

## **Insurance Board of Sri Lanka - 2013**

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The audit of financial statements of the Insurance Board of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the comprehensive income statement and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 8(3) of the Sri Lanka Insurance Industry Regularization Act, No. 43 of 2000. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2:2 of this report.

## **2. Financial statements**

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### **2.1 Qualified Opinion**

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In my opinion, except of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **2.2 Comments on Financial Statements**

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#### **2.2.1 Sri Lanka Accounting Standards**

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- (a) The Board had not taken action to present the financial statements in accordance with Sri Lanka Accounting Standards that should be adopted for the first time with effect from the year by the specific business enterprises.
- (b) The sum of Rs.1,581,250,000 invested in financial instruments such as Government Securities and Fixed Deposits had not been recognized as financial assets and the information relating thereto had not been disclosed in the financial statements in accordance with Sri Lanka Accounting Standard No. 7.
- (c) The property, plant and equipment of the Board valued at Rs.23,762,964 had not been revalued and such revalued amounts had not been disclosed in the financial statements in accordance with the Sri Lanka Accounting Standard No. 16.

#### **2.2.2 Accounting Deficiencies**

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Books and Publications valued at Rs.214,007 including one book valued at Rs.113,100 had been purchased in the year under review and the Board had spent a sum of Rs.953,470 for such purchases of books and publications from the year 2005 to the year 2013. Such expenditure had been written off as recurrent expenditure without taking into consideration the value and the nature of the books, while action had not been taken to capitalize them. Nevertheless, the Chairperson of the Board informed the audit that only books valued over the Rs.100,000 could be capitalized in the future.

### **2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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The following instances of non-compliances were observed during the course of audit.

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 454 and 757(1)	An Inventory Register had not been maintained.

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| (ii) Financial Regulation 396(d)                            | Action in terms of the regulation had not been taken on sums totalling Rs.89,780 payable on 13 cheques cancelled in the year 2008.   |
| (b) Public Enterprises Circular No. PED/12 of 02 June 2003. | Even though the Manual of Procedure had been prepared the approval of the secretary to the Treasury for that had not been obtained through the Department of Public Enterprises. |

## **2.4 Transactions not supported by Adequate Authority**

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The following observations are made.

- (a) According to the Management Services Circular, even though the relevant Acts relating to the establishment of Public Corporation and Statutory Boards contain different provisions for prescribing salaries and allowances, such Statutory provision should not be implemented without the recommendations of the Salaries and Cadre Commission and the approval of the Department of Management Services. Nevertheless, without such approval, the Board had increased the salaries of the Board employees by 25 per cent with effect from the year 2012. Accordingly, sums of Rs.2,600,438 and Rs.5,221,448 had been paid without formal approval in the years 2012 and 2013 respectively.
- (b) Even though the Board had prepared an Incentive Scheme and forwarded to the Ministry of Finance, the Board employees had been paid incentives amounting to Rs.1,951,246 based on one month's salary to the 42 employees of the Board despite the non-receipt of the approval for the scheme.
- (c) The Board employees had been paid holiday pay amounting to Rs.599,941 in the year under review in accordance with the provisions in the Manual of Procedure forwarded to the Treasury for approval. But the approval for the Manual had not been received even by 30 October 2014.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the pre-tax financial results of the Board for the year under review had been a surplus of Rs.148,207 as compared with the surplus of Rs.238,211 for the preceding year and as compared with the preceding year, a decrease of Rs.90,004 or 38 per cent in the financial results was indicated. Even though the overall income of the Board had increased by rs.11,461,378, the increase of personnel cost and professional fees by Rs.9,662,751 and Rs.1,184,222 respectively had been the main reason for the decrease in the surplus.

### 3.2 Analytical Financial Review

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According to the financial statements presented, the working capital ratios as at 31 December 2013 and as at 31 December 2012 are given below.

