Insurance Regulatory Commission of Sri Lanka - 2020

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Insurance Regulatory Commission of Sri Lanka ("Commission") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity/ net assets 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 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Commission as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 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 Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Audit Scope

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional 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, 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Board*;*
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

	Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
a.	**SLPSAS 01 – Presentation of Financial Statements**		
i.	According to the paragraph 95(C) of the standard a description of the nature and purpose of each reserve within net assets had not been disclosed.	Disclosures as per standard have been made in financial statements for the year 2021 for the two reserves, I.e. Accumulated Reserve and Revaluation Reserve in Note 3. 5. Further, disclosure on Policyholder Protection Fund has been given in Note 5 of the financial statements for the year 2021.Therefore, matter has been rectified.	There were three funds and reserves within the reserves and funds amounting to Rs.7,486,711,421. Therefore, the management should disclose the required information as per the standard.
ii.	The Policy Holders Protection Fund (PPF) of Rs. 7,468,719,234 had been recognized under the Reserves and Funds contrary to the paragraph 07 of the standard which indicate the fund should be categorized under the non- current liabilities.	The PPF will be categorized as a special statutory fund between Equity and Liability in the financial statements of 2022.	The management should recognize the Policy Holders Protection Fund in accordance with the provisions of the standard.
b.	Fully depreciated assets but still in use as at the balance sheet date is Rs. 31,617,612. This has been occurred due to not reviewed the life time of the assets at the end of each financial period in accordance with the provisions of	As per Sri Lanka Public Sector Accounting Standard 07 the frequency of revaluation depends on the volatility and the significance of changes in	The management should identify and evaluate the requirements of the standard and need to be complied with.

	paragraph 65 of the SLPSAS 07 – Property Plant and Equipment. This error of misapplication of provisions of the standard had not been corrected in accordance with the provisions of the paragraph 47 of the SLPSAS 03 – Accounting Policies, Changes in Accounting Estimates and Errors. Further the gross carrying amount of fully depreciated assets had not been disclosed in accordance with the provisions of the paragraph 92 of the SLPSAS 07 – Property Plant and Equipment.	the fair value of the assets. The management and the Audit Committee were of the view that the fully depreciated assets were not so volatile in nature and changes are not so significant to warrant revaluation. Further, it has been decided by the Audit Committee to revalue only the vehicles in considering the cost of revaluation. Therefore, we are of the view that our institution has taken action as per SLPAS 07. The committee for Board of Survey is entrusted with the task of reviewing the useful lives and depending on their opinion, accounting treatment would be done as per SLPSAS 03. However, revaluation has been done for the year 2021 and has carried out relevant adjustments in the financial statements 2021 and further disclosures in note 2.1.	
c.	According to the paragraph 39 of the SLPSAS 10 – Revenue from Exchange Transactions the commission had not disclose the accounting policies for recognizing interest income of Rs. 12,784,254 and other income of Rs. 210,661 and amount of each significant category of revenue from exchange transaction separately.	IRCSL has done relevant disclosures in financial statements for the year 2021 in Note No 4.1.	The revenue from non-exchange transactions and foreign exchange transactions are two different concepts. Therefore, the management should evaluate the requirements of the standard and should be complied with.
d.	According to the paragraph 107 of the SLPSAS 11 – Revenue from Non-Exchange Transactions, the commission	IRCSL has done relevant disclosures in financial statements for the year 2021	The management should evaluate the requirements of the standard and should

had not disclosed the accounting policies for recognizing revenue from non-exchange transactions for annual fees from Insurance Companies of Rs. 244,899,120, Registration and Renewal Fees of Rs. 14,497,295, Income from FSMP of Rs. 12,344,401 and Recognition of Grant of Rs. 2,910,041.	in Note No 4.1 and Note No. 11.	be comply with.

1.5.2 Accounting Policies

	Audit Issue ----------------	Management Comment ----------------------------	Recommendation -------------------
a.	According to the Section 103 of the Regulation of Insurance Industry Act No. 43 of 2000, the Policy Holders Protection Fund has been created. However, no adequate disclosures had been made regarding the accounting policies used to recognition and measurement of transactions and balances of the Policy Holders Protection Funds.	The PPF is an integral part of the Commission and all the accounting policies, procedures and internal controls are applicable in the governance of the PPF. Further, analytical data on PPF is covered under the Financial Review in the Annual Report.Further, IRCSL has done relevant disclosures in financial statements for the year 2021 in Note No. 5.	The management should take actions to disclose the accounting policies used to recognition and measurement of Policy Holders Protection Funds.

