

Sri Lanka Insurance Corporation Ltd and its subsidiaries - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Insurance Corporation Limited (the “Company”) and the consolidated financial statements of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the 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 the basis for Qualified Opinion section of my 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 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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’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 or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is 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.

1.4 Audit Scope

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Accounting Deficiencies

| Audit Issue | Management Comment | Recommendation |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|
| <p>According to the judgment delivered by Supreme Court of Sri Lanka on 04 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. However, the President's Counsel is of the opinion as stated in their legal representation letter dated 09 March 2022 that as per District Court of Colombo in case No DMR/02394/19, no relief is claimable from the Company by the petitioners to discharge obligation of the Secretary to the Treasury out of the proceedings in above stated Supreme Court applications (Sc FR No 117/2007 and SC/ FR No 158/2007). However, a judgement by the District Court of Colombo in the above case No DMR/02394/19 has not been pronounced as at the reporting period. Hence, considering the initial decision made by the Supreme Court, the Company has not made any adjustment in the Financial Statements pending determination of the aforesaid attributable profits.</p> | <p>The Supreme Court directed Secretary to the Treasury to compute and pay the profits attributable to the previous parent be settled. Hence the Company does not have any direct involvement to compute the profit.</p> | <p>It is recommended to adhere to the Supreme Court Decision.</p> |

1.5.2 Documentary Evidences not made available for Audit

| Item | Amount Rs. | Evidence not available | Management Comment | Recommendation |
|----------------------------------------------------------------|-----------------|---------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Amounts receivables from Distilleries Company of Sri Lanka PLC | Rs. 163,368,001 | Confirmation of balances | This balance includes receivable balance from Distilleries Group of Companies. This amount will be adjusted upon the finalization of the payment as per the court decision given on 04 June 2009. | It is recommended to take necessary action to recover the balances. |

1.6 Accounts Receivable and Payable

1.6.1 Payables

| Audit Issue | Management Comment | Recommendation |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| SLIC did not make any timely payments to the reinsurer since the company had not received any acknowledgement from the reinsurer for quarterly statements. Non-payment may result in discontinuation of services and may result in operational and reputation risk | The payments are delay due to Munich re has not provided their confirmation (payment invoice) to RI accounts provided by SLIC. We have reminded the situation to MR through E-mails and over the phone. As a result, Munich Re has started sending the draft payment invoices to SLIC from January 2022. SLIC is in the process of finalization of payments. Note that due to non-confirmation of RI accounts, SLIC has not paid the reinsurance premium to Munich re as well as Munich re has not settled the claim and commission to SLIC. However, net impact is favorable to SLIC, since reinsurance payable (premium) is more than the reinsurance receivable (claim and commission). Further, Munich re has been our reinsurer for many decades and has been very accommodative for SLIC. Further Munich re is very large and stable reinsurer having AA- (Standard & Poor's Ratings Services) rating and presence in all Insurance companies in Sri Lanka. The cover granted by reinsurer are until the portfolio is ended. | It is recommended to make the necessary decision to get the acknowledgement from the reinsurer to make payments for payable balance to reinsurer. |

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

| Reference to Laws, Rules Regulations etc. | Non-compliance | Management Comment | Recommendation |
|-------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------|
| Section 53 of Regulation of Insurance Industry (Amendment) Act No. 03 of 2011 | the Company has not been able to segregate the composite business due to the aforementioned facts, the disclosure requirements of the “Guidelines on the presentation and disclosure of the long-term and general business under Section 53 of the Regulation of Insurance Industry (Amendment) Act No. 3 of 2011 issued by the Institute of Chartered Accountants of Sri Lanka” have not been complied with. Even though the budget proposal on exemption of the above section for the Company was tabled at the budget proposal discussion for 2022 on 12 th November 2021, it has not yet been gazetted. | Even though the budget proposal on exemption on segregation of Life and GI business of the Company was tabled at the budget proposal discussion for 2022 on 12 th November 2021, it has not yet been gazetted. | It is recommended to follow the IRCSL regulations and requirements. |

