

## **1. Financial Statements**

### **1.1 Opinion**

The audit of the financial statements of the Sri Lanka Insurance Corporation Life Limited (the “Company”) for the year ended 31 December 2024 comprising the statement financial position of as at 31 December 2024 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 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 .

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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024 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 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.

### **Emphasis of Matter**

I draw attention to Note 39 of the financial statements, which describe the status of segregation process implemented as per the section 53 of the Insurance Regulatory Act No. 3 of 2011 and the status of the administrative process in respect of section 30 of Insurance Industry (Amendment)Act No 3 of 2011. My opinion is not modified in respect of this matter.

### **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 Auditor's Responsibilities for the Audit of the Financial Statements**

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 Statement

### 1.5.1 Inappropriate Valuation or Estimation

| Audit Issue   | Management Comment | Recommendation           |                          |                             |      |        |                      |      |        |                            |    |        |  |   |
|---|--------------------|--------------------------|--------------------------|-----------------------------|------|--------|----------------------|------|--------|----------------------------|----|--------|--|---|
| <p>a. A review of the Fixed Asset Registers of the Head Office and selected branch offices revealed a significant number of fully depreciated assets that continue to be actively utilized in operations. In contravention of Section 51 of LKAS 16 Property, Plant and Equipment, no prospective adjustments have been reflected in the financial statements through the reassessment of useful life or revaluation of such assets, despite their continued generation of economic benefits. Details of certain financially significant “fully depreciated but still in use” assets, classified by asset category, are presented in the table below.</p> <table border="1" data-bbox="235 1003 743 1339"> <thead> <tr> <th data-bbox="248 1003 386 1031">Assets class</th> <th data-bbox="540 1003 607 1108">Num. of items</th> <th data-bbox="646 1003 743 1150">Cost Value (Rs. Million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="248 1161 488 1224">Computer &amp; Office Equipment</td> <td data-bbox="540 1161 607 1188">3356</td> <td data-bbox="646 1161 729 1188">99.155</td> </tr> <tr> <td data-bbox="248 1234 483 1262">Furniture &amp; Fittings</td> <td data-bbox="540 1234 607 1262">7401</td> <td data-bbox="646 1234 729 1262">42.256</td> </tr> <tr> <td data-bbox="248 1272 508 1335">Intangible Asset- software</td> <td data-bbox="540 1272 574 1299">29</td> <td data-bbox="646 1272 729 1299">43.017</td> </tr> </tbody> </table> | Assets class       | Num. of items            | Cost Value (Rs. Million) | Computer & Office Equipment | 3356 | 99.155 | Furniture & Fittings | 7401 | 42.256 | Intangible Asset- software | 29 | 43.017 | <p>With the segregation of assets like Computers &amp; Office Equipment and Furniture &amp; Fittings, we have assigned them to the respective company. In line with the company policy, Fixed Assets are revalued every three (03) years. Further, for the year 2025, the company is conducting a Fixed Asset Verification. The bidding process to engage a suitable service provider has been successfully completed, and the selected party has been on boarded to carry out the verification process.</p> | <p>It is recommended that management reassess the useful lives of fully depreciated assets still in use and make the necessary adjustments in the financial statements, and implement such review process periodically.</p> |
| Assets class  | Num. of items      | Cost Value (Rs. Million) |                          |                             |      |        |                      |      |        |                            |    |        |  |   |
| Computer & Office Equipment   | 3356               | 99.155                   |                          |                             |      |        |                      |      |        |                            |    |        |  |   |
| Furniture & Fittings  | 7401               | 42.256                   |                          |                             |      |        |                      |      |        |                            |    |        |  |   |
| Intangible Asset- software  | 29                 | 43.017                   |                          |                             |      |        |                      |      |        |                            |    |        |  |   |

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>  |
|--|--|--|
| <p><b>a.</b> It was observed that an unrecoverable withholding tax (WHT) receivable of Rs. 110 million is currently included in the Company's other receivables.</p> <p>Management of the company has not taken appropriate measure to assess the recoverability and if the recoverability is not possible to write off after following the appropriate procedure.</p> | <p>Necessary action will be taken to write off the long outstanding balance at the year end.</p>   | <p>It is recommended that the Company proceed with appropriate measures on unrecoverable withholding tax (WHT) receivable balance, ensuring that the action is formally approved by the Board of Directors. The write-off should be fully documented, including supporting evidence and the rationale for the write off.</p> |
| <p><b>b.</b> During the review of the receivables ledger, negative balances amounting to Rs. 22 million was observed predominantly related to staff loans, agent officer motorcycle loans, and dividend receivables.</p>   | <p>Out of the 22 million, Staff Loan-Rakshana Service (5.49Mn) and Dividend receivable balances of Rs.2,432.07 have been corrected and other balances are in the process of reconciling.</p> | <p>It is recommended that management conduct a thorough review of receivables to verify the legitimacy of negative balances, and ensure that any illegitimate balances are either written off or reclassified to the appropriate accounts.</p>   |

