

Insurance Regulatory Commission of Sri Lanka- 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka (“Commission”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of financial performance, statement of changes in net assets 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

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

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

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

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 Commission'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 Commission'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 Commission 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Documentary Evidences not made available for Audit

Evidence not available	Management Comment	Recommendation
(a). The insurance core principles (ICPs) are globally accepted framework of principles developed by the International Association of Insurance Supervisors (IAIS). Those principles are key to assess the quality of regulatory and supervisory function of the insurance regulators and use as a framework to introduce regulations for the insurance sector in the country. As a member of the IAIS, the Commission had paid Rs. 4,124,500 as a membership fee for the year 2020. The information had been requested to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.	IRCSL has been part of few peer reviews of ICPs. They are ICP 1,2, 9, 10 where assessment is largely observed. There are currently 25 ICP approved by the International Association of Insurance Supervisors in year 2019. Further review of ICPs will be carried out in setting/amending appropriate provisions to the Regulation of Insurance Industry Act, and subordinate legislation.	The management should submit the requested information for the audit in timely manner.
(b.) The Commission had transferred surplus of the funds of the Commission to the Policy Holders Protection Fund for the respective years until 2020. However, this policy had been suddenly changed in the year under review and the surplus of the commission funds had been carried forward as accumulated fund. However, the approval of the Commission in this regard had not been submitted to the audit. Unless otherwise a proper monitoring of this fund, there will be a possibility to misuse of this fund.	No answers provided by the management.	The accounting policies shall be changed in accordance with the provisions of the reporting framework and with the appropriate authority.

1.6 Related Parties and Related Party Transactions

Audit Issue	Management Comment	Recommendation
(a.) An insurance cover had been obtained for the 02 board members without approval of the General Treasury. The premium of Rs.111,830 had been paid for the year 2021 for this cover.	Due to the pandemic situation in 2021, some of the Commission members made requests to extend the Insurance Cover for them under the exigencies of circumstances, specially to mitigate the risk of COVID-19 as they were exposed to the risk when attending the Commission meetings in the pandemic situation. Due to the high priority to activate the cover, it was given based on the Commission approval and the audit committee Chairman's comment that the PED circulars are silent about providing insurance coverage to members. The Chairman and the three Ex-Officio members did not avail the facility.	The senior management should adhere to the applicable circular instructions and obtain prior approval of the General Treasury if any deviations are required.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a.) Presidential Secretary's Circular No. PS/GPA/Circular/36/2020 dated 10 December 2020, Budget Circular No. 07/2019 dated 04 December 2019 and Budget	As per the clause 2 (V) of the said Circular 4/2019, unless any official/duty-specific participation is essential, the officials should not participate in seminars/workshops etc. at the expense of local funds. In addition, the instructions given by the other circulars to refrain from unnecessary	The Anniversary celebration at IRCSL was held for the first time ever in its 20 th year. It motivates other staff members to contribute their best to the organization. The entire staff was invited to participate at this event as their participation was essential to such an organizational event held for the first time. Further, it was not a seminar/workshop as stated in the letter. An award for service is when an employee is given an award as a	The Management should comply with the applicable circular instructions issued by the relevant authorities.

Circular No. 4/2019 dated 17 June 2019. expenses. The commission held its 20th anniversary by incurring Rs. 411,454 from commission funds at a hotel on 29 March 2021.

Further, in this 20th Anniversary celebration gold coins for 16 staff members were awarded by incurring Rs. 952,600 from the commission funds.

gesture to thank for service rendered to the business for a certain length of time. An award shows the employees that they are valued members of the organization. and their dedication has not gone unrecognized and their service is appreciated. The aim is to encourage employees to stay within the organization for a long time. It is a known factor that the time, stress, and cost of hiring and training new employees are significant and staff turnover can have a negative impact on the organization's outcomes.

The location was selected after following the procurement procedure and the Government owned hotel Hilton was selected for a reasonable cost of Rs 280,000/-.

(b.) Good Governance Guidelines introduced by the Circular No. PED/12 dated 02 June 2003.	According to the paragraph 9.14.2 of the guideline, the manuals prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of the Public Enterprises, General Treasury. However, the such authorization had not been obtained for the Administration Manual prepared by the commission. Therefore, the provisions of the Establishment Code shall apply in this regard. But based on the unapproved administrative manual,	The Administration Manual (Manual) of the IRCSL was prepared a long time ago. It was mainly based on the Securities and Exchange Commission of Sri Lanka Administration Manual in which the IRCSL (then IBSL) operated under the same Chairmanship. The IRCSL adopted the same from the inception with the Board's approval. Based on the necessity, periodic changes have been incorporated to the said Manual with the approval of the Board/ Commission. The Administration Manual was forwarded to the approval of the Ministry of Finance and Mass Media based on the Public Enterprise Guidelines for Good Governance and the initial Manual was forwarded to the Ministry on the 23rd October 2012 and reminders were sent from time to time. Subsequently, the changes made to the manual were also informed. On the 05th April 2018, the	The approval shall be obtained from respective authorities for the Administration Manual prepared by the commission. Until such approval the provisions of the applicable guideline shall be followed.
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the Commission paid a minimum of Rs. 325,000 and a maximum of Rs. 500,000 distress loan for the five employees exceeding the approved maximum limit of Rs. 250,000 according to the Public Administration Circular No. 14/99 dated 31 December 2008. Accordingly, the distress loan amount given in excess is Rs. 662,500 for the year under review.