1.8 Cash Management

| Audit Issue | Management Comment | Recommendation |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------|
| (a.) Two non-operating bank accounts are included in the bank balance as at 31 st December 2021. Maintenance of non-operating bank accounts may lead to fraudulent activities if not monitored. | 71795855 (BOC) - During 2020 company has implemented a pilot project to cluster some bank accounts to reduce the unnecessary increasing of Bank Accounts reconciliations and Bank charges. Accordingly, this bank account has merged to Nelliadi branch and currently non-operating. These will not close until to evaluation of success of the project. Further, we will be able to utilize them for newly opened branches. 1950000749 (Cargills Bank) - Opened in 2019 and non-operating account for now. Once the development process of Motor online is completed will able to use this bank account. | If the above bank accounts are not essential, it is recommended to close these bank accounts with the approval of the board of directors. |

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>(b.) In bank reconciliations, there are unidentified balances under unidentified credits and amounts for more than 4 years. The items included in unidentified credits contain bank slip payments made by policyholders without mentioning their policy number. These balances come from 2015. It is unable to verify the completeness and accuracy of the bank balances and it makes the statement of bank reconciliation complex. And this may increase the risk of irregularities and fraud by way of misappropriation of cash.</p> | <p>Following are major reasons for the Outstanding balances in the Bank Reconciliations:</p> <ol style="list-style-type: none"> 1. Unavailability of the correct reference (Policy No.) for the Direct Deposits by the customer. 2. Certain Reversal entries in the Bank statement for which online policies issued. 3. Limitations in the Core Insurance system Finance department has taken following steps to clear the Outstanding of the Bank Reconciliations: 4. Bank Reconciliations automation process is on going and expecting to complete by 30th September 2022. 5. Ongoing discussions with banks to implement policy validation mechanism for the core banking systems. 6. Individual staff are given deadlines to minimize the long outstanding balances. 7. Coordination with Underwriting department to issue the policies for outstanding balances. | <p>It is recommended to implement a proper identification system by integrating with and getting support from the bank. Further, for unidentified debits and amounts, It is recommended to do proper adjustments in order to clear long term balances. A system generated reconciliations would also avoid these concerns.</p> |
| <p>(c.) Seventeen (17) non-operating bank accounts were shown in the bank confirmation and did not find any corresponding ledger account for the said accounts even though the balance is nil. Since the client neither disclosed nor reported about the above-mentioned bank accounts and cannot obtain an assurance on the clients' knowledge about the existence of these bank accounts and could not categorize the</p> | <p>During 2020 company has implemented a pilot project to cluster some bank accounts to reduce the unnecessary increasing of Bank Accounts reconciliations and Bank charges. Accordingly, Number 011260000154 Sampath Bank account (Kalmunai branch) is non-operating and this has merged to Akkaraipattu Bank account. This has not closed until to evaluation of success of the project and we will be able to utilize them for newly opened branches. 11 Standard Chartered Bank</p> | <p>It's recommended to provide us the details and if the above bank accounts are not operated and not essential, It is recommended to close them in order to maintain a proper internal control system and to manage risk.</p> |

above accounts as General and Life separately.

accounts had to maintain until the completion of the profit calculation relating to 4th June 2009 by the Auditor General.

4 Regional Development bank accounts are not bank accounts and relate to Fixed Deposits which were already matured. Further, we are not maintaining SAP GL codes for each Fixed Deposits.

1.9 IT General Controls

Audit Issue

Management Comment

Recommendation

(a.) Lack of integration of key modules with the General Ledger (SAP) would result in having undetected errors in the data transferred due to the human intervention during the process. This would also have a bearing on the reliability of the financial figures and ultimately could have an impact on the financial statements. Further, there is also an unnecessary duplication of work, where manual work is performed to process information that a fully integrated system could easily process.

SLIC is in progress of selecting Life and General core Insurance systems. The automation of integration between core systems and ERP (GL) is included in scope of work which will address the audit recommendations.

However, as an interim solution to improve the current system integration, system study to be conducted and feasible improvements will be implemented as a joint effort from ICT and Finance department.

The entity should consider automation (integration) of the above key modules with the GL (SAP) to improve the efficiency and effectiveness of the data transferred between application systems. It is recommended that management should consider migrating to a different package with more secure technology, advanced functionalities, and facility to integrate with available systems. Further, it is highly recommended to consider the facility to automate manual processes when acquiring the new system.