## 1.7 Related Parties and Related Party Transactions not disclosed

| Audit Issue  |   |  |                                 | Management Comment  | Recommendation  |
|--|---|--|---------------------------------|---|---|
| <p>a. It was observed that discrepancies between the closing balances recorded by the Company for the related parties listed below and the balances independently confirmed by those counterparties. In addition, it was observed that the Company does not have a formal reconciliation process in place to investigate and resolve variances identified through balance confirmations.</p> |   |  |                                 | <p>1. The balances with SLICGL and SLIC have been reconciled. Periodic reconciliation process is in place.</p> <p>2. The difference between Lanka Hospitals Corporation PLC and Lanka Hospitals Diagnostics (Pvt) Ltd is due to the timing delay between invoice issuance and payment processing.</p> | <p>It is recommended that the Company should establish a structured process for periodic reconciliation of related party balances, promptly investigate any discrepancies, and ensure transactions are accurately recorded and supported by appropriate documentation to enhance control and reporting reliability.</p> |
| Description  | Balance as per the Financial Statements (Rs. Million) | Balance per Confirmation (Rs. Million) | as the Difference (Rs. Million) |   |   |
| SLICGL   | 1,059   | 1,068                                  | (8)                             |   |   |
| SLICL Lanka Hospitals Corporation PLC  | 241   | 238                                    | 2                               |   |   |
| Lanka Hospital Diagnostics (Pvt) Ltd   | 6   | 8                                      | (2)                             |   |   |
|  | 6   | 1                                      | 5                               |   |   |

- b. It was observed that the Company is lacking with a comprehensive and formalized mechanism for identifying and monitoring related party transactions relating to insurance premiums, claims, and balances under other assets and liabilities. This gap increases the risk of omissions or misclassifications, potentially leading to incomplete or inaccurate related party disclosures in the financial statements.
- Related party transactions mainly arise in three areas: Premium or Claims transactions, Vendor or Customer payments, and Investment-related transactions. Among these, Premium and Claims transactions are identified manually, as the existing front-end system does not currently have the capability to automatically recognize related party transactions.
- Vendor, Customer, and Investment-related transactions are managed through the SAP system, where separate vendor and customer codes are assigned to each company.
- Furthermore, we are in the process of developing a tagging mechanism within the SAP system to facilitate the identification of related parties during the onboarding process.
- It is recommended that management should establish a formal process to identify, monitor, and classify related party transactions, supported by up-to-date records and integrated controls, to ensure accurate reporting, transparent disclosure, and compliance with relevant accounting standards.

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

| Reference to Laws, Rules Regulations etc.   | Non-compliance   | Management Comment  | Recommendation   |
|---|--|---|--|
| a. Section D.5.2 of the Guidelines on Corporate Governance of CA Sri Lanka.         | Under Section D.5.2 of the Guidelines on Corporate Governance of CA Sri Lanka, "The board should establish a RPT review committee, consisting of three independent non-executive directors, with a chairman appointed by the board, and meeting quarterly". However, it was observed that the Company does not have a related party transaction committee.     | The company is in the process of establishing the Related Party Transaction (RPT) Review Committee.   | It is recommended to establish the Related Party Transaction Committee.  |
| b. Section 3.4 of the Guidelines on Operational Manual for Stated Owned Enterprises | As stipulated in Section 3.4 of the Guidelines on the Operational Manual for State-Owned Enterprises, each SOE is required to identify and plan its human resource needs, including vacancies, new positions to be created, required skills, and a succession plan. However, it was observed that the Company has not developed a succession plan as required. | As recommended Draft in the succession plan for every division is in the final stage and aim to operationalize from the beginning of year 2026. | It is recommended that the Company develop and implement a formal succession plan to ensure leadership continuity, mitigate operational risks, preserve institutional knowledge, support employee development, and maintain compliance with regulatory requirements. |
| c. Section 4.4 of the guidelines on Corporate Governance for                        | Under Section 4.4 of the guidelines on Corporate Governance for the State Owned Enterprise, it is  | Non availability of knowledge for System & It audits are a key point under discussion during  | It is recommended that the Company strengthen its internal audit   |

|                                   |   |   |  |
|-----------------------------------|---|---|--|
| <p>the State Owned Enterprise</p> | <p>expected that the internal audit activity must evaluate risk exposure related to the SOE's governance, operation &amp; information system. System audits are crucial for businesses as they ensure compliance, improve efficiency and identify risks and areas for improvement. Especially, System audit on automated applications will help companies to ensure their IT systems and processes are secure, reliable, and aligned with regulatory requirements. It was observed that the internal audit department lacks with qualified personnel for IT system audits. It was also observed that the need for skilled human resources or external support to address this crucial aspect of automated internal control checking. According to the internal audit plan of Life, it has pointed out the inability of conducting System Audits due to limitation of qualified personnel. Moreover, this is considered as one of top ten risks identified by the entity. However, no adequate action has been taken to acquire the required skills up to the date of audit.</p> | <p>the last few years. Many attempts have been made to recruit a member to the team. However, that vacancy has still not been filled. During the last Audit Committee (AC) meeting, it was advised to recruit trainees to this area and possible actions are in progress. We will be taken the necessary steps to fill the gap to strengthen the process.</p> | <p>capability by acquiring qualified personnel, thereby addressing key risks, ensuring compliance, and enhancing the effectiveness of automated internal controls.</p> |
|-----------------------------------|---|---|--|

