

National Insurance Trust Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the of National Insurance Trust Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act, No. 19 of 2018 and Finance Act, No.38 of 1971. My comments and observations which I consider should be presented to Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Fund 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 Fund.

1.4 Scope of Audit

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 scepticism 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, 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 Fund'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 Fund'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 Fund 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 Fund, and

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

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

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

Non-compliance with Reference to the relevant Standard	Comments of the Management	Recommendation
<p>In terms of paragraph 32 of Sri Lanka Accounting Standard 1 regarding the presentation of financial statements, it is specified that an entity shall not offset assets and liabilities or income and expenses, unless required or permitted. However, a credit balance of Rs.9,479,460 exceeding 90 days in the premium income receivable relating to a private insurance company, of the Reinsurance Division, had been included in the receivable balance of the Reinsurance Division. As such, the premium income receivable had been understated by Rs.9,479,460 in the statement of financial position. Moreover, credit balances of Rs.412,293 had been included in the Receivable Premium Income Account of the Non-motor Division, thus understating the non-motor premium income receivable as well by Rs.412,293.</p>	<p>It is agreed with audit decisions and steps will be taken to rectify them.</p>	<p>Preparations should be done in compliance with Sri Lanka Accounting Standards.</p>

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>(i) In the issuance of invoices for the year 2011 relating to the insurance cover for the Strike, Riot, Civil Commotion, and Terrorist Activities (SRCC & TR), monthly net income had been invoiced by deducting the commission payable from the non-motor premium income. However, gross premium income and expenditure on commission had been brought to account separately in the presentation of accounts. As such, it was observed at the audit test checks that an additional assessment of Rs.35,967,319 has been made by the Inland Revenue Department for the liability of Nation Building Tax computed on the premium income of the income statement. Moreover, no allocations whatsoever had been made in the financial statements for the liability of Nation Building Tax payable.</p>	<p>In the issuance of invoices for the year 2011, monthly net income was invoiced by deducting the commission payable from the non-motor premium income as per the previous practice. However, in the presentation of accounts, gross premium income and expenditure on commission had been brought to account separately. As such, Value Added Tax and Nation Building Tax had been computed on the premium income of the income statement, thus resulting in an understatement of taxes paid by our institution and an additional assessment was made therefor. However, local general insurance companies collect SRCC premiums from customers and remit NBT to the Inland Revenue Department on the premium income. As the insurance companies remit the SRCC premium collected from customers to the National Insurance Trust Fund on the same source, the National Insurance Trust Fund had to pay NBT and as such, it is a double taxation. Even though an appeal was made for exemption from the said Nation Building Taxes, it has been indicated as a balance further payable and allocations have not been made therefor in the financial statements.</p>	<p>Paying of tax should be regularized.</p>
<p>(ii) Even though the crop insurance tax income amounting to Rs.430,506,164 relating to the quarter ended 31 December 2019 had been</p>	<p>Collection of money for this Fund depends on the profit of institutions connected thereto. As such, it is informed that our institution cannot forecast on the</p>	<p>Accounts should be prepared on accurate information relating to the year under review.</p>

received during the month of January 2020, the said amount had not been brought to account by identifying as receivable for the year 2019. Moreover, the sum of Rs.394,646,100 received in the year 2019 relating to the final quarter of the year 2018 had been brought to account as a receivable of the current year, thus overstating the crop insurance tax income relating to the year by Rs.35,860,064. Further, crop insurance tax had been understated by Rs.394,646,100.

profit earned by other institutions and the crop tax receivable had not been brought to account. However, income for the year consists of income of 4 quarters.

- (iii) Agrahara insurance premiums receivable from Government and semi-government institutions by 31 December 2019 had not been brought to account, thus understating the Agrahara insurance income and the relevant account receivable by Rs.355,310,770.
- In the computation of Agrahara premium income, the income received for the relevant month is considered as the monthly income. That is, it has been brought to account on cash basis. As such, a sum of Rs.245,693,637 relating to the year 2018 has been brought to account during the year 2019.
- Accounts should be prepared on accurate information relating to the year under review.
- (iv) Balance of 03 Foreign Currency Accounts of the National Insurance Trust Fund and the SRCC & TR Division remained as at 31 December 2019 had not been converted into the exchange rate quoted as at that date, thus overstating in accounts by Rs. 875,650.
- It is recorded to rectify the error occurred in converting balances in USD and Euro of the Fund and balances of the SRCC Division into Rupees.
- Accounts should be prepared on accurate information relating to the year under review.
- (v) A payable Agrahara claim valued at Rs.6,235,690 brought forward for five years, remained in the Slip Returned Control - Agrahara Account bearing No.8605 and
- Information has been made available to the previous Board of Directors relating to balances mentioned herein, whose opinion was to take action according to the instructions of the Board of
- Payment of benefits of Agrahara should be promptly finalized.

action had not been taken up to now to pay this amount to relevant parties or to take steps therefor or to bring to account accurately in case of no such further liability. Audit. The decision of the Board of Audit was to refer to the Board of Directors again. As such, action will be taken to forward the decision relating to the said balances to the new Board of Directors in future.

