

## **Insurance Board of Sri Lanka - 2014**

---

The audit of financial statements of the Insurance Board of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 the Financial Statements**

---

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**

---

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**

---

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## **2. Financial statements**

---

### **2.1 Qualified Opinion**

---

In my opinion, except for the effects 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 2014 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**

---

#### **2.2.1 Accounting Policies**

---

The following observation is made.

Even though the recognition of income had been made on accrual basis by the Board, identified and invoiced annual fees totalling Rs.5,897,549 by the end of the year under review, receivable from the National Insurance Trust Fund relating to 3 preceding years and cess income totalling Rs.32,249,024 for the years 2011 and 2012 had not been brought to account in the financial statements. The annual fees receivable from the Fund for the year 2014 and the cess receivable for the years 2013 and 2014 had not been identified and even an estimated amount thereon had not been brought to account.

#### **2.2.2 Accounting Deficiencies**

---

Despite failure in having a liability for payment of audit fees, a sum of Rs.1,035,000 had been shown erroneously in the financial statements as internal audit fees payable from the year 2010 up to the year 2012.

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

---

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

#### **Reference to Laws, Rules and Regulations**

---

- (a) Insurance Industry Regularization Act, No. 43 of 2000.
  - (i) Paragraphs 79 and 82 (1)

#### **Non-compliance**

---

Carrying out the business of an insurance broker is prohibited without a certificate of registration as a broker and where the application was so made and the Board is satisfied in respect of requirements thereon, the applicant should be registered as an insurance broker by the Board. Nevertheless, according to the public notification made by the Chairman of the Board, acceptance of applications for such registrations had been discontinued from 27 April 2012 until further notice. However, the Chairman of

the Board had informed the audit thereon that the Board has power to do any other required act in fulfilling objectives and responsibilities of the Board in terms of Section 5(h) of the Act.

(ii) Section 103 (1)

The Board shall establish a Fund to be known as the “Policy Holders Protection Fund” to which shall be credited money realized from the cess levied and charged under Section 7 of this Act and at every instance, where adequate income had not been earned to settle the total expenditure of the Board, that Fund had been utilized to settle the deficit of the Board contrary to the purposes to which the monies of that Fund should be used in terms of the Act. In addition, out of this Fund, a sum of Rs.300,000,000 had been transferred to the Consolidated Fund in the year 2013 contrary to those purposes.

(b) Public Enterprises Circular No. PED/12 of 02 June 2003.

(i)Section 6.5.1

A Draft Annual Report of the Board for the year under review had not been presented to the Auditor General along with the financial statements.

(ii)Section 8.3.4

Even though the total of calling charges paid for office and domestic lines of each officer should be obtained in confirming whether the calling charges had exceeded the approved limits, expenditure for General Lines had taken a high value of Rs.1,633,011 due to obtaining calls through General Lines without using Office Lines allocated for 6 officers.

(iii)Section 9.14.1

The approval of the Department of Public Enterprises had not been obtained for the Manual of Procedure.

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

---

The following observations are made.

- (a) The Board had granted festival advances amounting to Rs.50,000 to 82 officers each without a proper approval and out of that, a balance totalling Rs.1,065,000 had existed by the end of the year under review. Nevertheless, according to the revisions made to the Establishments Code, the maximum amount which can be granted as festival advances had been limited to Rs.5,000.
- (b) A sum of Rs.250,000 each had been paid as distress loans to 5 officers, whose basic salary was less than Rs.25,000, without a proper approval.

- (c) It had been indicated that Corporations and Statutory Boards can pay benefits only precisely approved by the Cabinet of Ministers, Ministry of Public Administration or the Treasury to their employees with the approval of the Boards of Control and the approval of the Treasury should be obtained for payments of additional allowances and incentives made without such authority, in terms of Public Enterprises Circular No.95 of 14 June 1994. Nevertheless, the Board had not taken action to prepare an incentive scheme and to obtain the approval thereon as informed by the Letter No. MF/2/4/IBSL/GEN of 29 December 2009 of the Deputy Secretary to the Treasury. However, the Board had paid sums of Rs.1,951,246 and Rs.1,754,948 as bonus from the year 2009 to 2012 and incentives in the years 2013 and 2014 respectively.

### **3. Financial Review**

---

#### **3.1 Financial Results**

---

According to the financial statements presented, the financial result of the Board for the year under review had been a surplus of Rs.163,129 as compared with the corresponding surplus of Rs.148,207 for the preceding year, thus indicating an increase of Rs.14,922 or 10 per cent in the financial result of the year under review as compared with the preceding year. The increase in income by Rs.2,097,699 as compared with the increase in expenditure by Rs.2,082,977 had mainly attributed to this increase.

#### **3.2 Analytical Financial Review**

---

According to the financial statements, the value of current assets as at the end of the year under review amounted to Rs.2,195,085,644 and out of that, 99 per cent or Rs.2,170,032,222 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. As such, the current assets ratio had been at a high level of 105:1.