|  |   |  |  |
|--|---|--|--|
| <p><b>d.</b> Section 4.3 of the Guidelines on Corporate Governance</p> | <p>Under Section 4.3 of the Guidelines on Corporate Governance for State Owned Enterprises, "Risk Committee should comprise from at least three non-executive directors and should meet at least quarterly". However, it was observed that there were only three Risk Committee</p> | <p>Sri Lanka Insurance Corporation was segregated into two companies, SLIC Life Ltd and SLIC General Ltd with effect from 01st February 2024. With this segregation, it took a considerable time to normalize the operation of</p> | <p>It is recommended that the Company ensure the Risk Committee meets at least quarterly, in accordance with the guidelines, to strengthen oversight, risk management, and</p> |
|--|---|--|--|

meetings held and the Risk the companies. Further, this adherence to  
 Committee does not meet segregation required to corporate governance  
 quarterly. constitute Board Risk requirements.  
 Management Committee  
 (BRMC) for the two  
 companies separately under  
 the approval of the Board of  
 Directors. Accordingly,  
 BRMC for SLICLL and  
 SLICGL was set up with the  
 membership of three Non-  
 Executive Directors.  
 Because of above reasons,  
 BRMC meetings were not  
 held during the first six  
 months of 2024 which  
 happened only for 2024.  
 We will conduct the BRMC  
 meetings in accordance with  
 the stipulations of our ERM  
 Policy and will ensure  
 continued adherence to all  
 applicable rules and  
 regulations going forward.

## 1.9 IT General Controls

| Audit Issue  | Management Comment  | Recommendation   |
|--|---|--|
| <p>a. As per Section 11.3.9 of the Logical Access Control Policy-V2.0, the IT Department is responsible for ensuring that user accounts inactive for 90 days are automatically disabled. However, a review of the SAP system user lists revealed the presence of active user accounts that have not been utilized for 90 days, as well as a one active account with no recorded last login date.</p> | <p>As recommend Periodic access reviews have been implemented within the SAP system to identify and disable inactive user accounts in compliance with the 90-day account inactivity policy.</p> | <p>It is recommended that the company conduct periodic access reviews to disable inactive accounts in line with the 90-day policy requirement.</p> |

b. The review revealed the presence of several active generic user accounts within the SAP system. Such accounts undermine individual accountability, making it difficult to trace user activities and identify responsible parties. This increases the risk of unauthorized access, misuse of system resources, and potential security breaches. Details are given below.

Controls have been implemented in the SAP system to identify and disable all non-essential generic user accounts that are not required for business operations.

It is recommended that the Company promptly review and disable all active generic user accounts that are not essential for business operations.

| User Name  | Contractual User Type       | Last Login Date |
|------------|-----------------------------|-----------------|
| BATCH      |                             |                 |
| AUDIT M P  | SAP Application Limited Pro | 1/28/2025       |
| AUDIT M P1 | SAP Application Limited Pro | 2/15/2019       |
| ADD        | SAP Application Limited Pro | 1/28/2025       |
| BAD        | SAP Application Limited Pro | 1/28/2025       |
| COBD       | SAP Application Limited Pro | 1/27/2025       |
| GENERAL D  | SAP Application Limited Pro | 1/27/2025       |
| HRD        | SAP Application Limited Pro | 1/28/2025       |
| IAUDIT     | SAP Application Limited Pro | 11/21/2024      |

|              |                                      |           |
|--------------|--------------------------------------|-----------|
| ICTD         | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |
| LEGALD       | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |
| MKTD         | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |
| MKTD2        | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |
| NSAL         | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |
| PAY_TMP<br>2 | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |
| PRED1        | SAP<br>Application<br>Limited<br>Pro | 1/28/2025 |

|               |                                |            |
|---------------|--------------------------------|------------|
| PRED2         | SAP<br>Application Limited Pro | 1/28/2025  |
| SECTD         | SAP<br>Application Limited Pro | 1/28/2025  |
| SUPPTRA<br>IN | SAP<br>Application Limited Pro | 1/28/2025  |
| DDIC          | Test                           | 10/19/2025 |
| SAPOSS        | Test                           | 5/29/2024  |
| SLI_ABAP      | Test                           | 5/29/2024  |
| SLI_JKH       | Test                           | 1/27/2025  |
| TRMAUD<br>IT  | Test                           | 5/8/2023   |
| UPLOAD        | Test                           | 10/2/2018  |

c. It was identified that the Company has not implemented privileged user account monitoring across application, database, and operating system layers for critical systems, including SAP, B-Insurance, Claims1, AS400, the HR System, and Workflow Management Systems. This gap was potentially exposing the organization to elevated security and compliance risks due to a lack of oversight over privileged access activities.