(b.) It is critical that the data on the systems are kept secure from unauthorized access. If users are not forced to adhere to best practices related to Password Configuration settings, it may allow unauthorized or unscrupulous users to gain access to sensitive resources, data and information on the corporate network and

The audit findings related to AD and Password policy has been rectified on 14th Feb and acknowledged by the auditor. HRIS system is use by all staff for checking their personal attendance / leave details. Due to the wide use of HRIS across all levels of the organization with different level of IT literacy levels, it is not possible to implement very complex

It is recommended that the standard normalized configuration settings be implemented in the Systems. It is recommended to highlight this issue in the risk register, if configuring the above recommended password & account lockout settings are not operationally feasible.

application systems. On the other hand, non-availability of strong account lockout configurations would seriously hamper the IT security of the application leaving a hacker or unscrupulous user with an open door to access sensitive information in the systems.

passwords based on operational needs. Considering the risk of information theft is minimum and less business impact, Management / HR agreed to proceed with current level of passwords complexity for HRIS system.

Claims one system – due to high cost and complexity involve with the said change, with subsequent discussion with Procurement Committee, Management has accepted the current settings of this system as it is.

However, as audit recommendation, this will be recorded in risk register and review periodically.

(c.) Due to the non-compliance with the stipulated access privileges, it would be difficult for the entity to identify the individuals who have accessed the server room, especially in a situation of an incident which has led to unintentional damage, vandalism or theft. The above damage/loss to ICT assets may ultimately lead to loss of productivity during the down time.

It is recommended to update the Data center access privilege list to identify the authorized employees to the data center.

The Data center access will be reviewed periodically.

(d.) Computerized accounting systems are a convenient way of recording, storing, analyzing and reporting financial information. It can reduce the time spent on manual processes, lessen errors and increase accuracy. Real-time financial information, secure database, operational efficiency and faster record-keeping which will be helpful for better operational activities. It observed that the company maintains its bordereaux database and facultative register in the manual excel versions. The company does not maintain a separate system for those data bases in General Insurance.

Agreed. But current system do not such facility and included in proposed core system this as a mandatory requirement.

It is recommended that an accounting system for re-insurance be implemented. At a minimum the system should:

- Rapidly record all types of reinsurance contracts with their full terms and conditions (creation date, amendments, renewals, cancellation, etc.)
- Track claims and events and associated transactions
- Generate technical accounts and bordereaux for premiums, claims and commissions
- Provide detailed reporting statistics such as triangulation by line of business, type of contract, region, etc.
- Improve processes with a complete audit trail
- Scale the platform according to business needs

2. Financial Review

2.1 Financial Result

Company

The operating result of the year under review amounted to a profit of Rs. 10,041 million and the corresponding profit in the preceding year amounted to Rs. 5,788.5 million. Therefore, an improvement amounting to Rs. 4,252.5 million of the financial result was observed. The reasons for the improvement are increase of net earned premium and investment income.

Group

The operating result of the year under review amounted to a profit of Rs.6,581 million and the corresponding profit in the preceding year amounted to Rs. 6,930.3 million. Therefore, a deterioration amounting to Rs. 349.3 million of the financial result was observed. The reason for the deterioration is increase of cost of services of subsidiaries.

