

## **People's Insurance PLC -2019**

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### **1.1 Opinion**

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The audit of the financial statements of the People's Insurance PLC ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of Profit or Loss, statement of 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 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. My comments and Observations which I consider should be reported 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 of the company give a true and fair view of the financial position of the Company as at 31 December 2019, 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**

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

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

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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 Responsibility for the audit of the Financial Statements**

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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 IT General Controls

#### Audit Issue

i. Company had not performed any privileged user account monitoring function in application level, database level and operating system level during the financial period, for GIS and HR systems.

ii. During the review, it was noted that user accounts of resigned employees were not deactivated and remained active after their resignation dates at the time of review, as at 27 December 2019. Below indicates such sample of user accounts with the above issue.

User ID	Status	Date of Resignation (DD/MM/YYYY)
MALINMD	Active	29/05/2019
NADEESHG	Active	27/09/2019
DHANUSHKAH	Active	31/10/2019
DINUKAH	Active	27/05/2019
JEHANJ	Active	01/05/2019
KIRUSHANT	Active	08/06/2019
THUSHARASP	Active	01/12/2019
RUCHIRAD	Active	01/02/2019
WASANAW	Active	03/12/2019

Table-A

#### Management Comment

People's Insurance PLC do not have privileged user by means who have overall access, except admin users for each system and applications. These admin user access logs monitoring function must be done by a separate entity except from ICT and the access granting unit. Currently the company in the process of appointing a Chief Information Security Officer (CISO) for the company as well as purchasing a tool for admin user access monitoring.

Following user ID was deactivated. The details are as follows.

User ID	Date of Deactivation
MALINMD	20/12/2019
THUSHARA SP	31/12/2019
WASANAW	12/12/2019

User ID JEHANJ rejoined on 15<sup>th</sup> Oct 2019. It is not required to deactivate.

Following user IDs have been deactivated.

User ID	Date of Deactivation
NADEESHG	28/5/2020
DHANUSHKA H	28/5/2020
DINUKAH	28/5/2020
KIRUSHANT	28/5/2020

#### Recommendation

Need to be take necessary action on user action monitoring.

Should strictly adhere to deactivate the user accounts of resigned employees immediately after their resignation.

iii. It was noted that user accounts of resigned employees were not deactivated on a timely basis and the user accounts of resigned employees were utilized to log into GIS system after their resignation dates, at the time of review, as at 27 December 2019. Below indicates such sample of user accounts with the above issue.

The user ID JEHANJ rejoined in the company. Action will be taken by the company to streamline the user deactivation process immediately

Should strictly adhere to deactivate the user accounts of resigned employees immediately after their resignation.

User ID	Date of Resignation (DD/MM/YYYY)	Last Login Date (DD/MM/YYYY)
JEHANJ	05/01/2019	09/12/2019
PRABODS	30/04/2019	22/05/2019
CHARIT HJP	17/12/2018	26/06/2019
THILANP	28/02/2019	18/03/2019

iv. It was noted that transactions had been raised using the below resigned employees' user ID in the GIS system even after his resignation date. Below indicates the user account with the above deficiency.

Action will be taken by the company to streamline the user deactivation process immediately.

Should strictly adhere to deactivate the user accounts of resigned employees immediately after their resignation.

User ID	Date of Resignation (DD/MM/YYYY)	Last Transaction Date (DD/MM/YYYY)
PRAB ODS	30/04/2019	22/05/2019

v. During the review, noted that the business level "change Authorized Officer" details are not captured in the change management documentation for GIS system.

Noted. The company will amend the documentations to include the authorized officers.

Need to amend the change management document as required.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 912,029,738 and the corresponding profit in the preceding year amounted to Rs. 847,015,921. Therefore, an improvement amounting to Rs. 65,013,817 of the financial result was observed. The reasons for the improvement are effective claims management and strong growth in interest and dividend income.