1.5.3 Accounting Deficiencies

	Audit Issue ---------------	Management Comment ---------------------------	Recommendation -------------------------
a.	The Commission had not recognized the deferred tax assets or liability. As per the computation the deferred tax liability as at 31 December 2020 is Rs.984,637.	IRCSL has computed deferred Tax Liability to the Commission Fund in Financial statements for the year 2021 in Note 21.	The deferred tax assets or liability should be identified, recognized and disclosed by the commission as per the provisions of the standard.
b.	No adequate disclosures had been made regarding the nature, accounting policy and the other required disclosures for the balance of Grant Received from Ministry of Finance amounting of Rs. 307,535.	This grant received in respect of Results Based Financing from Ministry of Finance is covered under the notes to the financial statement and it states the nature and the accounting treatment of same. Further IRCSL has done	The disclosures made was not adequate. Therefore, the commission should disclose the nature, accounting policy and the other disclosures of the grant received from the Ministry of Finance.

	additional disclosures in financial statements for the year 2021 in Note 3.2.2.	

1.5.4 Documentary Evidences not made available for Audit

Evidence not available	Management Comment	Recommendation
The insurance core principles (ICPs) are globally accepted framework of principles developed by the International Association of Insurance Supervisors (IAIS). Those principles are key to assess the quality of regulatory and supervisory function of the insurance regulators and use as a framework to introduce regulations for the insurance sector in the country. As a member of the IAIS, the Commission had paid Rs. 4,124,500 as a membership fee for the year 2020. The information had been requested to identify the way of compliance with insurance core principles by the Commission. However, the requested information had not been submitted for the audit.	IRCSL has been part of few peer reviews of ICPs. They are ICP 1,2, 9, 10 where assessment is largely observed. There are currently 25 ICP approved by the International Association of Insurance Supervisors in year 2019. Further review of ICPs will be carried out in setting/amending appropriate provisions to the Regulation of Insurance Industry Act, and subordinate legislation.	The management should submit the requested information to the audit as per the statutory provisions and it will enable them to assess the performance of regulation of the insurance industry in Sri Lanka.

1.6 Related Parties and Related Party Transactions not disclosed

	Audit Issue	Management Comment	Recommendation
a.	The Commission had not disclosed the relationship with the related parties and the transactions with those identified related parties in the note of related parties in accordance with the provisions of the SLPSAS 14-Related Party Disclosures.	IRCSL has done relevant disclosures in financial statements for the year 2021 in Note No. 28.	The commission should have mechanism to identify related parties and transactions with those related and disclose required disclosures in accordance with the standard.
b.	The related party relationships and transactions with Ministry of Finance and the key management personnel in the Ministry of Finance had not been disclosed.	The Commission did not have any transactions or relationship with the related parties which merit disclosure. However, disclosures regarding the engagement of Ministry of Finance are covered under notes to the accounts.	

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Gazette No. 2104/09 dated 31st of December 2018	The annual fees from the Insurance Companies should be charged based on the 0.125% of the Gross Written Premium or Rs. 200,000 whichever is higher. However, contrary to that the lesser amount of annual fees had been charged from two Insurance Companies which caused a loss of Rs.178,459 to the commission.	It is only one insurance company in question. The insurance company had been suspended in 2017 and suspension lifted in 2019. The balance annual fee from the relevant insurance company has been recovered on 23/3/2022.	The commission should comply with the applicable laws and regulations.

1.8 Cash Management

	Audit Issue	Management Comment	Recommendation
a.	According to the Section 103(3), any money which is not immediately required for any of the purposes shall be invested by the commission in such prudent manner as would yield a good return and safeguard the investment. However, there was no cash flow forecast had been prepared to identify the excess cash flows which will flow to the commission and timing of those cash flows to take investment decisions in prudent manner.	The Commission is well in control of both funds which has enabled the Commission Fund to earn an interest income of Rs.12 Mn while PPF to earn an Interest income of Rs.622 Mn. The management is well aware of the maturity dates of Fixed Deposits and Repo's. An accurate estimation of weekly and monthly expenses is done and funds are invested in Repos without funds being left in a less interest earning instrument even for few days. A review of our Repo investments would amply illustrate this fact. The Commission has made an interest income from Repos of Rs.4.8 Mn which speaks volumes for our investment acumen. There are no cash outflow forecasts for PPF. The receipt	The commission shall prepare and review cash flow forecasts for taking investment decisions in prudent manner.

		dates are known in advance. Investments have been carried out based on inflow forecast. However, documentation of cashflow forecasts have been implemented.	
b.	According to the FR 395(c) it is required to be prepared monthly bank reconciliation statements before 15th day of the following month. However, regular delays of preparation of Bank Reconciliation Statement had been observed.	Due to the pandemic situation, the office functions were carried out under travel restrictions and lock downs some periods bank reconciliations had been delayed due to difficulties to get printouts and collect bank statements from the bank since work from home. Currently we are doing on time	The management should prepare bank reconciliation in timely manner for better financial management.

