

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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka 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 2023, 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 Audit Observations on the preparation of Financial Statements.

1.5 Documentary Evidences not made available for Audit

Evidence not available	Management Comment	Recommendation
<p>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. 5,999,664 as a membership fee for the year 2022. Even though, the information had been requested during the audit in the year 2021 in order to identify the way of compliance with insurance core principles by the Commission, the requested information had not been submitted for the audit up to the date of audit on 9 August 2024</p>	<p>ICP 1, 2, 9, 10 where assessment is largely observed. There are currently 25 ICPs recognized by the International Association of Insurance Supervisors.</p> <p>A review of all ICPs is being carried out by a committee formed by the Ministry of Justice to make amendments to the Insurance Act. The reviews will be shared once finalized.</p> <p>The IRCSL has provided comments and presentations on ICP 1-4 to the committee. The committee is in the process of reviewing the collated ICPs.</p> <p>The IRCSL plans to review 10ICPs during 2024 and remaining ICPs in 2025</p> <p>The said committee is in the progress of revamping the entire RII Act and the amendments to RII Act are being carried out by the committee part by part taking in to account of relevant ICPs and other laws of the Sri Lanka (e.g Finance business act, Central Bank Act, etc.)</p>	<p>Recommended to comply with the insurance core principles developed by the IAIS and also management should promptly provide the information that has been requested for the audit.</p>

and laws of other countries (jurisdictions).

IRCSL will be completing the gap analysis of 10 ICP's by the end of 2024.

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

Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation
(a.) Guideline 2.2.2 (a.) (i) of the Guidelines on Corporate Governance for State Owned Enterprises 2021	<p>The Chairman shall ensure that proper proceedings are followed during the meetings of the Commission. However, it has not been provided a documented policy for proceedings of the meetings in terms of the paragraph 4 (3) and first schedule to the Regulation of Insurance Industry Act No. 43 of 2000.</p> <p>Commission meetings are held according to the RII Act. Paragraph 8 (1) of the First Schedule to the Act specifically states Board proceedings and such requirements are followed by IRCSL.</p> <p>Further a procedure manual for submission of papers and taking of minutes has been approved by the Commission at its 223rd meeting held on 16 August 2022 and is being implemented.</p>	The documented policy for proceedings shall be presented to the audit.
(b.) Guideline 2.6 of the Guidelines on Corporate Governance for State Owned Enterprises 2021	<p>The board secretary is mainly responsible for guiding the board on the discharge of its responsibilities and should ensure that all procedures are followed in compliance with statutory requirements and industry best practices and must possess the required qualifications stipulated in the guideline. Further, any employee already engaged in another function, should not be appointed as Board Secretary and Board Secretary shall function as the Secretary to Board sub-committees. However, there is no qualified secretary for the Commission.</p> <p>Request For Proposals (RFP) were sent to the top five audit firms. The closing date for sending the proposal was 26/09/2023. However, IRCSL did not receive any proposal in response to our request. The same was informed to the Commission at its 239th meeting held on 27 September 2023 and members of the Commission advised to extend the calling of applications to Legal Firms, Secretarial and audit firms. IRCSL called RFP accordingly. However, no application were received.</p> <p>Considering the facts the commission has decided at the 246th commission meeting 18.01.24 to appoint director investigation who</p>	The secretary with required qualifications shall be appointed in terms of the provisions of the guideline and such Secretary shall functioning as the Secretary of the sub-committees of the Commission as well.

At present, the Director is with legal background appointed Investigation is functioning as as Board secretary. Secretary to the Commission and Assistant Director – Legal is the Secretary to the Audit Committee in addition to their permanent responsibilities in contrary to the guideline.