The implementation of a Privileged Access Management (PAM) solution is currently in progress and in the procurement phase. The PAM solution will provide centralized monitoring and control of privileged activities across Operating Systems, Databases, SAP, and Active Directory. Application-level super user monitoring will be integrated through the Identity and Access Management (IAM) solution, which is planned and budgeted for implementation in 2026.

Currently, critical transaction-level monitoring has been implemented within the SAP environment, and these events are continuously monitored by the Security Operations Center (SOC).

It is recommended that the organization establish a robust, continuous monitoring framework for privileged user activities across critical systems, including periodic reviews to ensure appropriate access rights and legitimate activity aligned with business needs.

- d. As per the Section 4.1.1 of Change Management Procedure V 2.0, all change requests shall be logged, whether approved or rejected, on a standardized and central system. The approval of all change requests and the results thereof shall be documented. However, it was observed that the Company does not have a centralized system to log the change request details, and there is no documented list of changes with the approved or rejected status, maintained in the company.
- We have taken corrective action to address the observation. Accordingly, with the implementation of the Manage Engine Service Desk Plus – ICT Helpdesk Solution, the existing manual change management process has been automated. The new system facilitates centralized logging, approval, and monitoring of all change requests with proper documentation of approval status, ensuring compliance with the approved procedure.
- It is recommended that the company establish a comprehensive change management framework aligned with the approved Change Management Procedure V2.0 to ensure consistency and compliance.

At present, all required system configurations and testing have been completed, and the automated process will be in practice from November 2025.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 2,642 million and the corresponding profit in the preceding year amounted to Rs. 0.59 million. Therefore, an improvement amounting to Rs. 2641 million of the financial result was observed. The reasons for the improvement was the increase of gross written premium by Rs 24,530 million due to segregation of life insurance business.

### 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the budgeted amount and the calculated variances are given below.

|                              | <b>Budget</b><br><b>Rs. 000</b> | <b>Actual</b><br><b>Rs. 000</b> | <b>Variance</b><br><b>Rs. 000</b> | <b>Increase/<br/>Decrease</b> |
|------------------------------|---------------------------------|---------------------------------|-----------------------------------|-------------------------------|
| <b>Revenue</b>               | <b>41,777,436</b>               | <b>49,729,533</b>               | <b>7,952,097</b>                  | <b>19%</b>                    |
| <b>Gross written premium</b> | <b>22,940,976</b>               | <b>24,530,862</b>               | <b>1,589,886</b>                  | <b>7%</b>                     |
| <b>Net earned premium</b>    | <b>22,230,431</b>               | <b>23,568,520</b>               | <b>1,338,089</b>                  | <b>6%</b>                     |
| Investment income            | 18,954,829                      | 25,770,499                      | <b>6,815,670</b>                  | 36%                           |
| Fees and Commission Income   | 57,255                          | 75,727                          | <b>18,472</b>                     | 32%                           |
| Other income                 | 534,921                         | 314,787                         | <b>(220,134)</b>                  | -18%                          |
| <b>Total Other income</b>    | <b>41,777,436</b>               | <b>26,161,013</b>               | <b>(15,616,423)</b>               | <b>-37%</b>                   |

|   |                     |                     |                     |              |
|---|---------------------|---------------------|---------------------|--------------|
| <b>Net benefits and claims paid</b>         | <b>(12,305,976)</b> | <b>(12,016,597)</b> | <b>(289,379)</b>    | <b>-2%</b>   |
| Underwriting and net acquisition costs      | (3,037,415)         | (3,260,446)         | <b>223,031</b>      | 7.3%         |
| Other operating and administrative expenses | (6,502,509)         | (5,501,145)         | <b>(1,001,364)</b>  | -15%         |
| <b>Income tax expense</b>                   | <b>1,993,154</b>    | <b>(1,734,756)</b>  | <b>(3,727,910)</b>  | <b>-187%</b> |
| <b>Net Profit for the year</b>              | <b>17,938,382</b>   | <b>2,641,848</b>    | <b>(15,296,534)</b> | <b>-85%</b>  |

## 2.3 Ratio Analysis

Key ratios of the Company of the year under review are given in the following table.

