) year with the percentage of increase or decrease are given below.

Line Item	**2024**	**2023**	**2022**	**2021**	**2020**
	Rs. Million	**Rs. Million**	**Rs. Million**	**Rs. Million**	**Rs. Million**
Company					
Revenue	**5,928.20**	**5,629.84**	**6,394.66**	**5,905.72**	**6,162.73**
Variance	298.366	(764.829)	488.944	(257.010)	54.210
Increase/(Decrease)	5.30%	-11.96%	8.28%	-4.17%	0.89%
Gross Written Premium	**6,249.30**	**5,762.72**	**6,132.05**	**5,967.95**	**6,011.56**
Variance	486.572	(369.327)	164.100	(43.610)	(18.410)
Increase/(Decrease)	8.44%	-6.02%	2.75%	-0.73%	-0.31%
Net Earned Premium	**4,713.23**	**4,170.20**	**4,991.77**	**5,120.62**	**5,303.39**
Variance	543.028	(821.571)	(128.850)	(182.770)	41.660
Increase/(Decrease)	13.02%	-16.46%	-2.52%	-3.45%	0.79%
Investment Income	**1,178.78**	**1,458.34**	**1,305.87**	**657.53**	**751.88**

Variance	(279.552)	152.466	648.340	(94.350)	(29.460)
Increase/(Decrease)	-19.17%	11.68%	98.60%	-12.55%	-3.77%
Net Realized (loss)/gain	**18.06**	**-**	**(402.61)**	**383.99**	**808.18**
Variance	18.064	402.610	(786.600)	(424.190)	742.940
Increase/(Decrease)			-204.85%	-52.49%	1138.78%
Total Income	**5,928.20**	**5,629.84**	**6,394.66**	**5,905.72**	**6,162.74**
Variance	298.366	(764.825)	488.940	(257.015)	54.215
Increase/(Decrease)	5.30%	-11.96%	8.28%	-4.17%	0.89%
Net Benefits and Claims	**3,129.71**	**3,125.71**	**3,638.29**	**2,994.31**	**2,699.55**
Variance	4.002	(512.585)	643.980	294.760	(853.020)
Increase/(Decrease)	0.13%	-14.09%	21.51%	10.92%	-24.01%
Underwriting and Net acquisition costs (Including reinsurance)	**490.55**	**259.17**	**477.37**	**527.06**	**559.53**
Variance	231.372	(218.196)	(49.690)	(32.470)	42.380
Increase/(Decrease)	89.27%	-45.71%	-9.43%	-5.80%	8.19%
Other Operating and Administrative Expenses	**1,643.59**	**1,474.02**	**1,239.84**	**1,203.69**	**1,216.19**
Variance	169.571	234.183	36.150	(12.500)	115.500
Increase/(Decrease)	11.50%	18.89%	3.00%	-1.03%	10.49%
Income tax Expenses	**272.19**	**262.90**	**364.32**	**189.42**	**472.21**
Variance	9.296	(101.422)	174.900	(282.790)	207.830
Increase/(Decrease)	3.54%	-27.84%	92.33%	-59.89%	78.61%
Net Profit for the year	**429.42**	**521.58**	**635.96**	**979.67**	**1,195.31**
Variance	(92.157)	(114.382)	(343.710)	(215.640)	547.660
Increase/(Decrease)	-17.67%	-17.99%	-35.08%	-18.04%	84.56%

2.3 Ratio Analysis

The key ratios of the Company calculated for current year and the last five (04) years are given below.

Company Specific Ratio	**2024**	**2023**	**2022**	**2021**	**2020**
Retention Ratio	75.4%	72%	81.4%	85.8%	88.2%
Total Claim Ratio (General Business)	66.4%	75.0%	72.9%	58.5%	50.9%
Expense Ratio	44.5%	41.2%	33.7%	33.0%	32.9%
Combined Ratio	111%	116%	107%	91%	84%
Profitability Ratio	11%	14%	16%	20%	28%
ROA	6%	7%	9%	11%	17%
ROE	13%	16%	21%	24%	40%

Investment Yield	12%	16%	15%	7%	9%
Liquidity Ratio	1.45	1.42	1.35	1.50	1.44
Financial Assets to Total Assets	79%	80%	78%	82%	81%
Capital to Technical Reserves Ratio	128%	140%	114%	120%	112%
Technical Reserve Ratio	107%	111%	122%	123%	128%

It was observed that several key financial ratios reflecting profitability and investment returns have exhibited a consistent and concerning year-over-year decline. Specifically, the Profitability Ratio has steadily decreased from a high of 28% in 2020 to 20% in 2021, further declining to 16% in 2022, then 14% in 2023, and reaching a low of 11% in 2024. This trend suggests a gradual erosion in the company's ability to generate profit from its operations over the five-year period.

Likewise, the Return on Assets (ROA), which measures the efficiency with which the company utilizes its assets to produce earnings, has fallen from 17% in 2020 to 11% in 2021, 9% in 2022, 7% in 2023, and down to 6% in 2024. This indicates a decreasing effectiveness in asset management and resource utilization.