1.9 Non -compliance with Tax Regulations

Audit Issue -------------	Management Comment ---------------------------	Recommendation -------------------------
Even though the WHT on services had been removed with effect from 1 January 2020, a With Holding Tax (WHT) receivable amount of Rs.1,208,606 under the current assets had been brought forward from the year 2019 without actions been taken to recover the same.	IRCSL has set off WHT receivable of Rs 1.208,606 from income tax for the year 2021.	The commission should take necessary actions to recover the WHT receivable balance.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 109,272,927 and the corresponding surplus in the preceding year amounted to Rs. 151,182,297. Therefore, a deterioration amounting to Rs. 41,909,370 of the financial result was observed. The reasons for the deterioration were reduction of income from Financial Sector Modernization Project and reduction of interest income for the year under review.

2.2 Trend Analysis of major Income and Expenditure items

Description	2020 Rs.	2019 Rs.	Variance Rs.	Percentage %
Income				
Income from FSMP	12,344,401	81,620,094	(69,275,693)	-85%

Interest on Repo and Call Account	479,514	3,698,834	(3,219,320)	-87%
Interest on Treasury Bond Investment	33,151,511	92,882,074	(59,730,563)	-64%
Interest on Fixed Deposits	588,341,378	477,484,713	110,856,665	23%
Expenditure				
Staff Costs	109,096,963	112,323,915	(3,226,952)	-3%
Commission Members - Sitting Allowance	865,972	540,000	325,972	60%
Staff Welfare	2,038,778	841,693	1,197,085	142%
Staff Medical Insurance	2,001,327	1,615,932	385,395	24%
Commission Members and Staff - Overseas Training & Travelling	-	10,375,090	(10,375,090)	-100%
Leave Encashment	1,673,310	1,218,344	454,966	37%
Printing & Stationary	2,413,783	3,406,080	(992,297)	-29%
Public Awareness	1,459,568	9,834,508	(8,374,940)	-85%
Office Equipment Maintenance EDP & Others	3,298,073	2,107,863	1,190,210	56%
Taxation	16,348,823	(22,479,379)	38,828,202	-173%

2.3 Ratio Analysis

Key ratios calculated for the commission and for the industry were as follows.

Commission	**2020**	**2019**	**2018**	**2017**
Growth of Policy Holders Protection Fund	19%	24%	23%	25%
Growth of Annual Cess Income	3%	3%	15%	2%
Cess Income as a percentage of GWP	0.24%	0.25%	0.26%	0.29%
Growth of Annual Fees Income	3%	33%	19%	13%
Annual Fees Income as a % of GWP	0.12%	0.11%	0.09%	0.09%
Industry				
Insurance Gross Written Premium as a percentage of Gross Domestic Production	1.39%	1.27%	1.24%	1.19%
Total Assets in Insurance Sector Rs. Billion	789.7	689.6	606.6	564.9
Total Assets growth of Insurance Sector	15%	14%	7%	8%
Assets in Insurance Sector as a Percentage of Total Assets of Finance Sector	3.37%	3.44%	3.32%	3.31%

3. Operational Review

3.1 Uneconomic Transactions

	Audit Issue ------------	Management Comment ----------------------	Recommendation -------------------
a.	The commission had not taken necessary actions to introduce self-	From the inception of the Commission has provided insurance covers for the employees. This is part of the employee remuneration package. Procurement	It is recommended to introduce self-contributory

contributory insurance scheme for their employees. The commission spent their funds of Rs. 5.18 million for the year 2020 for obtaining insurance cover for their employees. Further, the National Insurance Trust Fund has extended the Agrahara insurance Scheme for semi-government sector employees as well by charging a contribution of Rs.1000 per month from the year 2017.	procedures have been followed in all instances. In PED 6/2019, it advises organizations to consider among other things, the cost involved, nature of the risk to be covered, and the quality of the service as well as the convenience of obtaining these services to the organizations. In order to comply with the requirement stipulated in Public Finance Circular No. 06/2019 (i) dated 12th September 2019, DPC decided to call quotations from the top 5 companies based on the market share and also from the state-owned insurance Companies registered under the IRCSL. NITF had not attached the quotations. The SLIC, as the health insurance provider to the IRCSL staff for a long time, has been providing a quality service including on the spot claim settlement service, comprehensive cover for COVID 19 etc. Further, Agrahara insurance scheme is subsidized by the Treasury. Therefore, it would not be appropriate. For the existing staff it will not be possible to introduce a self-contributory insurance scheme, as the insurance schemes already provided forms part of the remuneration package and have been included in the letters of appointment.	insurance scheme for the employees.