2.2 Trend Analysis of major Income and Expenditure items

| Line Item | 2021 Rs. Million | 2020 Rs. Million | 2019 Rs. Million | 2018 Rs. Million |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|------------------------|
| Company | | | | |
| Revenue | 64,062 | 52,614 | 48,609 | 44,380 |
| <i>Variance</i> | 11,448 | 4,005 | 4,229 | 4,980 |
| <i>Increase/(Decrease)</i> | 21.76% | 8.24% | 9.53% | 12.64% |
| Gross Written Premium | 43,231 | 39,421 | 33,794 | 31,738 |
| <i>Variance</i> | 3,810 | 5,627 | 2,056 | 300 |
| <i>Increase/(Decrease)</i> | 9.66% | 16.65% | 6.48% | 0.95% |
| Net Earned Premium | 38,397 | 34,206 | 29,772 | 28,005 |
| <i>Variance</i> | 4,191 | 4,434 | 1,767 | 2,067 |
| <i>Increase/(Decrease)</i> | 12.25% | 14.89% | 6.31% | 7.97% |
| Investment income | 23,392 | 16,511 | 17,672 | 13,059 |
| <i>Variance</i> | 6,881 | (1,161) | 4,613 | 931 |
| <i>Increase/(Decrease)</i> | 41.68% | -6.57% | 35.32% | 7.68% |
| Net realized (loss)/gains | 1,013 | 360 | (56) | 1,976 |
| <i>Variance</i> | 653 | 416 | (2,032) | 1,604 |
| <i>Increase/(Decrease)</i> | 181.39% | -742.86% | -102.83% | 431.18% |
| Other income | 1,184 | 1,469 | 1,132 | 1,287 |
| <i>Variance</i> | (285) | 337 | (155) | 381 |
| <i>Increase/(Decrease)</i> | -19.40% | 29.77% | -12.04% | 42.05% |
| Total Income | 64,062 | 52,614 | 48,609 | 44,380 |
| <i>Variance</i> | 11,448 | 4,005 | 4,229 | 4,980 |
| <i>Increase/(Decrease)</i> | 21.76% | 8.24% | 9.53% | 12.64% |
| Net benefits and claims | (20,185) | (15,772) | (16,624) | (17,755) |
| <i>Variance</i> | (4,413) | 852 | 1,131 | (1,728) |
| <i>Increase/(Decrease)</i> | 27.98% | -5.13% | -6.37% | 10.78% |
| Underwriting and net acquisition costs (including reinsurance) | (3,220) | (2,997) | (2,986) | (2,498) |
| <i>Variance</i> | (223) | (11) | (488) | (173) |
| <i>Increase/(Decrease)</i> | 7.44% | 0.37% | 19.54% | 7.44% |

| | | | | |
|----------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| Change in contract liabilities - life fund | (18,849) | (16,119) | (11,660) | (8,154) |
| <i>Variance</i> | (2,730) | (4,459) | (3,506) | (382) |
| <i>Increase/(Decrease)</i> | 16.94% | 38.24% | 43.00% | 4.92% |
| Other operating and administrative expenses | (10,082) | (9,755) | (9,134) | (8,823) |
| <i>Variance</i> | (327) | (621) | (311) | (1,339) |
| <i>Increase/(Decrease)</i> | 3.35% | 6.80% | 3.52% | 17.89% |
| Income tax expense | (1,684) | (2,183) | (1,176) | (1,906) |
| <i>Variance</i> | 499 | (1,007) | 730 | (585) |
| <i>Increase/(Decrease)</i> | -22.86% | 85.63% | -38.30% | 44.28% |
| Net Profit for the year | 10,041 | 5,789 | 7,029 | 5,245 |
| <i>Variance</i> | 4,253 | (1,240) | 1,784 | 676 |
| <i>Increase/(Decrease)</i> | 73.48% | -17.64% | 34.01% | 14.80% |
| Group | | | | |
| Revenue from other group operations | 62,143 | 46,506 | 50,685 | 46,057 |
| <i>Variance</i> | 15,637 | (4,179) | 4,628 | 9,537 |
| <i>Increase/(Decrease)</i> | 33.62% | -8.25% | 10.05% | 26.11% |
| Investment income | 24,045 | 17,755 | 16,955 | 14,372 |
| <i>Variance</i> | 6,290 | 800 | 2,583 | 760 |
| <i>Increase/(Decrease)</i> | 35.43% | 4.72% | 17.97% | 5.58% |
| Other income | 3,234 | 1,541 | 1,836 | 2,028 |
| <i>Variance</i> | 1,693 | (295) | (192) | (217) |
| <i>Increase/(Decrease)</i> | 109.86% | -16.07% | -9.47% | -9.67% |
| Total Income | 128,008 | 99,933 | 98,779 | 92,103 |
| <i>Variance</i> | 28,075 | 1,154 | 6,676 | 13,525 |
| <i>Increase/(Decrease)</i> | 28.09% | 1.17% | 7.25% | 17.21% |
| Other operating and administrative expenses | (16,692) | (15,500) | (20,027) | (14,584) |
| <i>Variance</i> | (1,192) | (4,527) | (5,443) | (3,991) |
| <i>Increase/(Decrease)</i> | 7.69% | -22.60% | 37.32% | 37.68% |
| Cost of services of subsidiaries | (63,422) | (40,054) | (39,120) | 38,691) |
| <i>Variance</i> | (23,368) | (934) | (429) | (5,711) |