- (c.) Section 7 of the Chapter XXIV of the Establishment Code of the Government of the Democratic Socialist Republic of Sri Lanka
- Although the provisions had been made for granting loans through the banks for the purchase of vehicles for executive category employees, vehicle loans amounting to Rs. 1,000,000 had been provided to an employee from the commission funds during the year under review at an interest rate of 4.2 percent
- IRCSL follows the Commission approved Administrative Manual developed as per section 2.3 of the Operational Manual issued by the Department of Public Enterprises (PED) on 16 November 2021. The vehicle loan scheme is part of the Administrative Manual.
- The Commission should adhere to the policies of the government when deciding benefits of the employees of the Commission.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 194,444,641 and the corresponding surplus in the preceding year amounted to Rs. 155,220,568. Therefore, an improvement amounting to Rs. 39,224,073 of the financial result was observed. The reasons for the improvement were increase of Annual Fees and Renewal Fees Income by Rs. 28,498,045, recognition of grant amounting to Rs.5,061,291 and increase of interest income by Rs. 22,816,797 during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Description	Amount (Rs.)					Percentage of change				
	2023	2022	2021	2020	2019	2023	2022	2021	2020	2019
Income										
Interest on Repo and Call Account	12,444,405	16,437,636	6,893,783	479,514	3,698,834	-24%	138%	1,338%	-87%	9,9%
Interest on Treasury Bills	31,099,450	-	-	-	-	100%	-	-	-	-
Interest on Fixed Deposits	34,979,369	1,231,844,234	515,764,257	588,341,378	477,484,713	-15%	139%	-12%	23%	33%
Expenditure										
Staff Costs	132,146,344	127,680,340	127,134,065	109,096,963	112,323,915	3%	0.5%	17%		42%
Commission Members Sitting	1,333,560	1,754,354	1,384,859	865,972	540,000	24%	27%	60%	60%	2%

Allowance										
Staff Welfare	1,730,359	867,855	4,459,324	2,038,778	841,693	99%	-81%	119%	142%	-28%
Staff Medical Insurance	2,937,423	2,785,293	2,328,894	2,001,327	1,615,932	7%	20%	16%	24%	45%
Staff Training & Subscription	2,978,644	1,168,025	921,188	401,492	1,610,639	155%	27%	129%	-75%	27%
Leave Encashment	1,246,709	744,985	1,796,425	1,673,310	1,218,344	67%	-59%	7%	37%	77%
Printing & Stationary	1,223,906	1,560,693	2,764,004	2,413,783	3,406,080	-22%	-44%	15%	-29%	106%
Public Awareness	7,249,465	8,570,966	1,814,843	1,459,568	9,834,508	-15%	372%	24%	-85%	309%
Office Equipment Maintenance EDP & Others	3,885,948	2,969,581	2,103,839	3,298,073	2,107,863	31%	41%	-36%	56%	21%
Directors Vehicle Allowance	4,550,000	4,487,603	4,570,890	3,166,986	3,246,712	1%	-2%	44%	-2%	4%
Directors Fuel Allowance	3,469,420	3,364,460	1,356,590	1,030,514	1,066,755	3%	148%	32%	-3%	6%

2.3 Ratio Analysis

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

Commission	2023	2022	2021	2020	2019
Growth of Policy Holders Protection Fund	19%	10%	12%	19%	24%
Growth of Annual Cess Income	9%	8%	7%	3%	3%
Cess Income as a percentage of GWP	0.23%	0.22%	0.23%	0.24%	0.25%
Growth of Annual Fees Income	9%	11%	5%	9%	33%
Annual Fees Income as a % of GWP	0.11%	0.11%	0.11%	0.12%	0.11%
Industry					
Insurance Gross Written Premium as a percentage of Gross Domestic Production	1.01%	1.07%	1.38%	1.39%	1.27%
Total Assets in Insurance Sector Rs. Billion	1,087	947.3	879.8	789.7	689.6
Total Assets growth of Insurance Sector	15%	8%	11%	15%	14%
Assets in Insurance Sector as a Percentage of Total Assets of Finance Sector	3.27%	3.02%	3.29%	3.37%	3.44%

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
a.) The Section 03 of the Regulation of Insurance Industry Act No. 43 of 2000 sets out the objectives and responsibilities of the	It has been budgeted for re engineering the regulatory IT system. Further, web based information gathering portal has	It is recommended to implement an integrated information sharing system for the Commission.

Commission. Section 05 of the Act specifies the functions and duties to be performed by the Commission to achieve its objectives. For the performance of the Commission and the ease of administration, 06 departments have been established by the Commission, namely Finance and Administration, Supervision, Investigation, Legal, Actuarial and Marketing. To achieve the objectives of the Commission these departments shall be work interrelated and share common information regarding insurance companies and the industry. However, in order to fulfil the objectives of the Act, an integrated information sharing system had not been developed for the Commission

been developed as per the guidance of the IT steering Committee. It is in its pilot version. In the meantime, IRCSL has initiated the process of procuring a system for regulation.