- (vi) Action had not been taken to settle or to obtain reasonable confirmation on the commitment to settle or bring to account, a payable balance premium of Rs.3,843,488 brought forward since the year 2007. Moreover, an impairment adjustment as well had not been carried out on this balance up to now. Future action will be taken on the instructions received after forwarding information on this balance to the Board of Directors. Payment of benefits of Aghara should be promptly finalized.

1.5.3 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Evidence not made available	Comments of the Management	Recommendation
(i) Cash receivable from Reinsurance companies	1,068,471,618	Letters of Confirmation on direct balances	Even though letters on confirmation of balances have been sent to companies, replies have not been received as yet. They will be submitted to Audit immediately after receipt. This balance is a payable balance brought forward since the year 2017. According to recommendations thereon of the Audit Committee, action will be taken for future measures by forwarding to the Board of Directors.	Letters of Confirmation on direct balances should be made available to Audit.

(ii)	Cash receivable - Reinsurance	9,053,364	Detailed schedules	Not replied	Detailed schedules should be made available to Audit.
(iii)	Claims to be settled	4,077,033	Detailed schedules	Action will be taken for future measures by forwarding information on this balance to the Board of Directors.	Detailed schedules should be made available to Audit.
(iv)	Cash payable to the Strike, Riot, Civil Commotion and Terrorism Fund Unit	644,068	Detailed schedules	Not replied	Detailed schedules should be made available to Audit.
(v)	Other non-financial assets – value receivable	3,462,111	Detailed schedules	Information has been made available to the previous Board of Directors relating to balances mentioned herein, whose opinion was to take action according to the instructions of the Board of Audit. The decision of the Board of Audit was to refer to the Board of Directors again. As such, action will be taken to forward the decision relating to the said balances to the new Board of Directors in future.	

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(i) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Regulation 396	Action had not been taken in terms of Financial Regulation 396 relating to the value of cheques amounting to Rs.51,365,408 payable under Account No.8630 but not presented to the bank.	Among many of the cheques not presented to the bank, are relevant to natural disaster insurance. Even though District Secretariats had been briefed thereon, many of them have not still been submitted for payment. The District Secretariats have returned a certain number of cheques due to absence of cheque recipients. Action was taken to eliminate the value of Rs.5,205,873 from this account. Further action will be taken on the approval of the Board of Directors relating to the remaining cheques.	Action should be taken in terms of Financial Regulations.
(ii) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Regulation 396	According to the bank reconciliation statement as at 31 December 2019, there were cheques valued at Rs.4,811,225 elapsed for 06 months after issuance, brought forward since the year 2018 and action had not been taken in terms of Financial Regulation 396 to identify and settle those cheques as payable, but not presented.	Further action will be taken on instructions of the Board of Directors relating to these cheques.	Action should be taken in terms of Financial Regulations.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operating result of the Fund for the year ended 31 December 2019 amounted to a net profit of Rs.3,114,086,727 as compared with the corresponding net profit of Rs.3,183,238,866 for the preceding year, thus observing a decline of Rs.69,152,140 in the financial result for the year under review. The increase in net earnings and payment of claims by Rs.2,388,669,593 and the increase in the gross difference of financial and other expenses by Rs.21,062,606 had mainly attributed to the decline of the financial result of the year under review.

Analysis on the financial result of the year under review and 03 preceding years is as follows.

	2016	2017	2018	2019
Income from net premiums	8,850,506,451	11,613,833,982	13,653,431,467	16,448,026,766
Other income	988,689,180	1,163,719,071	1,349,867,329	1,269,216,686
Expenditure				
Net earnings and payment of claims	(5,543,154,699)	(9,900,699,368)	(9,690,648,221)	(12,079,317,814)
Underwriting and expenditure on acquisition	(1,068,320,881)	(1,440,826,507)	(1,609,566,546)	(2,055,691,850)
Other operations and administration expenses	(387,968,196)	(344,678,298)	(414,244,501)	(552,685,117)
Financial and other expenditure	-	-	-	(21,062,606)
Total earnings, payments and other expenditure	(6,999,443,776)	(11,686,204,174)	(11,714,459,268)	(14,708,757,386)
Profit before tax	2,839,751,855	812,818,162	3,288,839,528	3,008,486,066
Expenditure on tax	-	(100,951,677)	(105,600,662)	(105,600,662)
Profit after tax	2,839,751,855	976,233,935	3,183,238,866	3,114,086,727

The surplus which was Rs.2,839,751,855 in the year 2016 had decreased up to Rs.976,233,935 in the year 2017 and it had again increased up to Rs.3,183,238,866 in the year 2018. It had again decreased up to Rs.3,114,086,727, that is by Rs.69,152,139 in the year 2019.