(c.) Chapter XXIV
Section 7 of
the
Establishment
Code

Although provisions have been made for granting loans by banks for the purchase of a car Rs. 1,200,000 vehicle loans had been provided to the three employees from commission funds during the year.

Department of Public Enterprises informed the Commission that there was a delay in the process in granting the approval for Administration Manual due to the complications of the procedure to be followed. Further, they stated that the Department of Public Enterprises requires us to adopt circulars issued in relation to the areas in the Manual until they consider approving the Manual.

Accordingly, the Commission made a comparison between the facilities provided to the staff of the IRCSL and government regulations/circulars. As a result, it was noted that the facilities are substantially different.

The Commission decided that it is prudent to explain our inability to adopt government circulars. Drastic changes will cause severe disruption to the smooth operation of the IRCSL and to proceed as per the admin manual that has been approved by the Commission.

It should be also noted that the Act has empowered as confirmed by the Attorney General, that the Commission with full authority to determine the remuneration and conditions of employment of the staff. Similar financial sector regulators provide much better facilities for their staff than what is provided to the staff at IRCSL.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 86,790,315 and the corresponding surplus in the preceding year amounted to Rs. 109,272,297. Therefore, a deterioration amounting to Rs. 22,481,982 of the financial result was observed. The reasons for the deterioration were reduction of income from Financial Sector Modernization Project by Rs. 12,089,251 and reduction from

grants by Rs. 2,905,041 and increase of staff cost by 16,374,005, increase of operational cost by Rs. 4,751,825 for the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Description	Amount (Rs.)			Percentage of change		
	2021	2020	2019	2021	2020	2019
Income						
Recognition of Grant	-	2,905,041	2,324,391	-100%	25%	20%
Income from FSMP	255,150	12,344,401	81,620,094	-98%	-85%	-
Interest on Repo and Call Account	6,893,783	479,514	3,698,834	1,338%	-87%	9,976%
Interest on Treasury Bond	-	33,151,511	92,882,074	-	-64%	-2%
Investment						
Interest on Fixed Deposits	515,764,257	588,341,378	477,484,713	-12%	23%	33%
Expenditure						
Staff Costs	127,134,065	109,096,963	112,323,915	17%	-3%	42%
Commission Members - Sitting Allowance	1,384,859	865,972	540,000	60%	60%	2%
Staff Welfare	4,459,324	2,038,778	841,693	119%	142%	-28%
Staff Medical Insurance	2,328,894	2,001,327	1,615,932	16%	24%	45%
Staff Training Local & Subscription	921,188	401,492	1,610,639	129%	-75%	27%
Leave Encashment	1,796,425	1,673,310	1,218,344	7%	37%	77%
Printing & Stationary	2,764,004	2,413,783	3,406,080	15%	-29%	106%
Public Awareness	1,814,843	1,459,568	9,834,508	24%	-85%	309%
Office Equipment Maintenance	2,103,839	3,298,073	2,107,863	-36%	56%	21%
EDP & Others						
Directors Vehicle Allowance	4,570,890	3,166,986	3,246,712	44%	-2%	4%
Directors Fuel Allowance	1,356,590	1,030,514	1,066,755	32%	-3%	6%

2.3 Ratio Analysis

Key ratios calculated for the commission and the industry for the last five years were as follows.

Commission	2021	2020	2019	2018	2017
Growth of Policy Holders Protection Fund	12%	19%	24%	23%	25%
Growth of Annual Cess Income	7%	3%	3%	15%	2%
Cess Income as a percentage of GWP	0.23%	0.24%	0.25%	0.26%	0.29%
Growth of Annual Fees Income	5%	3%	33%	19%	13%
Annual Fees Income as a % of GWP	0.11%	0.12%	0.11%	0.09%	0.09%
Industry					
Insurance Gross Written Premium as a percentage of Gross Domestic Production	1.38%	1.39%	1.27%	1.24%	1.19%
Total Assets in Insurance Sector Rs. Billion	879.8	789.7	689.6	606.6	564.9

Total Assets growth of Insurance Sector	11%	15%	14%	7%	8%
Assets in Insurance Sector as a Percentage of Total Assets of Finance Sector	3.29%	3.37%	3.44%	3.32%	3.31%