## 2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	Variance Amount Increase/ (Decrease) Rs.	Variance %	Reason for the variance
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Gross written premium	438,158,129	7.83	Business growth was mainly driven by non-captive business channels – National Sales channel & Bancassurance channel. Business growth of these two channels in 2019 was 49% and 35% respectively. In addition, direct business also grew by 9%.
Change in reserve for unearned insurance premium	(201,912,065)	46.9	Change in unearned insurance premium reserve dropped by 46.9% mainly due to the lower GWP growth reported during the year compared to the previous year. Growth in GWP was 7.8% in 2019 and 16.9% in 2018.
Premium ceded to reinsurance	98,583,275	20.44	Main reason for the higher reinsurance premium is increase of GWP by 7.8%. Further, non-motor share which is subject to a higher reinsurance premium increased by 1% during the year. As a result reinsurance/GWP ratio has also increased by 9% to 10%.
Interest and dividend income	117,043,732	17.62	Increase is mainly due to 10% increase in funds under management and astute investment decisions including increasing the investments in debentures.
Net claims	315,348,749	9.74	GWP is directly linked to claims expenses. Hence, net claims have also increased with GWP growth. In addition, miscellaneous class claim ratio has increased from 83% to 123% during the period, mainly from the medial products.
Other operating and administrative expenses	214,061,590	24.14	Staff expense which include salaries, staff benefits and other related expense has increased Rs. 120 Mn mainly due the increase in no. of employees (2019 607 and 2018 - 554). Amortization and depreciation has increased by Rs. 55.2

Mn. (Recognition of Right-of-Use Assets and depreciation under SLFRS-16). Impairment loss increased by Rs. 31.2 Mn (mainly from debtors impairment provision which increased to Rs. 51.7 Mn from Rs. 33.8Mn).

Income tax expense            146,422,144                    124

The main reason for the increase is the expiry of the concessionary tax rate of 14% which was available for the Company for the period of 3 years, in 2019. As a result, applicable tax rate for 2019 was 28% (2018 – 14%). In addition, profit before tax also increased by 8% in 2019.

**2.3 Ratio Analysis**  
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According to the financial statements and information made available to audit, some important ratios for the year under review as compared with the preceding year are given below.

<b>Ratio</b> -----	<b>2019</b> -----	<b>2018</b> -----
Net claim ratio	67.5%	68.7%
Expense ratio	31.2%	28.6%
Net combined ratio	98.7%	97.4%
Return on equity	18%	23%
Return on asset	7%	9%
Capital adequacy ratio	248%	256%

**3. Operational Review**  
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**3.1 Operational Inefficiencies**  
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**Audit Issue**  
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**Management Comment**  
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**Recommendation**  
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Staff loan balance has been included the amounts due from the employees who have already resigned from the Company. As a result of that, the Company cannot recover the due amounts from such resigned employees.

Recovery of the due amounts has been addressed through Mediation Board. Also the property will be under the company custody with Registration Book. And proper valuation will

Need to take actions to recover the outstanding balances.

Further even the bicycles were handed over by the resigned employees, the outstanding

balances are still appearing in the staff vehicle loan account as at 31 December 2019.

carry out to pass on to transfer the property. Suitable steps will be taken in future to recover the due loan amount.

