

## **Management Services Rakshana (Private) Limited – 2017**

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The Audit of the financial statements of the Management Services Rakshana (private) Limited (“Company”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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. My comments and observations on the performance of the company which I consider should be presented to the parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

### **1.2 Board’s Responsibility for the Financial Statements**

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The Board of Directors (“Board”) 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 Board 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. 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

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

## **2. Financial Statements**

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### **2.1 Opinion**

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In my opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## 2.2 Report on Other Legal and Regulatory Requirement

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As required by Section 163(2) of the Companies Act No. 07 of 2007, I state the followings:

- a) The basis of opinion and scope and limitations of the audit are as stated above. In my opinion:
- I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
  - The financial statements of the Company comply with the requirement of Section 151 of the Companies Act No. 07 of 2007.

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

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The following non – compliance were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions Etc.</b>	<b>Non – Compliance</b>
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a) Public Enterprises Circular No.PED 03/2016 dated on 29 April 2016.	PAYEE tax amounting to Rs. 1,820,645 had been paid by the company for the year of under review without being deducted from the allowances of the board of Directors.
b) Public Enterprises Letter No.PE/IN/SLIC/Gen/2015 dated on 18 May 2015.	A sum of Rs.1,343,268 Rs.1,142,435 and Rs. 45,000 had been paid to the Board of Directors of the company as April Bonus, December Bonus and Gift vouchers respectively for the year under review without obtaining the approval from the Treasury.
c) Employee's Provident Fund Act No. 24 of 1971 and Employee's Trust Fund Act No. 46 of 1980	Employer and employee contribution for the Employee's Provident Fund and Employee Trust Fund had not been paid relating to the payment for consultants.

## 2.4 Transactions not supported by Adequate Authority

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A sum of Rs. 8,754,281 and Rs. 570,000 had been paid to the employees of the company as sick leave encashment and long service period payment without obtaining approval from the General Treasury.

### **3. Financial Review**

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#### **3.1 Financial Result**

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According to the financial statements presented, the operation of the Company for the year ended 31 December 2017 had resulted neither profit nor loss, due to entering in to an agreement with the Sri Lanka Insurance Corporation Limited to reimburse the net overhead cost incurred by the Company.

### **4. Operational Review**

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#### **4.1 Performance**

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##### **4.1.1 Operating and Review**

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The main purpose of incorporating MSRPL was processing salaries and other financial benefits to top level management (Board of Directors and Executive Staff) of the Sri Lanka Insurance Corporation. However, this process had been out sourced to a Private Company. The employees had not been deployed in the MSRPL and two employees of the Sri Lanka Insurance Corporation had co-ordinated Sri Lanka insurance Corporation and MSL System (private) Limited on behalf of the company. The management had informed to audit that the reason for incorporating separate company was salaries and other remunerations of the top level management are very confidential among the competitive insurance companies. During the year 2017 Rs. 761,174 paid as payroll processing expenses.

#### **4.2 Management Activities**

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The following observations are made.

- a) Although the minimum requirement of tax related details should be disclosed in a note to the financial statements, action had not been taken by the management of the company to disclose those details.
  
- b) As per the income tax computation for the year of assessment 2017/2018, even though a sum of Rs. 1,551,544 had been brought forward as 'receivables' from the year of assessment 2016/2017 the receivable balance had not been shown in the financial statements for the year 2016.
  
- c) According to the financial statements, Income tax expenses for the year of assessment 2016/2017 was Rs. 1,132,506 and according to the computation it was Rs. 317,102 hence, an over provision of Rs. 815,404 had been shown in the financial statements. However actions had not been taken to reverse the said amount during the year under review.

- d) PAYEE tax amounting to Rs. 509,780 had been considered as an expenses at the time of computing tax liability, hence, the tax liability for the year had been understated by the same amount.
- e) Detailed schedules had not been made available to audit for the payable and receivable of VAT amounting to the Rs.14,146,326 and Rs.32,052 respectively shown in the financial statements for the year 2017
- f) A sum of Rs.1,896,273 had been debited to the income tax payable account on 31 December 2017 as payable income tax for the year 2014/2015.
- g) A retired manager of the company had been recruited as a consultant for a period of three months from 06 February to 05 May 2017 for investigation division. However evidence had not been included in the personal file to confirm whether the approval of the Minister had been obtained for the recruitment. Further the contract period of the said officer had been extended from July to December 2017. Nevertheless the prior approval of the Minister had not been obtained for extension of the period and a sum of Rs.312,000 had been paid to the said officer in December as bonus.
- h) As a practice the recruitment of the company is done through a reputed recruitment agency. However a recruitment agency had been selected in the year 2017 for recruiting Senior Manager Human Resources, Chief Officer-General Insurance and Chief Finance Officer without following procurement procedures and a sum of Rs.1,780,028 had been paid as professional fee, taxes, and other expenses.
- i) Fuel and Telephone Allowances entitled considered for executive staff of the Sri Lanka Insurance Corporation had not been considered in calculating PAYE Tax.
- j) A sum of Rs. 93,806 had to be paid as penalty for late payment of Nation Building Tax for the year 2014 due to the delay of paying tax within the due period of time.