| <b>Company Specific Ratios</b>   | <b>2024</b> |
|----------------------------------|-------------|
| Retention Ratio                  | 96%         |
| Claim ratio                      | 51%         |
| Expense Ratio                    | 37%         |
| Combined ratio                   | 88%         |
| Profitability Ratio              | 5%          |
| ROA                              | 2%          |
| ROE                              | 17%         |
| Investment Yield                 | 12%         |
| Financial Assets to Total Assets | 97%         |
| Asset Turnover                   | 0.21        |
| Net Profit Ratio                 | 11%         |
| Current Ratio                    | 3.3         |
| EPS                              | 2.3         |
| Net Assets Per Share             | 12.22       |
| <b>Market Share</b>              | <b>13%</b>  |

## 3. Operational Review

### 3.1 Identified Losses

| <b>Audit Issue</b>   | <b>Management Comment</b>  | <b>Recommendation</b>  |
|--|--|--|
| According to the established operational guidelines, all cash collections from the previous day are required to be deposited before 10.00 a.m. It was observed that an amount of Rs. 5,199,233 (comprising Rs. 229,900 from Life Insurance and Rs. 4,970,223 from General Insurance) collected at the Maharagama | As recommended several key actions have been taken to strengthen cash handling, deposit, and reconciliation processes:<br><br>1. Deposit Slip Process: Branches now upload cash, cheque, and credit card deposit slips directly to the B-Life System, allowing the Head Office | It is recommended that management should reinforce adherence to cash handling and deposit procedures across all branches, enhance monitoring controls to prevent recurrence, and ensure timely accountability for any future breaches. |

branch during the period from June 1st to June 26<sup>th</sup> 2023 had not been deposited in accordance with the said guidelines and fraud has occurred. A full investigation was carried out, and the Disciplinary Board determined that both the Cashier and the Branch Manager were responsible for the lapse. The Board recommended recovery of the loss from the Cashier and the initiation of appropriate legal action. However, no information or supporting documentation was made available to the audit regarding the status of the recovery process of the loss.

to access them online and eliminating the need for hard copy submissions.

## 2. Bank Account Structure:

A single common current account has replaced multiple branch accounts. Bank statements now include SLICLL and branch references for easier tracking and reconciliation.

## 3. Reconciliation Process:

Cash and cheque reconciliations are now completed within t + 1 working days, improving accuracy and timeliness.

## 4. Monitoring Controls:

Branch Managers must monitor cashier functions. The Finance Department tracks authorization and deposit uploads through the system and sends daily reminders for pending items.

## 5. Next Phase – System Automation:

An Auto-Blocking System is being developed to halt receipting if vouchers or deposit slips are not processed on time. Once validation with bank data is complete, cash and cheque file uploads will be fully automated.

With regard to the complaint, it is still under investigation

and all necessary documents have been provided to the police. We have requested to be informed about the current progress, but haven't received any response yet.

### 3.2 Management Inefficiencies

#### Audit Issue

- a. As per the scheme of arrangement established by management for the segregation process, motor vehicles were to be allocated between the Company and Sri Lanka Insurance Corporation General Limited (SLICGL) based on operational requirements. However, a review of the latest Fixed Asset Register (FAR) indicates that these vehicles have not yet been transferred to the Company. The total written-down value of these motor vehicles amounted to Rs. 252 million.

It was observed that the Board has issued relevant directions to the Company, and discussions have been conducted with SLICGL and the Commissioner of the Department of Motor Traffic regarding the transfers. Additionally, the Company has submitted a request to the Insurance Regulatory Commission of Sri Lanka (IRCSL) for an extension, as certain administrative matters including the administrative name change arising from the segregation remain in progress. The Company is currently awaiting a written response from IRCSL.

Accordingly, due to these ongoing operational and administrative matters, a potential non-compliance with administrative procedures under Section 30 of the Insurance Industry (Amendment) Act No. 43 of 2002 has been observed.

#### Management

##### Comment

Company is in the process of transferring the vehicle ownership to the Company and SLICGL. Status update as at 30th September 2025

| Total Number vehicles | Complete as at 30th September 2025 | % of Comple |
|-----------------------|------------------------------------|-------------|
| 41                    | 25                                 | 61%         |

Balance is in the progress subject to required approval/ consent from the respective statutory bodies. (Registration of Motor Vehicle Department).

#### Recommendation

It is recommended that management ensures the prompt transfer of motor vehicle ownership to the Company in accordance with the segregation plan. Financial records should be accurately updated and an internal review should be conducted to verify that all asset transfers have been completed in line with the scheme of arrangement for segregation.