| | | | | |
|--------------------------------|--------------|----------------|----------------|----------------|
| <i>Increase/(Decrease)</i> | 58.34% | 2.39% | 1.11% | 17.32% |
| Income tax expense | 943 | (2,561) | (3,849) | (2,819) |
| <i>Variance</i> | 3,504 | 1,288 | (1,030) | (407) |
| <i>Increase/(Decrease)</i> | -136.82% | -33.46% | 36.54% | 16.87% |
| Net Profit for the year | 6,581 | 6,930 | 4,514 | 7,603 |
| <i>Variance</i> | (349) | 2,416 | (3,089) | 1,035 |
| <i>Increase/(Decrease)</i> | -5.04% | 53.52% | -40.63% | 15.76% |

2.3 Ratio Analysis

| Company Specific Ratios | 2021 | 2020 | 2019 | 2018 | | | | | |
|-------------------------------------|--------------|--------------|-------|--------|-------------|----------------|------|------|--|
| Retention Ratio | 89% | 87% | 88% | 88% | | | | | |
| Claim Ratio - Long Term | 46% | 42% | 51% | 60% | | | | | |
| Claim Ratio - Non Life | 60% | 51% | 61% | 66% | | | | | |
| Total Claim ratio | 53% | 46% | 56% | 63% | | | | | |
| Expense Ratio | 35% | 37% | 41% | 40% | | | | | |
| Combined ratio | 87% | 83% | 97% | 104% | | | | | |
| Profitability Ratio | 16% | 11% | 14% | 12% | | | | | |
| ROA | 4% | 3% | 4% | 4% | | | | | |
| ROE | 13% | 9% | 11% | 9% | | | | | |
| Investment Yield | 10% | 8% | 10% | 8% | | | | | |
| Liquidity Ratio | 1.10 | 1.08 | 1.11 | 1.11 | | | | | |
| Financial Assets to Total Assets | 0.87 | 0.87 | 0.87 | 0.87 | | | | | |
| Capital to technical reserves ratio | 3.96 | 3.61 | 4.00 | 3.77 | | | | | |
| Technical reserve ratio | 2.02 | 1.96 | 1.91 | 1.73 | | | | | |
| Market Ratios | | | | | | | | | |
| Market Share (Total) | 19% | 19% | 18% | 17% | | | | | |
| Market Share (Long Term) | 18% | 19% | 17% | 16% | | | | | |
| Market Share (Non-Life) | 21% | 20% | 19% | 18% | | | | | |
| Group Ratios | | Group | | | | Company | | | |
| | 2021 | 2020 | 2019 | 2018 | 2021 | 2020 | 2019 | 2018 | |
| Profitability and Return | | | | | | | | | |
| Revenue Growth | 24.6% | 0.33% | 8.63% | 18.61% | 12% | 15% | 6% | 8% | |
| Return on Equity | 6.2% | 7% | 5% | 9% | 13% | 9% | 11% | 9% | |
| Asset Turnover | 0.42 | 0.36 | 0.39 | 0.39 | 0.25 | 0.24 | 0.24 | 0.23 | |
| Net Profit Ratio | 5.1% | 6.9% | 4.6% | 8.3% | 16% | 11.0% | 14% | 12% | |
| Liquidity | | | | | | | | | |
| Current Ratio | 1.26 | 1.67 | 1.37 | 1.27 | 3.25 | 3.06 | 1.23 | 1.09 | |