3. Operating Review

3.1 Management Inefficiencies

Audit Observation	Comment of the Management	Recommendation
Even though a sum of Rs.1,286,505 had been deposited for the stores obtained from the Department of Railways under the Refundable Deposits – Stores	Action is being taken to enter into the relevant agreement.	Formal agreements should be entered into.

Account No.38 of SRCC & TR Division, the relevant agreements had not been entered into even by the date of audit.

3.2 Procurement Management

Audit Observation	Comment of the Management	Recommendation
<p>(a) Procurement relating to the Reinsurance Programme of National Natural Disaster Insurance Scheme</p>		
<p>(i) Even though approval had been given at the meeting of SCAPC held on 02 April 2019 to publish the newspaper advertisement of the said reinsurance on the website of the Ministry of External Affairs, evidence to the effect that it was done had not been made available. However, only a copy of the email forwarded to the Ministry of External Affairs in support of publishing the newspaper advertisement on the website of the said Ministry, had been made available.</p>	<p>The letter dated 01 February 2019 relating to the appointment of Technical Evaluation Committee by the Director General of the Department of Public Finance has received by our institution by fax on 05 February 2020 while it was received by the Department of Reinsurance on 08 February 2019.</p>	<p>Procurement process should be streamlined.</p>
<p>(ii) According to 2.12 of the Procurement Guidelines, members of the Procurement Committee and Technical Evaluation Committee are required to sign a declaration. Nevertheless, two officers had not signed those declarations.</p>	<p>Replies have not been made.</p>	<p>Procurement process should be streamlined.</p>
<p>(iii) One member had not participated in the TEC meeting and even a note for the absence had not been made. Even though a SCAPC meeting had been held for granting approval in respect of bid documents, only the attendance of one member had been noted therein. Nevertheless, no signature had been placed that, it is agreed/not agreed with the decisions.</p>	<p>Since the files required to make replies were not returned, replies could not be made.</p>	<p>Procurement process should be streamlined.</p>

(iv) According to the Minutes of TEC meeting held for the evaluation of bids, three persons had participated therein and it had been decided to select the institution which submitted the highest bid. Nevertheless, two members had noted that the lowest bid should be reduced to one billion rupees.

Agree.

Procurement process should be streamlined.

(v) Since two members had stated that the lowest bid should be reduced to one billion rupees, the supplier of the year 2018 had been informed that the agreement pertaining to National Natural Disaster Insurance Scheme was extended up to 31 December 2019. Nevertheless, according to the SCAPC meeting held on 22 July 2019, the said institution should have reimbursed a sum of Rs.17,220,680 to the Fund owing to the flood disaster and such money had not been reimbursed even up to the date of audit. Nevertheless, the Chief Executive Officer of the Fund, by the letter dated 20 August 2019 had informed the relevant institution to extend the reinsurance up to 31 December 2019.

Agree.

Procurement process should be streamlined.

(b) Procurement relating to the Reinsurance Programme of Strike, Riot, Civil Commotion, and Terrorist Activities Fund

The reinsurance activities of the Strike, Riot, Civil Commotion, and Terrorist Activities Fund established as per the Cabinet decision dated 18 November 1987 and functioning under the Fund, had been commenced in the year 2017. The following matters were observed in the examination of procurement files in this connection.

A Cabinet Appointed Procurement Committee had been appointed for the reinsurance of the SRCC & TR Division for the year 2019 and the following decisions were taken by the

said Committee.

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| (i) | Since the bidders have not forwarded original copies, it had been recommended that the bids submitted by Technical Evaluation Committee were not valid and to call the bids again, | Agree. | Procurement process should be streamlined. |
| (ii) | To grant additional 02 weeks as the minimum period of bidding time of 42 days was not adequate, | Agree. | |
| (iii) | To extend the present reinsurance from 01 July 2019 to 31 December 2019. | Agree. | |
| (iv) | To seek the approval for extension of period from 01 January 2019 on the Cabinet Approval | Agree. | |

According to the Cabinet decision dated 29 October 2019, approval had been given to obtain the reinsurance from 01 January 2019 to 31 December 2019 from the supplier of the year 2018 as stated in the Cabinet Memorandum dated 11 October 2019 submitted for extension of the period of reinsurance of the National Insurance Trust Fund as per the Cabinet Paper No. 108232/2952/19.	The Cabinet Memorandum dated 11 October 2019 has given the approval to obtain the reinsurance from 01.01.2019 to 31.12.2019 from the supplier of the year 2018.	Procurement process should be streamlined.
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(c) **Procurement Relating to Reinsurance of Agricultural Insurance Coverage**