- b. It was observed that Sri Lanka Insurance Corporation Limited (SLIC) currently maintains reinsurance arrangements exclusively with a single reinsurer for the life insurance business. Relying on a sole reinsurer may expose the Company to concentration risk, limit negotiation leverage, and increase potential vulnerability in the event of the reinsurer's financial or operational challenges.
- SLICL is in the process of onboarding another reinsurer, and negotiations are being conducted.
- It is recommended that management assess the adequacy of the existing reinsurance strategy and consider diversifying reinsurer relationships to mitigate associated risks and strengthen overall risk management practices.
- c. It was observed that the Fixed Asset Registers (FAR) are not maintained at the Dehiwala, Ratnapura, Panadura, Kalutara, and Nugegoda branches. Furthermore, the Gampaha and Kandy Main Branches do not maintain separate FARs for the Company and SLICGL, resulting in assets not being properly segregated between the two entities. In the Wattala and Bambalapitiya branches, certain assets are shared across departments, further complicating asset tracking.
- The assets segregation methodology and process has been agreed and approved. However physical execution was not done which required appointment of a suitable party. (application of Asset bar codes etc). By now suitable party has been selected and awarded (BDO Partners) to conduct the same.
- It is recommended that management maintain separate, up-to-date Fixed Asset Registers for the Company, implement a structured asset tracking system, write off or adjust salvage assets, and assess idle assets for reallocation to optimize operations.
- At the Wattala branch, assets are not adequately tracked or coded, and comprehensive asset listings along with supporting documentation are not maintained. Additionally, salvage assets that are no longer functional or possess with limited economic value remain recorded in the financial records, and there are idle assets held by the Company that are not being utilized to generate revenue.
- Additionally, all branches have been informed that if there are any salvage items, or when such items are being returned to the Head Office, the relevant forms must be duly completed and submitted to the Finance Department, together with a formal notification.

### 3.3 Operational Inefficiencies

| Audit Issue  | Management Comment  | Recommendation  |
|--|---|---|
| <p>a) As per the "Report on Risk Assessment of Insurance Companies" which was sent to Insurance Regulatory Commission of Sri Lanka (IRCSL), 24 instances of fraudulent claim payments were observed amounting to Rs. 2,006,700 under hospitality claims for the year 2024 and another 30 fraudulent claims amounting to Rs 1,344,600 under the hospitality claims for the year 2023. The occurrence of such fraudulent claims highlights the importance of strengthening the internal controls of insurance claim payment process including an independent review.</p> | <p>As per the established claim procedure, there is a clear segregation of duties between claim assessment and claim approval functions. Despite this control, there remains an inherent risk of customers submitting fraudulent claims, particularly in relation to health claims. To mitigate this risk, the following internal controls have been implemented:</p> <ol style="list-style-type: none"> <li>1. <b>Claim approval limits:</b> Defined authorization limits have been assigned to claims staff based on their role and grade.</li> <li>2. <b>Dual control mechanism:</b> Claims require dual approval to ensure independent review and authorization.</li> <li>3. <b>Claim investigations:</b> Dedicated investigations are conducted where there are indications of potential fraud or irregularities.</li> <li>4. <b>Pre-verification process:</b> Claims are subject to pre-verification to confirm the validity of submitted documents and information.</li> <li>5. <b>Post-audit by Internal Audit:</b> The Internal Audit Department performs post-claim audits to assess compliance and identify potential anomalies.</li> <li>6. <b>Continuous monitoring:</b> Ongoing monitoring of claims is performed to detect unusual patterns or suspicious activities.</li> <li>7. <b>System-based controls:</b> Automated system controls are in place to prevent unauthorized claim processing and enhance accuracy.</li> </ol> | <p>It is recommended that the Company strengthen its internal controls over the insurance claim payment process to mitigate the risk of fraudulent claims. This should include implementing enhanced verification procedures, segregation of duties, and an independent review mechanism for high-risk claims and suspicious claim activities, ensuring timely detection and prevention of fraud.</p> |
| <p>b) The review of the Marketing Function of Sri Lanka Insurance Corporation Life Limited (SLICLL) revealed significant underutilization of the marketing budget</p>  | <p>The below reconciliation provides a detailed insight in to this variation and accordingly the un-utilized marketing budget for the year 2024 falls at Rs. 7,153,502.92 which is 1.7%.</p>  | <p>It is recommended that the company fully utilize its marketing budget, prioritize key initiatives, implement strategic</p>   |

during the year 2024, with the unspent of Rs. 120 million (22%) from the allocated fund, including non-utilization of funds for critical initiatives such as market research, customer relationship management, and media conferences. This lack of utilization may adversely impact on business performance, as evidenced by a 16 per cent decline in new business from the Corporate Lines Channel, a 50 per cent drop in business from Marketing Executives, and an overall shortfall of 12,765 policies (17%) against the corporate target. Strategic objectives outlined in the Corporate Plan, including new product development for expatriates, expansion of international distribution channels, and enhancement of customer experience through digital platforms, were not effectively implemented during the year 2024. Further, the Marketing Division continues to operate without a formally approved cadre

| Description  | Rs.            |
|--|----------------|
| Budget Balance as per SAP (Jan - Dec 2024)   | 533,736,659.88 |
| (-) January 2024 budget before the segregation date of 1st February 2024   | 19,663,503.63  |
| Budget for the 11 months after the segregation from February to December 2024  | 514,073,156.25 |
| Approved budget for the period from February to December 2024  | 401,212,500.00 |
| Difference   | 112,860,656.25 |
| Temporary enhancement for Complimentary items which are subsequently recover from agents   | 35,246,710.00  |
| Budget transfers from Sales support budget for Complimentary items   | 2,143,260.00   |
| Budget transfers between internal orders have been done without doing necessary transfer among the budget plans of respective cost elements in the SAP system. | 75,470,686.25  |

goals effectively, and fill staffing gaps to improve marketing performance and support sustainable growth.

structure following the restructuring in 2024, with 15 cadre gaps including five executive-level vacancies, thereby limiting its capacity to deliver effective marketing strategies. These shortcomings collectively indicate weaknesses in strategic planning, resource utilization, compliance, and organizational structure, which may undermine the Company's competitiveness, growth, and long-term sustainability.

