

## **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Insurance Corporation Limited (“Company”) and the Consolidated Financial Statements of the Company and its Subsidiaries (“Group”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2018, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **Emphasis of Matter**

Without qualifying my opinion, I draw attention to the note 45.2 to the financial statements which describes the uncertainty related to the outcome of the arbitration which has been established against Sinolanka Hotels and Spa (Private) Limited, a sub subsidiary of Sri Lanka Insurance Corporation Ltd.

Also I draw attention to note no 49 to the financial statements which describes a material uncertainty relating to the ability of Sinolanka Hotels and Spa (Private) Limited and Helanco Hotels and Spa (Private) Limited, sub subsidiaries of Sri Lanka Insurance Corporation Ltd to continue as a going concern.

## **1.2 Basis for Qualified Opinion**

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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 and the Group'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 and the Group or to cease operations, or has no realistic alternative but to do so.

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

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

#### **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 and Group'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 and Group'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 and Group's 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 the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company and Group have complied with applicable written law, or other general or special directions issued by the governing body of the Company and Group;
- Whether the Company and group have performed according to its powers, functions and duties; and
- Whether the resources of the Company and Group had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Accounts Receivable and Payable**

### **1.5.1 Payable**

| <b>Audit Issue</b>  | <b>Management Comment</b>   | <b>Recommendation</b>   |
|---|---|---|
| <p>According to the judgment delivered by Supreme Court of Sri Lanka on 4<sup>th</sup> June 2009, the legal ownership of the majority of shares of the Company was vested with the Secretary to the Treasury to be held on behalf of the Government of Sri Lanka. Further, according to the said judgment, the Secretary to the Treasury was directed to cause profits of the Company during the period Distilleries Company of Sri Lanka PLC was the parent of the Company, be computed and the profits attributable to the previous parent be settled. No adjustments have been made in the Financial Statements pending determination of the aforesaid attributable profits.</p> | <p>Matter is still being discussing with the respective authorities and lawyers; accordingly we are not in a position to do any adjustment in the Financial Statements until discussions are finalized.</p> | <p>Steps should be taken to calculate the payable amount and settle the due as per the court order and the relevant adjustments should be made in the financial statements.</p> |

## 1.5.2 Receivables

| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>                                   |
|--|--|---|
| In the absence of balance confirmations, It was unable to verify the completeness, existence and accuracy of the amounts receivables from Distilleries Company of Sri Lanka PLC Group of Companies disclosed in Note 16 to the financial statements. Further, It was unable to satisfy by carrying out other alternative procedures. | We have provided the available documents to the Government Auditors during the period they carried out the Audit to calculate profits to be paid to the previous parent Company Distilleries Company of Sri Lanka PLC. Further we will make necessary action to call the confirmations at the year-end Audit 2019. | Steps should be taken to obtain relevant confirmations. |

## 1.6 Financial Statements

### 1.6.1 Unreconciled Control Accounts or Records

| <b>Item Difference</b> | <b>as per Financial Statements</b> | <b>As per corresponding Record</b> | <b>Management Comment</b>  | <b>Recommendation</b>  |
|------------------------|------------------------------------|------------------------------------|--|--|
|                        | <b>Rs.</b>                         |                                    | <b>Rs.</b>   |  |
|                        | <b>Rs.</b>                         |                                    |  |  |
| Premium Receivable     | 3,508,806,544                      | 3,367,744,986                      | This is a long outstanding balance and is in the process of being reviewed for identifying the reasons for unreconciled balances.      | Steps should be taken to identify the reasons for unreconciled balances. |
|                        | 141,061,558                        |                                    | There was a difference between the reconciled age analysis and the balance as per ledger in Premium Receivable as at 31 December 2018. |  |

### 1.6.2 Inappropriate Valuation or Estimation

| <b>Audit Issue</b>  | <b>Management Comment</b>  | <b>Recommendation</b>   |
|---|--|---|
| There was a difference between Treasury bond valuation under Held-to-Maturity as per the ledger and the auditor's computation. This difference of Rs. 232,006,965 in the financial asset valuation also leads to difference in interest income of Rs. 27,390,390. | These differences are due to SAP uploaded balances and decimal rounding. The SAP 2011 initial uploaded balances are not available in the investments department. The same answer had been provided | Steps should be taken to value financial assets correctly and make necessary adjustments to the financial statements. |

Further the aforesaid difference leads to understatement in both the financial assets and interest income of the financial statements.

by the Head of Department in the previous years. Treasury bonds which were in the SLIC portfolio prior to 2011 September are all uploaded as one bulk set. Hence we do not possess the relevant excel sheets.

