

## **Insurance Board of Sri Lanka - 2015**

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The audit of financial statements of the Insurance Board of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 8(3) of the Regularization of Insurance Industry Act, No. 43 of 2000. My comments and observations which I consider should be published with the Annual Report of the Board in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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The management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements 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 Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **1.4 Basis for Qualified Opinion**

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My opinion is qualified based on the matters described in paragraph 2.2 of this report.

## 2. Financial Statements

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### 2.1 Qualified Opinion

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Insurance Board of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Accounting Policies

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Even though the Board had, as stated in the accounting policies, that income had been presented on the accrual basis, the Cess income of Rs.21,788,225 and annual charges income of Rs.2,911,605 recognized as the receivable from the National Insurance Trust Fund relating to the period from 2011 to 2015 had not been included in the financial statements while the Cess income of Rs.7,668,309 received from the Fund during the year under review in respect of the preceding years had been included in the accounts as an adjustment made to the income of the current year.

#### 2.2.2 Accounting Deficiencies

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Insurance income received in advance in respect of period prior to the year 2014 and from the year 2014 amounting to Rs.484,511 and Rs.1,550,060 respectively existing had not been recognized and brought to account as the income of the Board.

### 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

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The following non-compliances with Laws, Rules, Regulations and Management Decisions were observed.

| <b>Reference to Laws, Rules and Regulations</b>   | <b>Non-compliance</b>   |
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| <hr/>   | <hr/>   |
| <p>(a) Regularization of Insurance Industry Act, No.43 of 2000 and the amendments made thereto</p> <p>(i) Sub-section 33(2)</p> | <p>In case of receipt of a notification to the Board from an insurer on a proposed appointment, elected appointment or nomination of any person as a director of the insurer, the Board should approve or reject that appointment, election, or the nomination within 30 days from the receipt of that notification. Nevertheless, despite the receipt of requests for such appointments of two insurance companies, action thereon had been delayed over</p> |

periods ranging from 1 year to exceeding 3 years.

(ii) Section 38(1)(b)

Assets relating to the long standing insurance enterprise should be separately maintained from the assets of insurance enterprise of another class, whereas out of the 11 registered insurance companies 8 insurance companies had been separately registered in the year 2015, while 3 companies had not been so registered.

(iii) Section 103 (2) and Section 10 of the Gazette Extraordinary No.1412/30 dated 29 September 2005.

Although the money credited to the Policy Holders Protection Fund should be used for the protection of the policy holders, contrary to that, the Board had obtained sums of Rs.3,513,004 and Rs.3,012,711 from the Fund respectively for the operating deficit and the capital expenditure during the year under review.

(b) Public Enterprises Circulars

(i) Paragraph 9.14 of the Circular No.PED/12 dated 02 June 2003.

Administrative Manual should be prepared and forwarded to the Secretary to the Treasury with the approval of the Board of Directors and the concurrence should be obtained thereto. Despite the non-receipt of the concurrence of the Secretary to the Treasury thereto even by 30 June 2016, festival advance totalling Rs.1,550,000 at Rs.50,000 had been paid to 31 officers of the Board as specified therein.

(ii) Paragraph 3 of the Circular No.PED/2/2015 dated 25 May 2015.

Even though it is specified that the cost of equipment and accessories which should be purchased in obtaining residential telephone, mobile phone or internet facilities should be borne by the officer concerned, the sum of Rs.111,032 spent by the Board for supply of 4 mobile phones to 4 officers had not been recovered from the officers concerned.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the pre-tax profit of the Board for the year ended 31 December 2015 had been a surplus of Rs.187,126 as compared with the corresponding surplus of Rs.163,129 for the preceding year, thus indicating an increase of Rs.23,997 in the pre-tax profit of the year under review as compared with the preceding year. Although annual charges received from the insurance companies had increased by Rs.35,563,169 in the year under review as compared with the preceding year, the decrease in the transfers to the Policy Holders Fund by Rs.20,687,991 and increase in the employees remuneration by Rs.10,898,972 and operating expenditure by Rs.4,127,872 had mainly attributed to the above increase.

An analysis financial results of the year under review and 4 preceding years revealed that, despite the decrease of the pre-tax profit in the year 2013 by 38 per cent as compared with the year 2012, it had continuously increased since the year 2013 up to the year under review. When taking into consideration the employees remunerations and the depreciation on the non-current assets, the contribution amounting to Rs.42,311,901 in the year 2011 had increased up to Rs.75,606,943 by 79 per cent in the year under review.

### **4. Operating Review**

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#### **4.1 Performance**

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In terms of Section 3 of the Regulation of Insurance Industry Act, No.43 of 2000, the objective and the responsibility of the Board are to ensure that insurance business in Sri Lanka is carried on with integrity and in a professional and prudent manner with a view to safeguarding the interests of the policyholders and potential policyholders.

The following observations are made on the achievement of the above objectives.