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a.) The official activities of the Commission were carried out at an external building, and a sum of Rs. 48,109,101 was paid in the year 2021 as the lease rent of the building without searching for economical location.	The Commission at its 224th meeting decided to accept the Overseas Realty (Ceylon) PLC offer until the end of the current lease period in September 2024. However, the management was requested to see the possibility of purchasing its own premises at the expiry of the two years.	The commission should search for economical location which suitable for carrying out their functions.
(b.) The Insurance Regulatory Commission is supposed to be an entity, which needs to be closely dealing with public in performing its role set out in the Insurance Industry Regulation Act No. 43 of 2000. However, its current location, culture, and the entry doors being under strict security conditions make it difficult for the vulnerable general public to access them. Further, there were many occasions observed that no official in the front office to assist the public to enter in to the commission premises. Further, it was observed that in the website all the information is appear only in English.	Steps are in place already to translate the contents of the IRCSL website from English to Sinhala and to Tamil. Further, the officials of the IRCSL serve the general public in their convenient language (Sinhala, Tamil or English) when communicating via letters, phone or when they visit the office for official purposes. IRCSL has provided all facilities to the public, including the vulnerable group to reach and get services.	The commission should take necessary actions to extent efficient service to the public by providing required facilities.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a.) A board meeting solution had been purchased by the commission in the year 2019 by incurring Rs. 1,013,000 for the software and annual subscription of Rs. 923,000	Board Meeting management solution has been specifically designed for the following benefits <ul style="list-style-type: none"> • Quick Access • Support accessing and sharing comments • Remote Access • Increase Board Member engagement 	A proper cost benefit analysis needs to be carried out prior to introduce the IT solutions for the

without having proper cost-benefit analysis. According to the cost analysis carried out by the audit, software cost for 01 board meeting held on the year 2020 and 2021 was Rs. 63,533. Therefore, it is questionable whether this is a cost-effective meeting solution for the commission.

• Quick Access for previous meeting records etc. However, we wish to draw your attention that, the cost of Rs.2,859,000 considered for the software cost per meeting computation should be amended as Rs. 38,120. The Board Meeting Management solution the IRCSL was able to reduce cost involved for printing of meeting agenda which consumes heavy number of papers, toner, time involvement for photo coping of papers, delivering of agenda etc. Further, thorough the system automatic archiving of board papers and board decision takes place. This type of solution is used by other government institutions for the reasons set out above. Accordingly, the IRCSL obtained maximum benefit from the solution when comparing with the cost.

Commission and consultation from the appropriate authorities shall be obtained.

(b.) The average cost per meeting for communicate board papers through this meeting solution for one board meeting is Rs. 92,995. Therefore, it is doubt whether this solution is a cost-effective method.

No answers provided by the management.

3.3 Under -utilization of Funds

Audit Issue	Management Comment	Recommendation
<p>(a.) The commission had not taken necessary actions to introduce self-contributory insurance scheme for their employees. Further the commission spend their funds of Rs. 6.2 million for the year 2021 for obtaining insurance cover without any contribution from the employees. However, In the year 2017, the National Insurance Trust Fund has extended the Agrahara</p>	<p>From the inception of the Commission, the IRCSL has provided insurance covers for the employees. This is part of the employee remuneration package. Procurement procedures have been followed in all instances.</p> <p>In PED 6/2019, it advises organizations to consider among other things, the cost involved, nature of the risk to be covered, and the quality of the service as well as the convenience of obtaining these services to the organizations.</p> <p>In order to comply with the requirement stipulated in Public Finance Circular No. 06/2019 (i) dated 12th September 2019 (folio 51), DPC decided to call quotations from the top 5 companies based on the market share and also from the state-owned insurance Companies registered under the IRCSL. NITF had not</p>	<p>It is recommended to introduce self-contributory insurance scheme for the employees.</p>

insurance Scheme for attached the quotations.
 semi-government sector The SLIC, as the health insurance provider to the
 employees as well by IRC SL staff for a long time, has been providing a
 charging a contribution of quality service including on the spot claim settlement
 Rs.1000 per month for service, comprehensive cover for COVID 19 etc.
 each employee. Further, as per the previous experience, NITF has not
 provided satisfactory service with regard to claims
 such as motor and personal accident cover.
 Further, Agrahara insurance scheme is subsidized by
 the Treasury. Therefore, it would not be appropriate

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
(a.) An internal audit work plan had not been obtained along with the proposals in procurement for selecting an internal audit consultant for the Commission. Subsequently, a work plan had been recalled at the evaluation stage for the evaluation of proposals submitted by the consultants.	All proponents were required to submit the audit work plan with the proposals. M/s Barker Tilly has submitted the Methodology and Work Plan at the time of sending their proposal. Copy of same is attached for your information.	It is recommended that, plan the procurement in advance and call all the required information along with the bids.
(b.) According to the procurement committee meeting minutes of the procurement of internal audit service, the bids had been opened on 18 December 2019. However, bid evaluation had been carried out on 16 June 2021. According to the section 8.4.1 of the Procurement guideline, proposal evaluation shall be undertaken expeditiously, leaving ample time to seek all the requisite formal approvals. Hence, Proposals shall be evaluated within the period specified in the Procurement time schedule. However, it is observed that the evaluations of proposals had been carried out with six months delay after the bid opening date.	Due to outbreak of COVID 19, most of the office functions were performed on work from home concept. Therefore, the procurement process has taken a longer time than under normal conditions.	The management should follow the procurement time table and complete the procurements within the planned time schedule.
(c.) According to the section 6.5.9 of the procurement guideline the evaluation criteria and sub criteria shall be decided before calling RFP's. Marking scheme with	Under the Terms of Reference (ToR), the evaluation criteria and point system have been clearly mentioned and has informed to	The management should properly plan the procurement activities by

short listing and evaluation criteria for the selection of Internal Auditor had been defined after opening of the bids. Those criteria were approved by the procurement committee on 16 June 2020.

consultants at the time of sending the Request for Proposals (RFP) to consultants and attached a copy for information. The evaluation has been performed on that basis.

deciding predefined criteria for the procurements.