## 1.7 Accounts Receivable and Payable

### 1.7.1 Payables

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| There were long outstanding payable balances for more than two years as of the date of the statement of financial position amounting to Rs. 42,303,329. There was a re-insurance payable balance from Guy Carpenter outstanding for more than 10 years amounting to Rs. 8,781,336 and after that there have been no transaction with this reinsurer. | Detailed analysis is being made and necessary action will be taken after considering on a case by case basis. | Steps should be taken to settle the long outstanding payable balances. |

### 1.8 Cash Management

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| There were long outstanding unrepresented cheques which had not been reversed until 31 December 2018 amounting to Rs.2, 950,000. | This is a system issue and presently, we are discussing this matter with our SAP consultants improve the system. | Steps should be taken to clear the outstanding balances. |

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.5245 million and the corresponding profit in the preceding year amounted to Rs.4569 million. Therefore an improvement amounting to Rs 676 million of the financial result was observed. The reasons for the improvement are increase of net earned premium, investment income and net realized gains.

## 2.2 Trend Analysis of major Income and Expenditure items

The following table indicates a summary of major Income and Expenditure items of the company in the year under review and the preceding four years.

| Year                         | 2018<br>Rs. '000 | 2017<br>Rs. '000 | 2016<br>Rs. '000 | 2015<br>Rs. '000 | 2014<br>Rs. '000 |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenue                      | 44,379,869       | 39,399,737       | 42,107,760       | 31,156,767       | 29,301,980       |
| Gross written premium        | 31,737,894       | 31,437,682       | 27,614,433       | 24,520,012       | 20,655,987       |
| Operating and Admin Expenses | 8,822,546        | 7,484,404        | 6,446,601        | 4,975,705        | 5,999,863        |
| Net profit/ loss after tax   | 5,244,795        | 4,569,150        | 12,741,317       | 3,439,357        | 3,257,013        |

## 2.3 Ratio Analysis

According to the financial statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

| Ratios                     | 2017   | 2018   |
|----------------------------|--------|--------|
| Current assets ratio       | 1.29   | 1.21   |
| Quick assets ratio         | 1.28   | 1.19   |
| Gross profit ratio         | 93.15  | 103.47 |
| Return on capital employed | 3.28   | 3.83   |
| Gearing Ratio              | 194.66 | 205.97 |

## 3. Operational Review

### 3.1 Management Inefficiencies

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| The Company had drafted the Business Continuity Plan (BCP), however it had not been reviewed, approved and finalized by the upper management and has been in draft stage for a significant period of time. | ICT BCP framework has already been drafted and awaiting preparation of company BCP plan for insertion and Board approval. | Steps should be taken to review, approve and finalize the BCP. |

### 3.2 Defects in Contract Administration

| Audit Issue   | Management Comment  | Recommendation  |
|---|---|---|
| a) The lease agreement for the Investment Property (Named Alhambra Building) situated at No.6, Sir Baron Jayatilake Mawatha, Colombo-01 has expired on 18 May, 2011 and the company has not renewed the agreement subsequently.   | We are in the process of finalizing the draft agreement. Further, we are negotiating with relevant Government officers and corresponding with them. | Steps should be taken to renew and maintain a formal and written agreement. |
| <b>b) Leasehold Land-Ratnapure Bare Land</b>  | <b>Batticalor and ratnapura</b>   |   |
| The company had entered into a lease agreement with the UDA for the land in Ratnapura as at the date of 21 June 1999, under agreement No.129. Due to the reason of non-agreeable terms, the company cancelled the operating lease agreement on 14 October 2013. But this bare land is still in the company's books as leasehold land.                             | These lands are taken back to the government. Action is taken to delete from the books.   | Steps should be taken to correct the company's books.                       |
| <b>Leasehold Land –Batticaloa</b>   |   |   |
| The company had entered into a 99 year operating lease agreement (Number 274) with the UDA on 14 March 1991 for the land in Batticaloa where the regional office of the SLIC was situated. Particular land is now under the custody of the Urban Development Authority as a public park. But this land was still in the books of the company as a leasehold land. |   |   |

**Leasehold Land-Puttalam Branch    Puttalam Branch Office**

The lease agreement for the above leasehold land had expired on completion of the lease period and the company had not extended the lease agreement. Even though the branch is still running at the said land.

Communicating with government to extend the lease agreement.

Steps should be taken to extend the lease agreement.