- b) According to the supervision manual of IRCSL, the division had been approached through the risk based model by using qualitative and quantitative methods assessing the Insurer's risk. According to the IRCSL Supervision division's action plan 2023, a risk matrix of insurance companies was created based on yearly returns for the fiscal year ending 31December 2022, and the quarter ending 30 June 2023. Parameters include noncompliance with regulatory requirements such as Determination 1, RBC standards and delays in submitting statutory returns. This risk matrix

The IRCSL appointed consulting actuaries from Willis Towers Watson for a two-year period starting in August 2024. Accordingly, one of their tasks is to support and facilitate the implementation of revisions to the solvency margin (Risk Base Capital) Rules of 2015, which have commenced in October 2024 and conclude in March 2026. AS a result, the regulatory terms , including the annual and quarterly formats for insurance companies , will be updated accordingly.

Following the approval obtained at the 232nd Commission meeting on May 11,2023, the

It is required to follow the risk based supervision model byusing qualitative and quantitative methods in order toassess the Insurer's risk.

was submitted to the commission on 07 December 2023, as part of Commission Paper No. 244

3.2. However, it was observed that the IRCSL is still following rule base supervision model such as RBC rules and fetching annual and quarter returns rules apart from Risk base model which are not updated recently.

division implemented an off site review of quarterly returns using a risk- base approach, starting with the returns for the quarter ended March 31, 2023

Based on the risk matrix, companies are categorized as “High” “Moderate- High” and “Low” risk, with review conducted accordingly. High-risk companies undergo a comprehensive review for all four quarters, while moderate-risk companies receive a comprehensive review for all four quarters, while moderate-risk companies are reviewed comprehensively for only one quarter, with limited review conducted for the remaining returns for each quarter.

c) The National Insurance Trust Fund operates in the market as a regulated reinsurer with 30 per cent reinsured portions. IRCSL has supervised the NITF both on and offsite. IRCSL has focused on NITF’s re-insurance procedures multiple times. However, IRCSL has taken no effort to regularly supervise the NITF by enforcing regulations or guidelines on re-insurance.

The IRCSL has identified the risk the insurance industry may face without the retrocession cover of NITF and below actions were taken by the IRCSL.

1. On 27th February 2023, the IRCSL sent a letter (Ref IRCSL/DG/SUP/2023/02/050) inquiry about the status of the renewal of the retrocession treaty cover for the period beginning 31st January 2023.

2. Since then, the IRCSL has been closely monitoring the actions taken by the NITF to secure a new retrocession cover, as highlighted below.

I. As indicated in the NITF’s response (Ref: NITF/REI/2023/02/80) to the IRCSL’s letter, the

IRCSL need to focus on issuing guidance and regulations on reinsurance.

NITF planned to open bids for new retrocession cover on 17th March 2023.

II. On 2nd June 2023, the IRCSL sent another letter (Ref: IRCSL/DG/SUP/2023/06/209), querying the appointed actuary of NITF regarding the potential risk exposure related to the value of NITF's reinsurance business.

III. The IRCSL further inquiry about the status of the retrocession treaty cover renewal for the 30% compulsory reinsurance cession, as NITF was undergoing a re-tender process to secure bids from reinsurance for this coverage (Ref: IRCSL/SUP/2023/06/321)

IV. As no response was received from the NITF to letter IRCSL/SUP/2023/06/321, the IRCSL issued a reminder on 19th July 2023. (Ref: SUP/2023/07/363).

In the response received on 28th July 2023, the NITF indicated that the retrocession cover would commence on 1st September 2023. Consequently, the IRCSL requested the submission of the statement of reinsurance arrangement – treaties ,along with documents proof and other relevant documents (Ref: IRCSL/SUP/2023/08/396).

V. On 3rd October 2023, the IRCSL received a letter from the NITF, attaching confirmation from FMIRB, which stated that FMIRB had successfully secured 100% placement of the 30% retrocession cover with Best Meridian International Insurance

Company SPC (BMI) and was seeking NITF's approval to process with this coverage. The IRCSL has reviewed this submission as well.

VI. However the retrocession arrangement was not granted , as it was rescinded by the ministry of finance through cabinet paper No.23/2032/604/144-I on 7th November 2023. Subsequently, the IRCSL conducted a special study in 2024 and recommended a series of actions based on three onsite inspections at NITF (conducted in 2012,2015 and 2022) a special audit by Ernst &Young (EY) , and observations from periodic offsite reviews following NITF's inclusion under the regulatory purview of IRCSL.