(d.) According to the guideline 1.2.1 of the Procurement Guidelines the Procurement process should ensure maximizing economy, timeliness and quality in procurement resulting in least cost together with the high quality. However, the commission had not carried out a Cost, Benefit Analysis for the purchase of the board meeting management solution.

The commission identified the need to have an efficient board meeting management solution and same was included in the action and procurement plans. The procurement was for a Board meeting management solution based on features of the solution, client and administrative access, security features and authentications and the price. Accordingly, a cost benefit analysis has been carried out.

A proper Cost benefit analysis shall be carried out at the planning stage of the procurement.

(e.) According to the guideline 2.7.5 of the Procurement Guideline the Secretary to the Line Ministry shall appoint the DPC. However, the evidence had not available for the audit whether such committee had been appointed according to the Procurement Guideline.

DPC was appointed by the Line Ministry for the year 2019.

The procurement committees shall be appointed in accordance with the provisions of the procurement guideline.

(f.) According to the 5.3.1(d) of the Procurement Guideline all such documents must be vetted and approved by the TEC and the PC, respectively, who shall take the entire responsibility for the contents of such documents. However according to the information available to the audit, the bidding documents had not been approved by the Procurement Committee (PC) and the Technical Evaluation Committee (TEC) since the PC and the TEC had been appointed after the bid opening. Further the all-bidding documents were approved by the Director General.

Documents pertaining to the solution (software) procurement were vetted and recommended by the chairman (Subject Specialist) and another member of the TEC and Chairman of the DPC, prior to approval of DG. IRCSL has received 2 quotes who have given bids for BoardPAC and Octoplex as the Board Meeting Management solution. Procurement decision on the software was submitted to the Commission's authorization at the 192nd meeting. However, the procurement of hardware pertaining to the Board Meeting Management Solution, Bids have been called by the chairman of DPC based on the

The bidding documents shall be prepared and approved in accordance with the procurement guideline.

specification provided by the TEC. However, now we have streamlined the process and procurement documents are reviewed by the TEC and DPC before calling for bids.

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| <p>(g.) According to the guideline 5.3.2 of the Procurement Guideline the Invitation to bid shall contain appropriate and relevant basic information required by prospective bidders to prepare the Bid or Quotation, including main eligibility criteria and qualification requirements of the successful bidder. However, the general information such as total number of users, product features, deployment architecture, client and administrative access, security features, authentications, client base and duration of the cloud space had not been included in the bidding documents</p> | <p>No answers provided by the management.</p> | <p>The bidding documents shall contain all the important information in relation the procurement.</p> |
| <p>(h.) According to the guideline 4.2.1(e) of the Procurement Guideline the Master Procurement Plan shall be regularly updated at intervals not exceeding six months. However, It was observed that the ipads and related accessories had not been included in the Procurement plan or budget.</p> | <p>The procurements plan included Board Meeting management solution which consist both hardware and software.</p> | <p>The commission shall update procurement plan in compliance with the requirements of the procurement guideline.</p> |

3.5 Defects in Project Administration

Audit Issue	Management Comment	Recommendation
<p>(a.) According to the agreement of the Finance Sector Modernization Project (FSMP) Project, the implementing entity throughout project implementation, shall furnish to the International Development Association (IDA) an annual work plan and budget for the activities under component 2(c) of the project of each subsequent fiscal year for approval as soon as</p>	<p>The annual work plan and the budget have been sent to the Central Project Coordinating Unit (CPCU) complying with the requirement no later than November 30 of each year. Ongoing procurements with the budget have been uploaded to Systematic Tracking of Exchanges in Procurement (STEP) system of the World Bank from time to time complying with the requirements.</p>	<p>The Commission should need to provide the access to Systematic Tracking of Exchanges in Procurement or relevant documents to audit</p>

available, but not later than 30 November of each year. However, the annual work plans for the year 2020 and 2021 had not been furnished to the audit and information had not been available whether those documents had been submitted to the IDA.