### 3.2 Procurement Management

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----																				
<p>i. It was observed that company does not have a list of registered suppliers. Instead of that, company uses the suppliers list of the parent company (Peoples Leasing &amp; Finance PLC). Further observed that the goods had been procured by calling the quotations from the suppliers who were not on that list.</p>	<p>Company uses the suppliers list of the parent company. Also to ensure price competitiveness, one quotation was taken from the open market.</p>	<p>Need to have a list of registered suppliers within the company.</p>																				
<p>ii. According to section 3.1.4 of procurement policy of the company minimum three quotations should be obtained. However, in following instances company has not taken required minimum number of quotations.</p>	<p>A/C machine fixed in the PLC (Parent company is in operation at 1<sup>st</sup> floor) floor and it was compatible with same model and same capacity.</p>	<p>Need to adhere with Procurement policy.</p>																				
<table border="1"> <thead> <tr> <th style="text-align: left;"><b>Item</b></th> <th style="text-align: left;"><b>Journal No</b></th> <th style="text-align: left;"><b>Amount Rs.</b></th> <th style="text-align: left;"><b>No of quotations obtained</b></th> </tr> </thead> <tbody> <tr> <td>Air Condition Machine</td> <td>HO19V00 33926</td> <td>322,900</td> <td>01</td> </tr> <tr> <td>CCTV Camera System</td> <td>HO19V00 39589</td> <td>186,548</td> <td>01</td> </tr> <tr> <td>Computer</td> <td>HO19V00 38464</td> <td>5,260,000</td> <td>01</td> </tr> <tr> <td>Furniture</td> <td>HO19V00 49749</td> <td>2,200,976</td> <td>01</td> </tr> </tbody> </table>	<b>Item</b>	<b>Journal No</b>	<b>Amount Rs.</b>	<b>No of quotations obtained</b>	Air Condition Machine	HO19V00 33926	322,900	01	CCTV Camera System	HO19V00 39589	186,548	01	Computer	HO19V00 38464	5,260,000	01	Furniture	HO19V00 49749	2,200,976	01	<p>Only 5 CCTV cameras were procured from the same supplier who fixed PLC H/O CCTV cameras (05 nos) to the existing CCTV cameras of the parent company as cost effective measure.</p> <p>As per the procurement manual, PI can purchase computers from the parent company registered supplier list.</p> <p>Parent company registered supplier is under same location, however 3 nos of quotations obtained for PIL Jaffna new regional branch opening. Same quotation was approved for PI Vauniya regional branch during the same period approved by DMU.</p>	
<b>Item</b>	<b>Journal No</b>	<b>Amount Rs.</b>	<b>No of quotations obtained</b>																			
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<p>iii. It was observed that the price levels were not specified relevant to each procurement method in the procurement policy and company generally using the method of calling quotations from the registered suppliers and certain instances Decision Making Unit (DMU) decides the method of procurement according to the nature of the procurement when it is necessary.</p>	<p>Follow the Board Approved Procurement manual.</p>	<p>Need to update existing Procurement Policy with needful sections in order to maintain transparency and existence.</p>
<p>iv. Although the form of Capital Assets Requisition states that technical evaluation recommendations are required when necessary, company has not appointed a Technical Evaluation Committee (TEC). Further observed that the absence of definition, composition, responsibilities and duties of the TEC in the procurement policy.</p>	<p>As covered in Procurement Manual, instead of TEC that there is a position/member in DMU as Associate Business System Architect for ICT relevant Procurement and also there is a requirement to take recommendation for technical evaluation in capital asset request form.</p>	<p>Need to be document for formalize the technical evaluation process.</p>

### 3.3 Human Resources Management

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#### Audit Issue

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#### Management Comment

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#### Recommendation

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<p>i. The company uses Professional Competency Requirement List for each post prepared by the HR department as a Scheme of Recruitment (SOR). Further it was observed that designations above manager level and some of main departments (Eg : IT, Internal Audit, Marine, Risk and Compliance) were not covered by such list.</p>	<p>The competency based development and recruitments are still under developments and discussion as new HR initiatives for the company for 2020/21.</p>	<p>Need to take actions.</p>
<p>ii. It was observed that some employees have been recruited without minimum qualifications required under Professional Competency Requirement List.</p>	<p>The competency based development and recruitment is still under development. As a new initiatives for 2020/21 for claims (Engineering) and sales staff company does not require strictly to follow passing A/L.</p>	<p>Need to adhere with Professional competency Requirement List.</p>
<p>iii. Although every enterprise need to have an Organizational Chart with an approved cadre for the institution, board</p>	<p>There is a Board approved Cadre under company 2019 budget.</p>	<p>There should be a separate board approved carder, prepared after</p>



approved cadre for the company was not presented for audit.

the carder assessment of the company other than the showing the existing carder in the annual budget.

iv. According to the section 1.4.2 of HR policy & Procedure Manual stated that in the case of non-availability of suitable internal candidate(s) with requisite qualifications/ experience for the vacant post(s), external sources shall be approached and all job advertisements shall indicate the company, nature of the vacancy, role summary, location, experience and basic qualification requirement, etc. However, as the current practice of the company, external vacancies are not advertised and CVs' are collected from staff members only.

The recommended referrals from staff members for new candidate applications are invited to submit for new vacancies of regional and provincial level recruitments requirements. Non availability of the facility, Company will consider external sources.

It is recommended to job advertising to attract more competent personals with competitive qualification evaluation and to establish transparent recruitment process.