Ratios	2013	2012
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Current/ Quick	139:1	120:1

Even though current assets amounting to Rs.1,782,818,419 had been disclosed in the financial statements as at the end of the year under review, 99 per cent of that value or Rs.1,766,611,670 represented the investments in the Insurance Policy-Holders Security Fund” established in terms of Section 103 of the Sri Lanka Insurance Industry Regularization Act, No. 43 of 2000.

## 4. Operating Review

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### 4.1 Performance

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The Board had failed to complete the following activities expected for implementation during the year under review by each Division in accordance with the Action Plan of the Board for the year 2013.

#### (a) Legal Division

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Even though the completion of the following activities had been planned with the objective of the creation of the strong Insurance Statutory Framework under the this Division, that had not been completed even by 30 April 2012.

- (i) Revision of the Regulations issued by the Controller of Insurance in the year 1987.
- (ii) Amendment of the Laws relating to the powers of the Board for supervision and investigation.
- (iii) Formulation of a formal regulating methodology for the registration of Damage and Loss Adjustors.
- (iv) Formulation of a formal methodology for the regulation of the registration of Insurance Agents engaged in matters relating thereto.
- (v) Formulation of a formal methodology for the establishment of risk based capital.

#### (b) Investigation Division

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Even though the following had been planned under this Division with a view to improve the confidence of the insurance policy-holders and the future policy-holders

and advancement of the industry it had been limited to the identification of only one external institution.

- (i) Preparation of a report in the year under review by studying the foreign judicial limitations and the ideas of the industry.
- (ii) Identification of the external institutions for which the Board should provide investigation facilities and enter into agreements with them.

**(c) Supervision Division**

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Even though the following had been planned under this Division with a view to directing the stability of the Sri Lanka Insurance Industry through an efficient Supervision System, only the conduct of 04 spot inspections and the analysis of the monthly reports of 04 insurance companies had been done.

- (i) Carry out 07 spot checks of selected divisions of Insurance Companies.
- (ii) Preparation of an Information system.
- (iii) Supervision, review and analysis of monthly reports of the respective company to assess the financial risk and performance of insurance company.

**(d) Finance and Administrative Division**

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Even though the following had been planned for completion under this Division the Board had failed to complete those activities authorities during the year 2013.

- (i) Formulation of a formal procedure for the payment of medical allowance under the staff welfare.
- (ii) Taking action for the participation of the officers only in the training programme related to the field with a view for making the training expenditure of the Board more effective.
- (iii) Nevertheless, out of the provision of Rs.2,250,000 made for local training in the year under review a sum of Rs.1,535,495 had been spent and the expenditure included Rs.636,000 and Rs.694,550 incurred on higher education courses without a direct contribution to the insurance field and the staff welfare respectively.

**4.2 Management Inefficiencies**

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The sum of Rs.112,420 recoverable from a female officer who had resigned from service, including an unbanked income of rs.107,800 relating to the period 15 March 2007 to 05 August 2009 identified as misappropriated, had been shown as money receivable even as at the end of the year under review without taking action for settlement.

**4.3 Operating Inefficiencies**  
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A computer monitor costing Rs.55,000 and a computer printer costing Rs.4,500 purchased on 09 May 2007 had been shown in the Register of Fixed Assets as missing assets.

**4.4 Uneconomic Transactions**  
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A sum of Rs.53,400 representing the service charges on 05 telephones not used by the Board, 20 per cent telephone tax and the cess thereon had been paid in the year under review.

**4.5 Personnel Administration**  
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The following observations are made.

- (a) The approved posts of the Board as at 31 December 2013 had been 44 and the actual number had been 42. As such 03 vacancies existed.
- (b) Three posts of Assistant Director in the approved cadre had been vacant since the beginning of the year 2013 and action had not been taken to fill those vacancies even in the year under review.

**5. Accountability and Good Governance**  
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**5.1 Budgetary Control**  
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Variance ranging from 52 per cent and 336 per cent between the budgeted and the actual expenditure were observed thus indicating that the budget had not been made use of as an effective instrument of financial control.

**6. Systems and Controls**  
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Deficiencies in systems observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Personnel Administration
- (c) Fixed Assets