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| <p>(b.) The amount of USD 945,450 (SDR. 0.67 million) had been allocated for the segregation of National Insurance Trust Fund (NITF)'s Insurance and Reinsurance Business under the supervision of the IRCSL under this project. However, this money had not been utilized for this purpose.</p> | <p>The letter referred to initiated as the Chairman, NITF at project review meetings held between World Bank, CPCU mentioned that the NITF board has finally decided not to segregate its insurance and reinsurance businesses and therefore they do not wish to seek technical assistance from World Bank for same. IRCSL responsibility in relation to the DLI would have been initiated once NITF submitted its proposal to segregate to IRCSL. If NITF had submitted the proposal, IRCSL would have been required to review the proposal and grant no objection for the DLI to be achieved. However, NITF did not submit the proposal for segregation for IRCSL to do its part. We have requested that the decision of NITF to abandon the segregation to be confirmed. Awaiting a response from NITF. However, the project has been cancelled now.</p> | <p>The commission should have proper coordination and influential measures to get the project success.</p> |
| <p>(c.) The detailed work plan for strengthening the supervisory and regulatory capacity of the Commission under this project had not been available to the audit.</p> | <p>The annual work plan and the budget have been sent to the Central Project Coordinating Unit(CPCU) complying with the requirement no later than November 30 of each year. Ongoing procurements with the budget have been uploaded to Systematic Tracking of Exchanges in Procurement (STEP) system of the World Bank from time to time complying with the requirements.</p> | <p>The management should provide the requested information for the audit.</p> |
| <p>(d.) To achieve the objectives of the project, the experts and the consultants work shall be interrelated. However, it was observed that, the consultants for the project had been recruited from time to time and it was not observed strong interrelationship among those</p> | <p>As per the provisions of the agreement/ procurement plan etc., the IRCSL intended to apply part of proceeds for consulting services. The consulting services were:
 i.Actuarial Expertise
 ii.Insurance Expertise
 iii.IT Expertise
 iv.HR Expertise</p> | <p>The project management team should have proper coordination and appropriate measures to get the project</p> |

consultants to achieve the common objectives of the project. Due to this weak project management, the expected project objectives and the outcomes had not been achieved.

(e.) The Actuary Consultant had terminated his contract with effect from 29 March 2022. According to the report named as “Consultant’s Evaluation of the Insurance (Actuarial) Project to date” as at 24 January 2022 by the Actuary Consultant the reasons for termination were actuary had not provided comments for his recommendations by the management, no steps had been taken by the Commission to implement action plans and follow up, component leaders had not responded to his proposals with fair arguments, the actuary’s work had been done without any support of insurance experts who required to recruit under this project, the Commission was obligated to provide insurance and IT experts, but not provided and ignore his advices without providing proper explanations by the Commission. Based on the above observations, it is observed that the payment of USD 168,000 for the consultant actuary is an uneconomic transaction.

v.Consultancy Firm for Modernize the Regulatory and Supervisory Framework of the insurance Regulatory Commission of Sri Lanka. The consultancies had to some extent an inter-relationship due to the nature of the activity. TORs of the said consultancies reflect the plan to meet the objective. IRCSL was able to hire 2 consultancies, but was not able to award the rest of 3 consultancies due to certain obstacles during the process of procurements

The Consultant submitted his proposal agreeing to carry out all tasks in the TOR responding to the EOI. However, after contract signing, he did not agree to carry out certain tasks saying various reasons, which was unacceptable. The evaluation report referred to was not submitted to IRCSL by the consultant. Hence, we have not responded to the same. Also, there was no requirement for him to produce an evaluation report at that time. We got a copy of his report through the Ministry of Finance as he had made complaints

to the Treasury Secretary and to the President’s Secretary. Accordingly, the matter was discussed at Commission level, and referred to the Audit Committee for further review. Detailed discussions were carried out at the Audit Committee level by all senior management addressing his unreasonable allegations. As a compromise it was decided at the audit committee to pay proportionate fees on some reports given by him. The IRCSL cannot agree with the points stated in the report. Further IRCSL has not ignored his advice. He was required to provide consultation papers on many aspects to discuss with relevant parties, but did not submit. He also asked for additional money for performing without an insurance expert, reasoning that he qualifies to perform the tasks of an insurance expert. However, we could not agree with his request. He also failed to come to Sri Lanka even once as per conditions of contract. He was arguing about his visa and

success.

The Commission should execute the terms of the agreement with the Actuary Consultant and get the agreed work done or execute the terms of the contract.

wasting time and resources. Most of his reports had further points for discussion, before finalizing and submitting to the Commission. However, some reports have been submitted and implemented. Component 15(b) was a task under IT firm in which actuary consultant had to provide support services and advice to IRCSL. As mentioned at the outset, the IT procurement could not be awarded due to reasons beyond the control of IRCSL. Therefore, the payment to actuary consultant cannot be considered as an uneconomic transaction. The reports are the property of IRCSL and advises in all accepted reports will be made use of when IRCSL hires an Actuary. This is a separate matter of discussion as even the current Commission has directly got involved in recruiting an actuary, but has not been successful due to the low salary structures offered.

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| <p>(f.) According to the information available for audit the actuarial consultant had not issue any report or working for 3 components according to the given work plan. Therefore, the final and draft reports for 14 components out of 17 components had been submitted. As per the detail available for the audit those reports had not been submitted to the commission and no any evidence that those reports had discussed with relevant parties who responsible for commenting, developing and making policies as regulator.</p> | <p>No answers provided by the management.</p> | <p>The Commission should take necessary steps to get the agreed work from the Actuary Consultant.</p> |
| <p>(g.) According to the work plan Consultant actuary's task had connect with other consultants such as Consultant Insurance and Consultant IT. Therefore, we observed that the Commission had not facilitated them to coordinate among those consultants.</p> | <p>As per the provisions of the agreement/ procurement plan etc., the IRCSL intended to apply part of proceeds for consulting services. The consulting services were:
 i.Actuarial Expertise
 ii.Insurance Expertise
 iii.IT Expertise
 iv.HR Expertise</p> | <p>The project management team should have proper coordination among consultants for the success of the project and</p> |

v.Consultancy Firm for Modernize the Regulatory and Supervisory Framework of the insurance Regulatory Commission of Sri Lanka. submit requested information for the audit.