Moreover, the Return on Equity (ROE), an important indicator of how well the company is generating returns for its shareholders, has also declined sharply from 40% in 2020 to 24% in 2021, 21% in 2022, 16% in 2023, and 13% in 2024. The significant decrease in ROE suggests diminished profitability relative to shareholders' equity, potentially impacting investor confidence.

Industry	**Industry Growth**					**Company Growth**				
Comparison	**2024**	**2023**	**2022**	**2021**	**2020**	**2024**	**2023**	**2022**	**2021**	**2020**
As per Insurance Regulatory Commission of Sri Lanka	10.90 %	2.40 %	11.60 %	3.50 %	-2.20 %	8.44 %	-6.02 %	2.75 %	-0.73 %	-0.31 %

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
a. According to Peoples Insurance's Anti-Fraud Policy, "upon detection of a fraud, the HR-Head with the support of the Head of Departments & Senior Manager-Legal should make every vigorous effort possible to recover the loss amount involved." However, in several cases, employees were terminated or resigned without settling their fraud until 2018. Since 2018, there were reported misuse of collected premium, as shown in the table. Although fraud has been occurring for years due to internal control vulnerabilities, the same type of fraud has occurred in 2024 as well. Failure to implement effective internal controls to prevent recurring frauds will create substantial risks to the institution's financial survival.	Disciplinary committee of Peoples Insurance PLC has taken action within 14 days of the receipt of the complaint regarding all fraudulent activities in collecting money from the customers from 2024 onwards.	It is recommended that management strengthen the enforcement of the Anti-Fraud Policy to ensure timely recovery of losses from employees, including cases of resignation or termination, and implement robust internal controls to prevent recurrence of identified fraud types.

Year	Designation and Department	Type of Fraud	Amount (Rs.)
2018	Staff Assistant Grade I	Misappropriation of collected premium	464,786.44
2019	PI Counter Underwriting-Hatton	Misappropriation of collected premium	215,514.76
2020	Senior Sales	Misappropriation of	57,379.00

	Officer-Jaela	insurance premiums	
2022	Senior Executive-BLU Head Office	Premium Misappropriation	Not mention
2023	Senior Sales Officer-Rathnapura	Premium Misappropriation	224,798.68

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
a. A decrease in the surplus earned from the insurance business has been recorded as negative for the years 2023 and 2024, amounting to Rs. 675,160,124 and Rs. 513,359,128 respectively. Despite a moderate claim loss ratio of 66.40 per cent in 2024, the expense ratio was excessively high at 44.5 per cent, resulting in a combined ratio of 111 per cent. This indicates that the underwriting losses are primarily driven by elevated operating and acquisition costs. Consequently, this situation has adversely affected the company's overall profitability and financial stability.	Note	It is recommended that management undertake a comprehensive review of the company's operating and acquisition expenses to identify areas of inefficiency and implement cost optimization measures.

Year	2024	2023
Underwriting Results	-513,359,128	-675,160,124
Loss ratio	66.40%	74.95%
Expenses ratio	44.5%	41.2%
Combined Ratio	111%	116%

b. As per the Acceptance & Disposal Process Guideline, after receiving approval of Senior Engineer-Motor Claims, the salvage lot should be disposed of within seven days, and the relevant salvage buyers must be informed to collect the items within this period. If the maximum number of days are exceeded, the branch officer is required to cancel the existing lot in the system and create a new salvage lot. However, it was noted that the status of some approved salvage lots in the General Insurance system still remains as "APPROVED" instead of being updated to "SOLD" after disposal. This resulted in an inability to determine whether the salvage lots aggregating to Rs. 4,530,340 were sold, as receipt numbers and amounts were not updated accordingly in the General Insurance system.	A monitoring mechanism has been implemented to ensure to that the salvage lot is sold and the payment receipt number has been entered in to the system.	It is recommended that management enforce strict adherence to the Acceptance & Disposal Process Guideline to ensure timely updating of the General Insurance system following the disposal of salvage lots.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
a. As per the approved process for New Business-Captive, "if the underwriting documents are not received to the head office within 2 weeks of issuance of the policy, a pending underwriting document list will be run in the system from the head office and branch underwriter will be notified". As per the guidelines for New Business- Non captive, the full set of policy documents are to be dispatched to the head office	The guidelines have been already implemented. An exception report will be generated on monthly basis. Disciplinary action will be taken against the underwriters if not complied with the said guideline.	It is recommended that management enforce stricter adherence to the approved timelines for submission of underwriting and policy documents from branches to the head office, in line with the respective New Business Guidelines for Captive and Non-Captive Business. Appropriate monitoring controls should be established, such as periodic

within 01 week of the policy insurance. However, according to the Branch Audit report - 2024/2025, it was identified that there is a delay in sending completed/uncompleted policy document to head office as follows.