| | | Investor Return | | | | | | |
|----------------------------|--------------|------------------------|--------|--------|----------------|--------|--------|--------|
| Earnings Per Share | 8.88 | 11.33 | 8.46 | 12.08 | 16.7 | 9.65 | 11.72 | 8.74 |
| Dividend Per Share | 2.5 | 1.50 | 3.25 | 3.06 | 2.5 | 1.50 | 3.25 | 3.06 |
| Dividend Cover | 4.4 | 7.70 | 2.32 | 4.14 | 6.6 | 6.43 | 3.61 | 2.86 |
| Net Assets Per Share | 175.7 | 155.43 | 151.91 | 147.19 | 125.4 | 105.25 | 103.83 | 101.81 |
| | | Industry | | | Company | | | |
| Industry Comparison | 2021 | 2020 | 2019 | 2018 | 2021 | 2020 | 2019 | 2018 |
| Growth Rate (Total) | 12% | 7% | 8% | 10% | 10% | 17% | 7% | 1% |
| Growth Rate (Long Term) | 21% | | | | 14% | | | |
| Growth Rate (Non-Life) | 3% | 16% | 11% | 12% | 5% | 30% | 12% | 6% |
| | | -1% | 5% | 8% | | 6% | 2% | -2% |

3. Operational Review

3.1 Management Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| As per the practice of the company, Manual Journal Entries should be approved by the respective Manager. However, it was noticed that the SLIC does not have the authority levels of approval for different values. Any amount can be approved by the Manager of the relevant section. This is a basic deficiency in designing internal controls. As a proper authority level is not available and any amount can be authorized by anyone, a risk of constituting frauds will generate as a result of lack of segregation of duties. | Noted. At present there is a Park and Post option in the SAP system. However, will analyses the risk areas and take necessary actions to introduce authority limits. | It is recommended to customize user access to park and post-journal entries in a way that restricts the same person who park the entry to post the entry in order to ensure a proper segregation of duties. |

3.2 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| (a.) It was observed that premium is calculated according to the defined parameters in the system data base level. The relevant rates to all the covers are fed to the system and no manual intervention was identified with the premium calculation process. However, it was noted that when raising the debit note user can select any cover type and raise the receipt. | The recommended system modification and process improvement will be implemented. | It is highly recommended to validate the first letter of the policy number against the cover type. |

This could result in duplicate transactions. In the absence of adequate validation controls over policy cover changes, A particular transaction could be duplicated in the system. Further, a user may erroneously select wrong account which may lead to under/over statements in the financial statements.

(b.) It was observed that there are significant number of complaints from customers have been received by SLIC, on the issue that the agents have not paid the money collected from policyholders properly to SLIC. Also it was understood that receipt of premium was not acknowledged by way of issuance of a document by the agent at the point where cash is collected from policyholders, creating a serious issue on losing the customer credibility towards the company and the less control of SLIC over the agents' affairs.

We hereby inform you that an adequate control mechanism has been introduced in order to ensure that the premiums which are collected by the agents and brokers to be deposited to the SLIC within the permitted time frame. Above time frames have been informed them in writing by way of internal circulars as per the provisions of the IRCSL guidelines. In almost all training programs and IRCSL competency exams towards giving the license to the agents, it is emphasized and tested the awareness of the agents and brokers regarding the requirement of depositing the premiums which are collected from clients with SLIC in timely manner and the adverse consequences of the deviation of this practice. No sooner the complaint received with regard to the defaulting of premium by an agent/broker, there is a mechanism in conducting a prompt investigation and sending them a written warning. In case where there is a repetition of such practices; the identified personnel will get blacklisted.

It is recommend to design a strong internal control activity to prevent untimely premium collection from agents and brokers and a strict control should be in place to provide a receipt or appropriate document at the point of receiving money by the agents.

(c.) In life insurance business SLIC has only one reinsurer (Munich Re). Risk of concentration risk in the discontinuation of service by the existing reinsurer and may result in operational and reputation risk.

Most of the Life insurance companies are dealing with one or two Reinsurers for their reinsurance purpose so that they can negotiate better terms. On the other hand, only very few reinsurers are serving our market.

It is recommended to be highly concerned regarding the above matter.

As explained in the 1.1 above Munich re has been our reinsurer for many decades and has been very accommodative for SLIC. Further

Munich re is very large and stable reinsurer having AA- (Standard & Poor's Ratings Services) rating and presence in all Insurance companies in Sri Lanka. The cover granted by reinsurer are until the portfolio is ended.