The consultancies had to some extent an inter-relationship due to the nature of the activity. However, HR Expertise had discussions with Actuarial Expertise, since both served the IRCSL at a same period.

(h.) According to the task assigned to Human Resources consultant, the final task is the consultant should liaise with other consultants hired under the project in order to obtain views on future developments of the client when performing the consultant's work. According to the project progress only actuarial consultant had been appointed. There is no evidence that, Human Resources consultant had able to contact and discussed with other consultants in this project. Therefore, the project will not be achieved expected results due to no proper coordination and communication among consultants.

The expected deliverables of the HR Expert have been properly delivered during his contract period. Due to non-availability of other consultants other than Actuarial Expertise, where he had discussions. Further the TORs of all other experts and he understood what was required from the HR assignment. All his reports have been submitted to the Commission and he has had many discussions with all Commission members collectively and individually. Some reports have been submitted to the Commission for approval to implement, and others are to be discussed at the HR subcommittee, prior to submitting to the Commission.

(i.) There is no evidence to prove that the procurement procedure had continued further for hiring Consultancy Firm for Modernize the Regulatory and Supervisory Framework of the insurance Regulatory Commission of Sri Lanka. According to the CPCC meeting minute dated 27 October 2021, financial proposals had been evaluated and consultant had been selected. However, the contract had not being awarded yet. Further, the cost for this procurement incurred by the IRCSL up to the above stage had not been forwarded to the audit.

Bidding procedure has been continued up to the stage of recommending to award the to Price Waterhouse Coopers (Pvt) Ltd of India subject to receiving no objection for the same from the World Bank. Subsequently the World Bank provided no objection on the same. However, the project was cancelled and could not be proceeded with. The cost involved for publishing press notices has been borne the FSMP project.

3.6 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>(a.) The Management Services Circular No. 03/2018 dated 18 July 2018 had instructed that all ministries and other relevant authorities should refrain from recruiting employees and increasing the salaries and cadres without prior approval from the General Treasury. However, the Commission had increased the cadre, promotions and salaries without approval of the General Treasury.</p>	<p>IRCSL was established in the year 2001. Some staff members of the Securities & Exchange Commission were appointed to IRCSL on secondment basis with additional allowance in the year 2005. Since 2005 cadre, salary scales, other emoluments etc. were planned separately. Due to the maturity of the organization and expansion of responsibilities, it had become necessary to revise the cadre, salaries and implement a promotion scheme. Since the inception of the organization no promotion scheme has been in place, other than from the position of Executive to Senior Executive (as followed at SEC). Due to this reason, the staff stagnated in the same post for a long time and the employee turnover was also very high (nearly 50% staff has resigned since 2005 to 2018). As per section 5 (e), 10(1) and 10(2) of the RII Act, the Commission is empowered to appoint such officers as it considered necessary for the efficient discharge of its functions and remunerate such officers in such manner and at such rates, subject to such conditions as may be determined by the Commission. The Commission has acted in pursuance of such powers vested upon the Commission by Parliament. Accordingly, a Remuneration Committee was appointed by the Commission consisting of three Commission members. The Remuneration committee's recommendations were submitted to the Commission by paper No. 183/47 dated 03/07/2018 and same were approved. The said changes have been informed to MSD after implementation in its quarterly cadre information sheet as at 30th June 2019 upon the same being approved by the Commission.</p>	<p>The Commission should adhere to the applicable circular instructions issued by the respective authorities.</p>
<p>(b.) Thirteen (13) numbers of designations were increased by the commission without approval of the Department of</p>	<p>The Commission has re-designated the positions as mentioned above considering the fact that no promotion scheme was available except the Senior Executive position for Executives from the inception of the Board/ Commission and due to this reason, the staff was stagnated in the same post for a</p>	<p>The Commission should obtain the prior approval from the respective authorities for human resources functions.</p>