Marketing Budget utilization for 2024

| Description   | Rs.            |
|---|----------------|
| Approved budget for the period from February to December 2024             | 401,212,500.00 |
| Actual expenses for the period from February to December 2024             | 394,058,997.08 |
| Unutilized marketing budget for the period from February to December 2024 | 7,153,502.92   |

c) As per the procedure issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL), all insurers and brokers are required to conclude inquiries relating to insurance agents within a maximum period of three months from the date of receipt of a complaint, ensuring that such matters are resolved without undue delay. However, the review of the Complaint Management System revealed that several complaints received in 2024, remain unresolved beyond the stipulated time frame. This indicates non-compliance with the IRCSL-mandated procedure and may result in delays in resolving complaints, by creating potential reputational risks. Details are given below.

Complaints management process is in place. However due to certain limitations it can take beyond the stipulated time frame as observed in the query. The reasons for the pending complaints are given below.

| Complaint No | Response  |
|--------------|---|
| 20224199     | We have already written to the insured regarding the resolution and that has been not updated in the CMS  |
| 210224087    | Initially we conducted an investigation and the agent was terminated. Based on the appeal forwarded by the agent the complaints are being reinvestigated at the investigation Department.   |
| 201224051    | There is no allocated complaint Ref as 201224051. There is a pending complaint with ref 210224051- This matter was re- investigated based on the finding of the first investigation, will be forward to Agency complaint panel for their decision.  |
| 210223970    | This complaint was not able to settle, since there is no accumulated fund to recover. When inquired from RM, RM spoke to the insured and confirmed this agent has settled this premium on line on 31/07/2024. But he has not informed to us. Please refer the attached memo dated 28/10/2025 forwarded by RM. |
| 210223941    | There is no sufficient funds to recover Rs. 91,475/-  |

It is recommended that the company strictly adhere to the IRCSL complaint resolution timeframe by ensuring all insurance agent complaints are concluded within three months, and establish clear monitoring and accountability measures to prevent delays and mitigate reputational risks.

| Complaint No/<br>ID | Date Created |   |
|---------------------|--------------|---|
| 210224199           | 2024/11/07   | 210223701 Initially we conducted an investigation and the agent was terminated. Based on the appeal forwarded by the agent the complained are being reinvestigated at the investigation Department. |
| 210224087           | 2024/09/10   |   |
| 201224051           | 2024/08/14   |   |
| 210223970           | 2024/07/02   | We are in the process of further improving the process to notify the customers for such incidents mentioned above   |
| 210223941           | 2024/06/20   |   |
| 210223701           | 2024/03/20   |   |

### 3.4 Utilization of Resources of Other Organizations

| Audit Issue   | Management Comment   | Recommendation  |
|---|--|---|
| <p>a. It was observed that the monthly salary payments of SLICGL employees are being processed through the SLICLL Life Division’s commercial bank account. This practice results in SLICGL salary transactions being routed through an account owned by the Life company, rather than a dedicated SLICGL account. Additionally, salary payments are settled only after the general employee salary fund is transferred to the Life company’s account. This arrangement may increase operational complexity, reduce transparency in fund flows, and could pose challenges in segregation of duties and accurate financial reporting for SLICGL. Details are given below.</p> <p>Account Details<br/> <b>Account Number</b><br/>           1480033289(Commercial)<br/> <b>Branch</b><br/>           Union Place Branch<br/> <b>Account Name</b><br/>           Sri Lanka Insurance Corporation Life Ltd</p> | <p>Existing HRIS system has been developed during the Composite Business under one payroll. Accordingly, Account linked to the system is relating to the Life business. Further, the new payroll system has been successfully implemented, and with effect from April 1st, 2025, salary transfers are being made through separate bank accounts for the Life and General businesses. This implementation facilitates proper segregation of payroll and financial activities in accordance with the organizational restructuring and regulatory requirements.</p> | <p>It is recommended that the Company establish a dedicated bank account for processing SLICGL employee salaries to ensure clear segregation of funds and enhance transparency in financial transactions.</p> |

### 3.5 Human Resources Management

| Audit Issue   | Management Comment   | Recommendation  |
|---|--|---|
| <p>a. It was observed that the Company continues to operate based on the cadre structure approved in 2019/2020. The absence of subsequent reviews or updates to the approved cadre may not adequately reflect the current operational requirements, organizational growth, or evolving business</p> | <p>The Company initially engaged KPMG to conduct a work-study for the Head Office; however, the initial report received was basic and did not contain significant recommendations to support decision-making. Therefore, management decided to discontinue the continuation of the work-study with KPMG.</p> | <p>It is recommended that the Company conduct a comprehensive review of the existing cadre structure to ensure it reflects current operational requirements, strategic objectives, and anticipated future needs. Any necessary revisions should be formally</p> |

priorities. This could result in misalignment between the workforce structure and the Company's present and future resource needs.