Branch	Delays
Trincomalee	74
Kaduwela	58
Hingurakgoda	46
Panadura	41
Ambalangoda	30
Nittambuwa	29
Kanthale	22
Benthota	21
Akuressa	19

exception reports, escalation procedures for delayed submissions, and accountability mechanisms for branch underwriters.

b. A robbery occurred at the Puttur branch of People's Bank, on 30 July 2011, resulting in the theft of gold weighing 26,554.75 g and cash amounting to LKR 3,640,000 and this has covered under Policy No. 1HOFBP000000022. As of 31 December 2022, the company had paid an advance of LKR 154.54 million for the claim, of which LKR 140.09 million has been recovered from reinsurers. The remaining balance of LKR 14.45 million was borne by the company. Out of the stolen gold, only 13,093 g has been recovered. The company acknowledged acceptance of 1,190 articles, with a total weight of 8,574.45g, along

There is still a remaining balance of gold weighing 4,564.94 grams and cash amounting to Rs. 2,467,000 yet to be handed by People's Bank. Once the full salvage item/cash are handed over, we will proceed with the distribution of shares among the respective stakeholders.

It is recommended that management formalize and take timely action on the alternative option of distributing the salvage recovery among reinsurers and other relevant parties, as considered in Salvage Panel Paper No. 45A/2025. Additionally, management should ensure that the disposal or sale of recovered articles is conducted transparently and in accordance with approved procedures, while keeping all stakeholders informed of progress.

with cash amounting to LKR 3,633,000, on 3 February 2025. According to Salvage Panel Paper No. 45/2025, the company was in the process of selling these articles on a piecemeal basis. Subsequently, as per Salvage Panel Paper No. 45A/2025, action was taken to sell the articles through a bidding process. However, it was noted that an alternative approach of distributing the salvage recovery among the reinsurers and other relevant parties had been considered, but no further action regarding this option was observed.		

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
a. The Company's Procurement Policy and Procurement Manual, do not specify procedures for the selection and engagement of consultants. As a state-owned enterprise, the Company is obligated to comply with the Guidelines on Selection and Employment of Consultants issued by the National Procurement Agency of Sri Lanka. These guidelines emphasize a transparent, competitive, and well-documented process for individual consultant selection, including the development of	The 'Head of Marketing' position has been vacant since 2022 and is not classified as Key Management Personnel (KMP), which only includes board members and the Operational Management Committee (OMC). Previously, the CEO personally managed marketing function without formal processes or a successor. Despite multiple interviews and involvement of headhunters, the company could not find a suitable candidate. Therefore, the company decided to hire an experienced consultant to formalize marketing	It is recommended the Company to align consultant recruitment with the National Procurement Agency Guidelines, ensuring transparent, competitive, and well-documented procedures. Further, the conflict of interest arising from the any consultant's role should be addressed by terminating or restructuring the agreement to safeguard transparency, integrity,

Terms of Reference (TOR), Advertising, Selection on completion, terms of appointment. Despite this, the Company appointed a Marketing Consultant through a Board resolution dated 23 February 2023, without adhering to the required guidelines. Furthermore, the appointed consultant was designated as Head of Marketing which is a permanent cadre position that should have been filled in accordance with the Company's approved scheme of recruitment (SOR) and procedure of appointment. The consultant was initially recruited on a temporary basis for six months, effective from 9 February 2023, for a monthly fee of Rs. 200,000. The agreement was subsequently extended on three occasions:

- First extension: From 10 August 2023, with an increased monthly fee of Rs. 250,000
  Second extension: From 9 February 2024, at the same monthly fee
- Third extension: From 9 August 2024 to 8 February 2025 also at Rs. 250,000 per month

In addition, on 1 December 2023, the Company entered into a social media service agreement with IKON, a company where the same Marketing Consultant also serves as the Chief Executive Officer. This functions and enhance brand visibility cost-effectively. The CEO recommended this appointment to the Board Human Resource and Remuneration Committee, and the Board ratified it, approving a consultancy fee negotiated down to LKR 200,000—less than what most candidates demanded. The consultant's performance was evaluated quarterly by the Board.

The consultant was given the title 'Head of Marketing' to facilitate external negotiations and internal talent development but was treated strictly as an external consultant without permanent employee benefits. All contract extensions required Board approval, supported by favorable minutes and performance reviews.

The company follows the 'Operational Manual for State Owned Enterprises' by the Ministry of Finance, but as a listed company on the Colombo Stock Exchange (CSE), it is exempt from this manual and instead governed by the Companies Act No. 7 of 2007. The Board of Directors holds full managerial powers and can delegate duties as per the Act, acting in the company's best interests.

CSE Listing Rules require disclosure and board/shareholder approval for related-party or and accountability in procurement and appointments.

arrangement constitutes a clear conflict of interest, as outlined in Section 5(b) of the Consultant Agreement. These serious concerns, raise a doubt on transparency in consultant selection, and conflict of interest of the management overlooking the executive functions.

material financial transactions. The agreement with M/S IKON was signed before the consultant's engagement, and the consultant was not part of the selection process or decision-making for M/S IKON's contract. Digital marketing responsibilities were explicitly removed from the consultant's scope and assigned to the Head of Operations to prevent conflicts of interest and ensure independence.