### **4. Operating Review**

---

#### **4.1 Performance**

---

The following observations are made.

- (a) The Board has the statutory powers to investigate a dispute in respect of a payment of insurance claims submitted by an insured with a view to protecting the connections of the Insurance Policy Holders and the future Insurance Policy Holders and the number of complaints so received to the Board in the year under review was 284. Out of that, investigations in respect of 157 complaints and 11 complaints made in the year 2013 had not been completed even by 07 April 2015, the date of audit and there were 75 delayed instances where 3 to 10 months had been taken to complete the investigation.
- (b) The Market Development and External Relations Division had been established with a view to improving the confidence on insurance through the protection of Insurance Policy

Holders and making public awareness. Provisions amounting to Rs.10,100,000 had been made for the purposes planned to implement by this Division during the year under review. The progress of those purposes was as follows.

- (i) Even though 10 awareness programmes had been held in the Divisional Secretariats with a view to improving the knowledge on insurance of the Government Representatives, only persons 13 of them had participated at the programme held in the District Secretariat, Colombo.
  - (ii) Even though it had been planned to hold 3 presentations at selected places where the public gathered during the year under review, the Board had failed to complete that purpose.
  - (iii) Even though it had been planned to participate in exhibitions and street publicity activities carried out on main roads, the Board had participated only at the Dayata Kirula Exhibition in the year under review.
  - (iv) No evidence was made available to ensure whether the Documentary media movement which had been planned to implement on an estimated value of Rs.2,500,000 under the electronic media programmes, had been implemented during the year.
  - (v) Seven insurance policies introduced by 6 insurance companies in the year under review had been reviewed under the review of insurance products of companies with a view to improving the insurance policies for the well- being of insurance sector and policy holders. Even though a report with weaknesses existing in the insurance policies thereon with the proposed recommendations had been prepared and presented to the Director General of the Board on 19 November 2014, action had not been taken to notify the relevant Insurance Companies of the weaknesses shown by that report even by 08 April 2015, the date of audit.
- (c) The Board had suspended a private insurance company in the year 2009 and the Board had entered into a Memorandum Of Understanding with the company to dispose of assets of that company for settling genuine insurance claims regularly submitted to that company in terms of Orders given by the Supreme Court in the Fundamental Rights Case bearing No.SC (FR) 191/09. Accordingly, the claimants had been informed by a newspaper announcement that their claims should be submitted in writing to the Board and out of 142 genuine claims so submitted, payments had not been made for any claim.

#### **4.2 Personnel Administration**

---

The following observations are made.

- (a) Even though the approved posts of the Board as at 31 December 2014 had been 43, the actual number had been 41. As such, 03 vacancies and 01 excess post existed. Even though recruitments had been made for a post of KKS exceeding the cadre approved by

the Department of Management Services, the approval obtained thereon had not been submitted to audit.

- (b) A Director had been appointed on contract basis on 26 December 2011 for the post of Director Supervision which is a permanent post and the Board had not taken action to recruit an officer permanently.
- (c) Two posts of Assistant Director had been vacant since 26 November 2007 and action had not been taken by the Board to recruit qualified officers even up to 20 May 2015, the date of audit.
- (d) Action had not been taken to prepare a scheme of recruitment relating to each post and to obtain the approval of the Department of Management Services.

#### **4.3 Uneconomic Transactions**

---

The Board had paid a high cost totalling Rs.23,862,930 in the year under review for 8,741 feet at the rate of Rs. 214 per square foot of the World Trade Centre without taking action to maintain its Office with a minimum cost and a sum of Rs.383,160 had been paid as parking charges. As such, the Board had taken action to obtain money from the “Insurance Policy Holders Security Fund” as well to settle the expenditure which exceeded the income annually.

### **5. Accountability and Good Governance**

---

#### **5.1 Budgetary Control**

---

Variances ranging from 3 per cent to 100 per cent between the budgeted and the actual income and expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

#### **5.2 Unresolved Audit Paragraphs**

---

The following matters were observed in the implementation of directives given by the Committee on Public Enterprises held on 08 April 2014.

- (a) Even though it had been directed that the present Management of the Board should inform the Treasury in writing and obtain instructions in respect of payment of two salary increments to 17 officers each thereof in the year 2010 and increase of salaries of all the officers by 25 per cent from July 2012 by the Board without an approval of the Treasury, the audit had been informed that only a letter including particulars thereon had been presented to the General Treasury.
- (b) The Board had been directed that proper action should be taken in respect of obtaining an insurance coverage to 33 officers of the Board and their family members by spending Rs.513,713 without an approval of the Treasury. Nevertheless, action had not been taken to obtain the approval of the Treasury thereon

**6. Systems and Controls**

---

Deficiencies in systems and controls 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) Accounting
- (b) Personnel Administration
- (c) Staff Loan Administration