The HR Department has now undertaken the process of developing divisional structures internally, utilizing in-house expertise to align with current business priorities and future organizational needs.

approved and documented.

The HR Department is in the process of developing the revised divisional structures using internal expertise to ensure alignment with current operations and strategic direction. Once finalized, the proposed structures will be submitted for HRSC and Board approval prior to implementation and it will complete on or before 1st January 2026

- b. It was observed that the Manager of SLICGL had access to procedures for both SLICLL and SLICGL, with broader access rights at the Wattala Branch. This indicates that an appropriate segregation of duties has not been implemented. Additionally, there is a notable shortage of staff at Wattala Branch, only the Branch Manager and two interns are assigned under the Life Department, with no assistant managers in place. The Branch Manager is responsible for multiple critical functions, including banking processes, branch operations, client communications, branch visits, and achieving certain targets, which increases operational risk and may affect efficiency and control.

The branch Manager of the Company was appointed in June 2024. Due to the lack of employees, the General Underwriter also supports the Life division on Saturdays and at the end of the month. Additionally, She has access to the Company system. Wattala has a staff shortage up to now and HRSC approval obtained to recruit a new permanent staff member. HR will fill that vacancy by end of November 2025.

It is recommended that the organization review and strengthen the segregation of duties within the branches to ensure that no single individual has excessive access or control over multiple critical processes. Additional staffing, including the appointment of assistant managers, should be considered to distribute responsibilities more effectively, reduce operational risk, and enhance oversight.

### 3.6 Delays in Projects or Capital Work

| Audit Issue  | Management Comment   | Recommendation   |
|--|--|--|
| <p>a. SLFRS 17 Insurance Contracts, effective for annual periods beginning on or after 1 January 2026, introduces substantial changes to the recognition, measurement, presentation, and disclosure of insurance contracts, necessitating extensive system, process, and reporting updates. The Company's implementation of SLFRS 17 involves an external consultant, the in-house actuarial team, external actuaries, IT, and finance personnel. While several position papers have been finalized, a critical milestone procurement of system for migration to the new reporting framework remains pending. Due to significance and the lead time required for integration, testing, and validation, delays in these activities pose a risk to meeting the reporting timelines mandated by CA Sri Lanka.</p> | <p>All required advisors as well as necessary calculation engine are on boarded and procured and the project is in progress. An identified group of multi divisional staff being assigned with few dedicated resources and steering committee is set up with monthly meeting with all the necessary stake holders. And said steering committee is chaired by the CEO and clear project plan with stipulated time lined for respective tasks being articulated and agreed upon.</p> | <p>It is recommended that management enhance SLFRS 17 oversight through a clear roadmap with defined milestones and responsibilities, allocate skilled resources across relevant functions, and ensure key activities like system procurement, integration, and testing are completed and validated ahead of the effective date.</p> |

## 4. Accountability and Good Governance

### 4.1 Internal Audit

| Audit Issue  | Management Comment  | Recommendation  |
|--|---|---|
| <p>a. According to the internal audit plan -2024, internal audit division has planned to conduct an Investment audit. An investment audit is a process that involves a comprehensive exam and assessment of organization's investment portfolio to evaluate the performance, risk, and overall</p> | <p>Internal audit team is not having the required skill cadre to do investment audit and audit on the actuary process. Now we have commenced the Investment Audit in Q4 2025. The relevant data has already been received, and the review process is currently in progress.</p> | <p>It is recommended that management ensure the timely execution of internal audits on both investment activities and the actuarial function. Conducting these audits will help assess investment performance, evaluate actuarial accuracy, ensure regulatory compliance,</p> |

effectiveness of the investments in the portfolio. However, no audit had been conducted on investment activities. Auditing the actuarial function involves verifying the accuracy, reliability, and appropriateness of the actuarial work done by the insurance company. This audit ensures the insurer's financial stability and protects policyholders. It also helps to ensure the actuarial function is operating effectively and complies with relevant regulations and standards. However, audit of actuary process was not a part of internal audit plan of 2024 and no internal audit had been carried out on actuary function of the company.

Failure to conduct those audits creates a high risk for SLICLL due to the severe impact that could arise if an incident occurs.

and mitigate high operational and financial risks to the Company.