As stated above, IRCSL has managed to communicate with the NITF on multiple occasions regarding the matter.

As for action that has been recommended, the commission has requested the MOF on 30thOctober 2024 to impose a temporary ban on 30% mandatory compulsory reinsurance immediately in view of the deteriorating position of the reinsurance business until suitable retrocession treaty is in place and retention limit recommended by the Actuary. The Gazette on 30% has been issued by the minister .Hence , the above request.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>(a.) 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 per cent 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 increase of salaries and allowances.</p>	<p>The attorney general’s department in the letter dated 10.01.2024 retreated that:</p> <ul style="list-style-type: none">i) section 5(e) of the RII act on power, duties and functions of the commission in which the act on power, duties and functions of the commissionii) Section 5(h) further empowers the commission to do all such other acts as may be necessary for the purpose of exchanging, performance of it’s powers, duties and functions under this act.iii) Section 10 (1) and 2 authorize the commission to the determine appointments remuneration and conditions of service with regards to the staff.	<p>Recommend to obtain the clearance or concurrence from the General Treasury to decide carder and increase of salaries and allowances.</p>
<p>(b.) The salaries of the commission had increased between 12.98 per cent to 59.73 per cent 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 and the Good Governance Guideline. The treasury representative who appointed to the board during his period had not taken necessary</p>	<p>The attorney general’s department in the letter dated 10.01.2024 retreated that:</p> <ul style="list-style-type: none">i) section 5(e) of the RII act on power, duties and functions of the commission in which the act on power, duties and functions of the commissionii) Section 5(h) further empowers the commission to do all such other acts as may be necessary for the purpose of exchanging, performance of it’s powers, duties and functions under this act.	<p>Recommend to obtain the clearance or concurrence from the General Treasury to decide carder and increase of salaries and allowances.</p>

- actions to secure public interest by bringing his independent opinion to the board in this regard.
- iii) Section 10 (1) and 2 authorize the commission to the determine appointments remuneration and conditions of service with regards to the staff.
- (c.) A performance incentive of Rs.60,506,093 had been paid without obtaining approval of General Treasury from the year 2010.
- New performance incentive scheme has been approved by the Department of public enterprises on 25.03.2024
- It is required to obtain prior approval from the General Treasury for the performance incentive scheme..
- (d.) As per 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 onwards without obtaining the approval of the General Treasury. To finance this increase the commission had incurred Rs. 14,102,183 for the period of 2019 to 2023.
- New performance incentive scheme has been approved by the Department of public enterprises on 25.03.2024
- It is required to obtain prior approval from the General Treasury for the performance incentive scheme
- (e.) The commission does not have qualified professionals with insurance related knowledge and actuarial knowledge to discharge supervision and regulatory functions according to the act. Even though the post of actuary was approved in the year 2016, the position is still remain vacant.
- Procurement had been completed to get expertise knowledge in related to actuarial and insurance skills. The cabinet consultant procurement committee has recommended. Draft cabinet memo was sent to ministry on 09.05.2024 and is waiting for cabinet approval.
- The commission should have qualified professionals with insurance related knowledge and actuarial knowledge to ensure effective discharge of their functions.
- (f.) According to the Management Services Circular No. 03/2018 dated 18 July 2018 and Section 3 of the Operational Manual for State Owned Enterprises, instructed that all ministries and other relevant authorities should refrain from recruiting employees and increasing the salaries and cadres without prior
- The Commission has obtained approval from the Ministry of Finance for 57 positions. All new recruitments into IRCSL are with the approval of the Ministry of Finance.
- The Commission shall obtain prior approval of the Department of Management Services, General Treasury for salaries and cadre revisions.
- Employees to the promotional grades, which has no effect to the total cadre has been written to the

approval from the General Ministry of Finance in terms of Treasury. However, one (01) PED 01/2021 on 05 July 2023. Director, thirteen (13) Managers/Assistant Managers and one (01) Secretary positions had been filled during the year 2023 without obtaining the approval of the Department of Management Services, General Treasury.

The IRCSL officials had discussion with the MOF officials in this regard.

4. Accountability and Good Governance

4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
The commission had appointed a firm of chartered accountants as their internal auditor for the year 2023. However, only first quarter of the year under review had been covered by the internal audit as of the date of the audit on 02 February 2024	The internal auditors completed field work of supervision division as well	Internal audit should cover the whole financial year and internal audit work should be comprehensive enough to provide the safeguard for the commission.