However, now the management is planning to negotiate with few reinsurers who are serving this market.

3.3 Under -utilization of Funds

| Audit Issue | Management Comment | Recommendation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>SLIC has not generated any returns from investment in subsidiaries during the year and noticed that some of those subsidiary companies were profitable in the past 05 years except Canwill Holding (Pvt) Ltd and Canowin Hotel and Spas (Pvt) Ltd. With this matter, SLIC may miss most of the profitable sources of investment and the public funds may be fixed in investments with no returns.</p> | <p>All of the above investments are strategic investments and Litro Gas & Litro Terminal has been profitable until around 2020. Further, these strategic investments have been done based on Cabinet Memorandum and approval of the shareholders. The SLIC is discussing the progress of these companies with the ministry and closely monitoring them.</p> | <p>It is recommend that management considers returns on investment when making future investment decisions. In addition, management should seek board representation on these companies to ensure that interests of the company are protected. It is recommend to articulate the investment portfolio accordingly.</p> |

3.4 Idle or underutilized Property, Plant and Equipment

| Audit Issue | Management Comment | Recommendation |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The Helanco Hotels and Spas (Pvt) Ltd, a subsidiary of Sri Lanka Insurance Corporation has acquired a land of 3.8 Hectare by investing Rs. 177.97 million from Urban Development Authority on lease basis to construct Hyatt Regency Hambanthota Hotel. However, it has not commenced any operations and the land purchased for this purpose had not been used for any other useful purpose.</p> | <p>The management of the company seeks necessary directions from the line Ministry on way forward of the company.</p> | <p>Prompt actions should be taken to utilize the asset by considering the strategic decisions and thereby obtain positive results as expected.</p> |

3.5 Delays in Projects or Capital Work

| Audit Issue | Management Comment | Recommendation |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The Group had invested Rs. 15.5 billion in Grand Hyatt Franchise Hotel project implemented through Canwill Holdings (Pvt) Ltd and its Subsidiary, Sinolanka Hotels & Spa (Pvt) Ltd. The project had been initially planned to be completed in the year 2014 at project cost of Rs. 20 billion, whereas the constructions of the project was partially ceased from 2018 and fully ceased in 2019. Further, at present the estimated cost to complete project is Rs.60 Billion. | The management of the company seeks necessary directions from the line Ministry on way forward of the company. | Prompt actions should be taken to execute and complete the project by considering the strategic decisions and thereby obtain positive results as expected in the cash flow forecast. |

3.6 Resources Released to Other Organizations

| Audit Issue | Management Comment | Recommendation |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| The investment property which valued at estimated fair value of Rs. 798,000,000 had been rented out to the Presidential Secretariat without a rent agreement. | Initially we sent draft lease agreement to Presidential Secretary (PS) Office to get consent in year 2019. PS office informed that building will be handed over on 31.01.2020 and handed over it on 11.03.2020. PS office requested the building to use in September 2020 and started to utilize the building. Sent new draft agreement beginning of the year 2021 and PS office asked some alteration in April 2021. Sent original agreement for signatures to PS office after receiving their approval to the draft in June 2021. Informed to handover the vacant position of the building due to further delaying of the agreement and requirement of repairs. Confirmed their vacation from the building on 01.01.2022 and up to date 75% is completed of the vacation. Sent remind letter on 10.01.2022 (letter copy to President Secretary) Sent letter informing to pay the outstanding rent and to hand over the building on 14.03.2022. (letter copy to President Secretary) Wrote to Department of Public Enterprise expecting their involvement and support to resolve this matter on 26.04.2022. (letter copy to President Secretary) Sent letter informing to hand over the building and to pay rent outstanding on 09.05.2022. (letter copy to President Secretary and DG Public Enterprise) President Secretary office said that they had to take back the building temporary to provide accommodation for the forces who were called for emergency duty. | It is recommended to maintain an agreement with the relevant party for the aforesaid property. Also recommend to make it sure that SLIC utilizes assets for investment and operational purposes only on a fair legal ground which ensures the public accountability of the entity through Efficient, Effective and Economic utilization of resources. |