- Management Services. long time. There is no increase to the total cadre due to the re-designation of posts. Will write to Ministry of Finance in terms of PED 01/2021.
- (c.) Forty nine (49) employees had employed by the commission as at 31 December 2021. From these positions one (01) Director, thirteen (13) Manager/Asst. Manager, one (01) Secretary positions had not been approved by Department of Management Services. The Commission has obtained approval from the Ministry of Finance for 57 positions. Manager/ Assistant Manager positions are only promotional grades to the post of Executive and there is no effect to the total cadre. All the positions were recruited with the Ministry approvals. Approval obtained prior to recruitment of new positions – Attachment. 14 Will write to Ministry of Finance in terms of PED 01/2021. The Commission should adhere to the applicable circular instructions given by the respective authorities for human resources functions.
- (d.) Based on the Attorney General’s opinion the commission had decided their own carder and the salary scheme. By the Memorandum dated 31 May 2019, Director General sought the approval of the chairman to effect the salary adjustment, carder revision, payment of cost-of-living allowance of Rs. 7,800, Competency Allowance of 15% from Basic salary and Special Living Allowance of Rs.12,500 for the commission staff with effect from 01 July 2018. Even though the commission is an entity subject to the purview of the Ministry of Finance the commission had not obtained the clearance or concurrence from the General Treasury to decide their carder and The Committee appointed by the Commission on remuneration of the IRCSL, noted that only one salary revision has been granted in 2012 for the last 13 years and hence staff salaries were not comparable with market rates, particularly with the remuneration offered by the other financial sector regulators. As a result, the IRCSL will not be in a position to hire qualified and experienced staff and to retain the existing qualified and experienced staff to meet the ever-increasing complex challenges in the insurance industry, more so in the context of investigations, mergers and takeovers. There is also a need for the current framework to be enhanced in order to be in line with international insurance practices to enhance the effectiveness, efficiency and relevance of the Regulator. Further, we wish to highlight the following facts related to having a good compensation package like other regulators. Recruitments for each and every position of the IRCSL are made with previous experience in reputed organizations and all Executive & above staff should have appropriate qualifications. As per the provisions of the Act, the legislature has given certain autonomy to the institution that it has established. Attachment 13– Attorney General’s opinion is attached. The salary component is around 24% of The Commission shall obtain approval from the Ministry of Finance for their cadre positions and remuneration structure.

increase of salaries and allowances. the total income of the Commission. Will write to Ministry of Finance in terms of PED 01/2021.

- (e.) The salaries of the commission had increased between 12.98% to 59.73% in the year 2019 based on Attorney General's opinion without obtaining the prior approval of the Management Services Department in contrary to the Management Service circular 03/2018 dated 18 July 2018. The treasury representative in the board had not taken necessary actions to secure public interest by bringing his independent opinion to the board in this regard.
- The salary was revised based on a study carried out by the Remuneration committee and on their recommendation with the approval of the Commission. Attorney General's opinion confirmed the legal position taken by the Commission. The Commission has unanimously agreed with the decision to revise the salary structures. The salary component is around 24% of the total income of the Commission. Will write to Ministry of Finance in terms of PED 01/2021.
- The Commission shall obtain prior approval from the Ministry of Finance for revision of cadre and pay structure.
- (f.) A performance incentive from the year 2010 had been paid without approval of the General Treasury.
- The existing performance appraisal system has been implemented after scrutinizing various performance appraisal systems and covered many aspects with regard to the performance of an employee. The Ministry has not raised any objections to the performance-based incentive scheme implemented by the Commission throughout the years. IRCSL has shared the performance incentive scheme and all amendments made thereto to the Ministry of Finance from time to time. However, will act in terms of PED 01/2021.
- The Commission should obtain the prior approval from the General Treasury for the performance incentive scheme.
- (g.) Evaluation of the Director General's performances had been done by the Chairman. This may lead to collusion between two powerful positions in the commission and may lead to take unfavorable decisions. The best
- As mentioned above as the immediate supervisor to the Director General, Chairman is directly apprised of the work of DG as the appraiser. The HR consultant also recommended face to face evaluation between appraisee and the appraiser.
- The Director General shall be responsible to the commission and performance of the Director General shall be evaluated by the commission as a whole.

practice is the performance of the Director General shall be evaluated by the commission.

- (h.) Incentive payment had not been directly matched with the employee's score. It pays off depending on the range of the score obtained. It is an injustice on the part of the employee. As an example, an employee who earned 81 marks and the employee earned 100 marks had been treated equally when paying incentives.
- Incentive payment has linked to the Marks Ranges in 4 categories. Employees who scored the highest marks range will get 100% of the performance incentive. In general, candidates who score more than 80% marks are considered as best performers and candidates scores below 40% as poor performers. The same concept has been used in this evaluation. We will be adopting a new incentive scheme based on the advice of the HR Consultant of the FSMP Project. According to the same, the incentive payment is based on individual smart objectives and payment varies one to other based on their achievement.
- Incentive payment should be directly matched with the employee's individual score.
- (i.) The performance evaluation form of the Director General had not been available for the audit.
- The performance appraisal forms are filed in the personal files and as the DG's file is kept in custody of the Chairman. Non receipt of DG's personal file and performance evaluations for the audit was not brought to the attention of the DFA or DG, who would have made available same to audit. The non-receipt of same was known only from the letter under reference.
- The requested information shall be presented to the audit in timely manner during the audit.
- (j.) Duty lists had not been available in personal files of the officers. Therefore, it is not clear that how the Key Functional Indicators (KFIs) had been developed and evaluate the performance.
- Key performance indicators (KPIs) are measured based on the Actions/ Activities set against the Key Results Areas (KRAs) which are similar to the job descriptions (JDs) of the employees. KRAs are set for each employee annually. However, HR Consultant has drafted JDs for the target organization and based on the same new JDs will be issued to the staff.
- The job descriptions should be available for all the employees in the commission and shall be considered for their annual performance evaluation.
- (k.) The scheme, incentive payment basis of one (01) month basic salary had been changed to one and half months (1 ½) gross salary from the year 2019
- The Commission at its 195th meeting granted the approval to pay a maximum of 1.5 months' gross salary as performance-based incentive for the staff of the IRCSL after having evaluated their performance for the period. Based on the Commission decision payments have been made.
- The changes to the incentive scheme shall be made according to the approval of the General Treasury.

onwards without obtaining the approval of the General Treasury. Due to this, the total incentive payment had been increased by Rs. 4,605,381 which is 105% more compared to the previous year.

