

Insurance Board of Sri Lanka 2012

1. Financial Statements

1.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

According to the Management Service Circular No. 19 of 12 November 2003, the loss making institutions should pay bonus at Rs.1,000 per person. Instead of paying a sum of Rs.94,000 as the bonus in the years 2010, 2011 and 2012 , payments totaling Rs.3,717,751 had been made.

1.2.2 Transactions not Supported by Adequate Authority

The interest recoverable on motor vehicle loans had been reduced to 4.2 per cent with effect from 01 May 2011 by the Board of Directors without the approval of the Department of Public Enterprises.

2. Financial Review

2.1 Financial Results

The operations of the Board during the year under review had resulted in a pre-tax deficit of Rs.19,056,965 as compared with the corresponding deficit of Rs.27,251,414 for the preceding year, thus indicating an improvement of Rs.8,194,449 or 30 per cent in the financial results for the year under review.

The increase of the identified grants and the interest income of the Board as compared with the preceding year by 76 per cent and 1,234 per cent respectively and the decrease of the professional fees by 39 per cent had affected the improvement.

3. Operating Review

3.1 Performance

The following observations are made on the activities that should have been executed in the year under review according to the Annual Action Plan for the year 2012.

- (a) The Guidelines for investigation of complaints had not been prepared.
- (b) The rules issued by the controller of Insurance in the year 1987 had not been amended.
- (c) A regulatory format for the registration of Loss Adjusters and Insurance Agents had not been prepared.
- (d) Even though expenditure on local training amounting to Rs.811,321 had been shown in the financial statements, a sum of Rs.756,321 or 93 per cent out of that had been spent on welfare activities. As such the attention of the Board had not been paid for training in insurance sector.

- (e) Even though provisions of Rs 2.5 million had been made for the Management Information System for the Supervision Section, that work had not been executed.

3.2 Staff Administration

Vacancies in 05 Executive Posts of the Board existed as at 31 December 2012 and out of that 02 Executive Posts had been vacant from the beginning of the year.

3.3 Management Inefficiencies

The following observations are made.

- (a) The Board had increased the salaries without following the specified methodology for revision of salaries. As the salaries had been revised based on the Letter No. PED 360/12/2 (ii) dated 18 July 2012 of the Deputy Secretary to the Treasury of the Ministry of Finance and Planning which stated that there was no objection to the revision of salaries on the requirements of the Board subject to a maximum of 25 per cent of the basic salary, an overpayment of Rs.1,564,338 had been made by the Board.
- (b) Even though the Board had been instructed by letter No. MF/2/4/IBSL/GEN dated 27 December 2009 of the Deputy Secretary of the Treasury of the Ministry of Finance and Planning to prepare and submit an Incentive Scheme based on performance, an Incentive Scheme had not been prepared and submitted to the Treasury for approval even by 30 June 2013.
- (c) Even though the Board had paid sums totaling Rs.2,280,660 to 25 officers as the bonus and the allowances for leave unavailed of in respect of the year 2011, the Pay As You Earn Tax thereon had not been recovered and remitted to Commissioner General of Inland Revenue. Similarly, the Pay As You Earn Tax on the bonus and the allowances paid for unavailed leave in the previous years

had not been recovered and remitted to the Commissioner General of Inland Revenue.

- (d) As the payment for sick leave not availed of in the year 2011 had not been made according to the provisions in the Administrative Manual prepared by the Board, overpayments totaling Rs.259,556 had been made.
- (e) The overpayment of Rs.580,841 made due to the payment of allowance for unavailed leave for the years 2009 and 2010 based on the gross salary instead of the basic salary had not been recovered from the officers even by 30 June 2013.
- (f) According to Directive No. 11 made by the Committee on Public Enterprises on 09 December 2010, a formal procedure for the payment of compensation to third parties should have been prepared by holding discussion with the Commissioner General of Motor Traffic and submitted to the Committee. But an adequate course of action in this connection had not been taken in the year under review.

4. Accountability and Good Governance

4.1 Budgetary Control

Variances in the budgeted expenditure and the actual expenditure in the year under review ranging between 55 per cent to 234 per cent were observed. As such the budget prepared by the institution had not been made use of as an effective instrument of financial management control.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institution from time to time. Special attention is needed in respect of the following areas of control.

- (a) Payments
- (b) Training Programmes