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(d) **Procurement Relating to Transfer of 30 per cent of Compulsory Reinsurance under the Reinsurance Programme.**

<p>-----</p> <p>In order to select a suitable reinsurer for the procurement pertaining to the transfer of reinsurance for the year 2019/2020, the Fund had published a notice on the Daily News and the website of the Fund on 12 February 2019 and a decision had been reached to terminate the procurement process on 25 March.</p>	<p>Agree.</p>	<p>Procurement process should be streamlined.</p>
<p>(i) According to the bids submitted by the reinsurers and the relevant requirements, as one insurance company had not presented document on the experience, its minimum financial strength could not be ascertained, and due to reporting unsatisfactory experiences on the recovery of reinsurance compensation, it had been recommended appropriate to recall for bids and to adopt new procurement method and further, to continue this process based on a Cabinet Appointed Standing Procurement Committee operating under the Ministry of Finance.</p>	<p>Not agreed. Explanations had been made for the justification of selecting minimum bid.</p>	<p>Procurement process should be streamlined.</p>
<p>(ii) However, as a period of 91 days is taken for the process of calling for international competitive bids, the Cabinet Appointed Procurement Committee held on 15 May 2019 had decided to extend the existing reinsurance up to 25 May 2019.</p>	<p>Agree.</p>	<p>Procurement process should be streamlined.</p>
<p>(iii) According to the new procurement process, the period for the submission of bids had been fixed up to 21 October 2019. Therefore, due to the delay of the relevant procurement process,</p>	<p>Agree.</p>	<p>Procurement process should be streamlined.</p>

recommendations had been made at the relevant Committee meeting to extend the agreement of the existing reinsurance from 15 March 2019 to 15 March 2020. Accordingly, for the Cabinet Memorandum titled Extension of the Reinsurance Period of the National Insurance Trust Fund presented by the Minister of Finance on 11 October 2019 under the Proposal No.HF/113/CM/2019/296 seeking Cabinet approval, action had been taken to grant approval as per the Cabinet Paper No.19/2952/108/232-1

3.3 Operating Inefficiencies

Audit Observation	Comment of the Management	Recommendation
<p>I. In order to be the best service provider in the public sector by creating a consumer friendly physical environment on the ground floor of the new building and planning a consumer centered island wide service supply system within that centre, plans had been drawn in the Action Plan to implement relevant activities from the year 2019. Nevertheless, any relevant detail had not been disclosed in the Progress Report.</p>	<p>Although there are some delays in the activities relating to the establishment of consumer service centre on the ground floor of the new building, it is informed that relevant activities are in their final stage at present.</p>	<p>Expected activities of the Action Plan should be completed.</p>
<p>II. Even though it had been planned to complete the development of consolidated claims management system connected with the Agrahara Insurance consumer data base within the first quarter of 2019, it had not been completed even by the year 2020. Accordingly, its achievement was not at a satisfactory level.</p>	<p>Having obtained the consultancy service of the ICTA by the present management, the Board of Directors has given instructions based on the above consultations to pay the relevant claims and to obtain Agrahara income system.</p>	<p>Expected activities of the Action Plan should be completed.</p>

<p>III. With the concurrence of the Ministry of Finance and the Ministry of Disaster Management, the Fund had fixed objectives to restructure the benefits and to cover the limits for the National Natural Disaster Insurance Scheme (NNDIS) including the performance indicators of covering tea small holders and livestock farmers and building up of coordinating structure with more responsibility with the Agricultural and Agrarian Insurance Board (AAIB). Nevertheless, the Fund had informed the Audit that the National Insurance Trust Board had not issued the insurance policy for the year 2021/2020 after 31.03.2020.</p>	<p>With the objective of providing essential services for the houses and small scale enterprises damaged at the natural disasters, the Natural Disaster Insurance Policy was annually issued to the Ministry of Finance from 01/04/2016. Nevertheless, the National Insurance Trust Board had not issued the insurance policy for the year 2020/2021 after 31.03.2020.</p>	<p>Expected activities of the Action Plan should be completed.</p>
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<p>IV Under the development of general insurance industry in commercial nature for making a considerable contribution towards the profitability of the general insurance, plans had been drawn to make 6 per cent quarterly contribution or 24 per cent annual contribution from the general insurance and quarterly contribution of Rs.75.5 million as before tax profit or Rs.70 million annual contribution from the general insurance field to the Fund out of the gross profit of the Fund during the year 2019.</p>	<p>Agree.</p>	<p>Expected activities of the Action Plan should be completed.</p>
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The progress thereof had also not been included in the annual progress report and it was observed in the financial statements 2019 that a loss of Rs.13,889,693 had annually incurred from the general insurance. Accordingly, it was further observed that the above target had not been achieved.