- (l.) All employees had earned 100% marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.
- As per the existing Performance Appraisal System, performance criteria marks are a combination of planned main activities, key functional indicators and key behavioural indicators. The marks range 80 – 100 falls under the rewarding scale 100. For 2020 the IRCSL staff scored different performance marks. In the previous years some scored less than 80 performance criteria marks. Therefore, we do not accept the comment a; “the performance does not seem that a realistic performance evaluation had been carried out”.
- The commission should implement a realistic performance evaluation system.
- (m.) According to the section 9.14.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, manual of procedures prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of Public Enterprises, General Treasury. However, the Administration Manual of the commission had not been sanctioned by the General Treasury. Therefore, it is observed that the leave encashment payment of Rs. 1,639,753 had been made without proper
- The Administration manual which includes the payment of Leave encashment has been forwarded to the approval of the Ministry of Finance and Mass Media based on the Public Enterprise Guidelines for Good Governance. The initial Manual was forwarded to the Ministry on 23rd October 2012 and sent reminders from time to time. Subsequently the changes made to the manual were also informed. On 05th April 2018, the Department of Public Enterprises informed the Commission that there is a delay in the process in granting approval for Administration Manuals due to the complications of the procedure to be followed. Therefore, the Commission has adopted the provisions in the Administration manual.
- The proper procedure shall be followed by the Commission when preparing procedure manuals for the Commission.

authority.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>(a.) Procurement of internal audit service from the audit firm in public practice had been done by the five-member Department Consultants Procurement Committee (CPCD) appointed by the Chief Accounting Officer (CAO) on 19 September 2019 in accordance with Guideline for Selection & Employment of Consultants August 2007. The independence of the appointment is questionable since the four members of the CPCD were key employees of the Commission including Director General and the Director Finance and Administration whose affairs and actions were under the purview of the internal auditor. Therefore, a transparent procedure had not been followed when appointing an internal auditor for the commission. Therefore, the independence and the objectivity of the internal auditor may be impaired.</p>	<p>The CPCD has been appointed complying with the guidelines. However, in view of the comments given by the audit, the IRCSL will make arrangements to appoint an Internal Auditor for years 2022 to 2024 having obtained the recommendations of the Audit and Management Committee and the Commission approval on same.</p>	<p>There should be a transparent procedure to select an internal auditor.</p>
<p>(b.) The Reporting frequency and reporting time targets for the internal auditor had not been defined when appointing an Internal Auditor for the year under review.</p>	<p>TOR has requested audit plan/ work schedule. Tech 8 has the details.</p>	<p>The performance criteria shall be clearly defined when appointing an Internal Auditor and performance of the internal auditor shall be evaluated by the audit committee.</p>
<p>(c.) According to the article 40(3) of the National Audit Act No.19 of 2018 and F.R.134(1) the internal auditor shall directly report to the Head or the Governing Body. However, the Terms of Reference had not been made provisions for reporting responsibilities in accordance with the applicable laws and regulations. In contrary to</p>	<p>We will request the internal auditor to forward its report for 2020 and 2021 to Chairman, IRCSL.</p>	<p>The Internal Audit reports should be presented to the Chief Accounting Officer or the Audit Committee.</p>

the above provisions the internal audit reports for the year 2019 had been submitted to the Director General on 06 July 2021.

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| <p>(d.) Internal Audit Reports for the year 2020 and 2021 had not been available as of 20 October 2022. Therefore, timely actions for the issues identified may not be possible for the commission. Further, the external auditor could not be able to use the work of the internal auditor when planning and performing external auditor's works.</p> | <p>The report of the year 2020 has been received by the IRC SL in February 2022. A copy of same will be issued to you soon. Year 2021 report has not been received to date. The internal audit report of 2019 has been discussed with the Audit committee meeting held on 30-07-2021. The follow up actions have been discussed at the meeting held on 10-11-2021. The minutes of the audit committee with the recommendations have been submitted to the Commission for approval. Further, when such internal audit reports were discussed at the audit committee, the external auditor was invited and was present.</p> | <p>The internal audit reports shall be timely presented.</p> |
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4.2 Audit Committee

Audit Issue	Management Comment	Recommendation
<p>The convener for the Audit Committee is Director – Finance and Administration. Further representative of the Auditor General had not been invited for the audit committee regularly in terms of the provisions of the guideline 4.2 of the Guideline on Corporate Governance for State Owned Enterprises issued by Public Enterprises Circular No. 01/2021 dated 16 November 2021.</p>	<p>There was one audit committee meeting for year 2022 to discuss the issues with regard to the Consultant Actuary. We intend scheduling an audit committee meeting very soon to table the 2020 internal audit report. Please note that the audit committee was reconstituted this year due to the resignation of the Chairman</p>	<p>The Audit Committee Meetings shall be held on timely basis in accordance with the applicable guidelines and best practices.</p>