- (a) In case of an issue relating to an insurance claim made by the insured , the Board reserves the statutory powers to investigate the same. Nevertheless, out of complaints received during the year under review, 41 complaints had not been settled even by 27 June 2016.
- (b) In order to conduct awareness programmes on the insurance and insurance industry for the school community, although letters had been sent to the selected 11 schools in the district of Colombo during the year under review, only one programme had been conducted in a school which had not been included therein.
- (c) Having compared the regulatory framework presently used in the insurance industry with the insurance core principles (ICPS) of the International Association of Insurance Supervisors (IAIS), creation of an assurance that fair treatment to the customer (FTC) is a one objective included in the Action Plan. Nevertheless, the report prepared on conducting a study with regard to its creation had been forwarded to the Board of Directors seeking its approval on 08 December 2015, but the relevant future activities had not been completed even by 27 June 2016, the date of audit.

## 4.2 Uneconomic Transactions

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Since 1667 copies of Annual Reports costing Rs.2,277,122 printed from the year 2012 to the year 2014 without properly recognizing the requirement had remained unused, the cost incurred thereon had become a fruitless expenditure.

## 4.3 Operating Inefficiencies

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The following observations are made.

- (a) The leaflets titled “ The things you should know about the Health Insurance and be knowledgeable on your rights and duties as an insurance policy holder ” which had been scheduled to be printed in the first and second quarters of the year under review in order to educate the community on the insurance through the leaflets had been printed in July 2016, whereas awareness activities had not been carried out even by 28 July 2016.
- (b) With a view to improving the insurance policies for the well- being of insurance industry and the policyholders, the recommendations on the fire protection insurance had been selected for reviewing the products of the companies during the year, whereas those activities had not been completed even by the end of the year.
- (c) The Board had imposed a suspension on a private insurance company in the year 2009 and in pursuance of the order made by the Supreme Court at the relevant fundamental right case, the Board had entered into a memorandum of understanding with that company on 06 July 2012 for disposing of the assets of the said company in order to gradually settle the authentic insurance claims made to that company. Nevertheless, the Board had failed even by 16 June 2016 to settle any insurance claim out of the 142 authentic claims made.
- (d) According to a newspaper advertisement published by the Board on 22 April 2012, the registration of insurance brokers had been suspended and despite the suspension had not been terminated even by March 2016, one insurance company which had been registered only for the general insurance had been granted registration of the Board for the long term insurance from May 2015. That company had not dealt with the long term insurance for a period of one year from May 2015 to May 2016 and the registration had not been renewed for the year 2016.
- (e) In terms of the Solvency Test and the Risk Based Capital (RBC) rules being monitored by the Board, all the insurers should maintain minimum solvency margin. Nevertheless, the evidence with regard to taking future actions by the Board on a company, the total capital value of which was continuously dropping and a company, the Solvency Ratio of which existed less than the level due to be maintained in the year 2015 had not been furnished to audit.
- (f) Although an institute had not presented quarterly reports and Compliance Certificate pertaining to the year under review to the Board, the Board had not taken future action in this connection.

- (g) Even though it had been planned to compile a Guideline Manual which can be commonly used for the enquires made by the insured in the institutions, the relevant amended draft report had been referred to the parties related to the insurance industry on 14 June 2016 to obtain their views and as such it had remained inoperable even by 27 June 2016, the date of audit.
- (h) Although the Board had planned to carryout investigations properly on the claims made by the insured through external parties since year 2013, the final approval for the relevant Draft Guideline Manual had not been received even by 28 July 2016.

#### **4.4 Staff Administration**

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The following observations are made.

- (a) The approval of the Department of Management Services had not been obtained for the Scheme of Recruitment relevant to the posts of the Board.
- (b) An officer had been recruited to the vacant post of Director (Law Enforcement) on contract basis on 18 May 2015 and the age limit shown in the newspaper advertisement published relating to this recruitment had been stated as “ from 35 years to 50 years”. Out of the applications received in this connection, there were 9 qualified officers and without taking action to recruit a permanent officer from among them, an officer of 33 years of age had been recruited on contract basis.
- (c) Deviating from the Scheme of Recruitment, a female officer had been recruited to the post of Consultant Actuary from October 2012 to February 2016 on an agreement forwarded through the e-mail. Without establishing her arrival and departure, a sum totalling Rs.7,514,871 had been paid as the salary and allowances from October 2012 to December 2015.
- (d) While an officer had been recruited for the unapproved post of Actuary on a monthly allowance of Rs.15,000 from June 2015 to June 2016, deviating from the Scheme of Recruitment an officer had been recruited on contract basis for a period of two years on a monthly payment of Rs.200,000 from 01 January 2016.

### **5. Accountability and Good Governance**

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#### **5.1 Action Plan**

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In terms of Paragraph 4 of the Public Finance Circular No.01/2014 dated 17 February 2014, specifies that an Action Plan inclusive of the activities targeted to be achieved the objectives referred to in the relevant Act should be prepared the Board had not so prepared the Action Plan.

#### **5.2 Budgetary Control**

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As overprovisions ranging from 15 per cent to 100 per cent existed between the budgeted and actual expenditure of 53 items of the Budget for the year under review, budget had not been made use of as an effective instrument of management control.

## 6. **Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Board from time to time. Special attention is needed in respect of the following areas of control.

### **Areas of Systems and Controls**

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### **Observations**

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(a) Fund Control

Incurring of expenditure irrelevant to the Fund and allocation of funds for the future expenditure.

(b) Staff Administration

Payment of salary increments contrary to the provisions in the Establishments Code and regardless of the date of appointment.

(c) Revenue Control

(i) Repayment of annual fees without an Approval

(ii) Failure to recognize the income on accrued basis