3.2 Transactions of Contentious Nature

	Audit Issue	Management Comment	Recommendation
a.	The commission contribution to the Staff Welfare Association of the Commission had been increased from Rs. 500,000 to Rs. 1,000,000 in the budget and expensed for the year 2020 without proper justification.	Justification was mentioned when increasing the budget from Rs 500,000 to Rs 1,000,000 in 2020. This is due to the increase in staff which the previous budget was not sufficient to provide welfare facilities. For the year 2017 the allocated amount of Rs 500,000 was not sufficient and one Commission member contributed Rs 200,000/- for gifts for children. Funds have not been transferred to the welfare fund for the year 2022.	The Commission should not utilize Commission funds for the welfare expenses of the staff.

3.3 Issues in Foreign Funded Project

	Audit Issue	Management Comment	Recommendation
a.	According to the agreement of the Finance Sector Modernization Project (FSMP), the implementing entity throughout project implementation, shall furnish to the International Development Association (IDA) an annual work plan and budget for the activities under component 2(c) of the project of each subsequent fiscal year for approval not later than 30 November of each year. However, the annual work plans for the years 2020 and 2021 had not been furnished to the audit. Further, information had not been available whether those documents had been submitted to the IDA.	The annual work plan and the budget have been sent to the Central Project Coordinating Unit (CPCU) complying with the requirement no later than November 30 of each year. Ongoing procurements with the budget have been uploaded to Systematic Tracking of Exchanges in Procurement (STEP) system of the World Bank from time to time complying with the requirements. STEP access for viewing can be given to AG through Director Finance and Administration who has been given access from the World Bank. All documents requested have been given to audit.	The IRCSL shall provide the access to Systematic Tracking of Exchanges in Procurement (STEP) or available relevant information for the audit.
b.	The amount of USD 945,450 (SDR. 0.67 million) had been allocated for the segregation of National Insurance Trust Fund (NITF)'s Insurance and Reinsurance Business under the supervision of the IRCSL under this project. However, this money had not been utilized for this purpose.	The letter referred to initiated as the Chairman, NITF at project review meetings held between World Bank, CPCU mentioned that the NITF board has finally decided not to segregate its insurance and reinsurance businesses and therefore they do not wish to seek technical assistance from World Bank for same. IRCSL responsibility in relation to the DLI would have been initiated once NITF submitted its proposal to segregate to IRCSL. If NITF had submitted the proposal, IRCSL would have been required to review the proposal and grant no objection for the DLI to be achieved. However, NITF did not submit the proposal for segregation for IRCSL to do its part. We have requested that the decision of NITF to abandon the segregation to be confirmed. Awaiting a response from NITF.	The commission should take proper coordination and influential measures to get the project success and take appropriate actions to responsible parties who did not contribute to achieve the success of the project.

		There have been 10 letters and emails generated from IRCSL following up on the matter. In fact, 7 letters were during the period 8/4/2019 to 24/1/2020, where IRCSL has commented to the draft structure provided. Therefore, proper coordination and follow up measures were in place.	
c.	The detailed work plan for strengthening the supervisory and regulatory capacity of the Commission under this project had not been available to the audit.	The annual work plan and the budget have been sent to the Central Project Coordinating Unit (CPCU) complying with the requirement no later than November 30 of each year. Ongoing procurements with the budget have been uploaded to Systematic Tracking of Exchanges in Procurement (STEP) system of the World Bank from time to time complying with the requirements. STEP access for viewing can be given to AG through Director Finance and Administration who has been given access from the World Bank. All documents requested have been given to audit.	The management should take necessary actions to provide requested information for the audit.
d.	It was observed that, the consultants for the project had been recruited from time to time and there was no strong interrelationship among those consultants to achieve the common objectives of the project. Due to this weak project management, the expected project objectives and the outcomes had not been achieved.	As per the provisions of the agreement/ procurement plan etc., the IRCSL intended to apply part of proceeds for consulting services. The consulting services were Actuarial Expertise, Insurance Expertise, IT Expertise, HR Expertise and Consultancy Firm for Modernize the Regulatory and Supervisory Framework of the Commission. The consultancies had to some extent an inter-relationship due to the nature of the activity. However, HR Expertise had discussions with Actuarial Expertise, since both served the commission at a same period. Proper coordination was in place between the recruited consultants. The	The project management team should facilitate for proper coordination among consultants and take appropriate measures to get the project success.

		management has facilitated discussions.	

3.4 Procurement Management

	Audit Issue	Management Comment	Recommendation
a.	A internal audit work plan had not been obtained along with the proposals in procurement for selecting an internal audit consultant for the Commission. Subsequently, a work plan had been re-called at the evaluation stage for the evaluation of proposals submitted by the consultants.	All proponents were required to submit the audit work plan with the proposals. Work Plan was required to be submitted by the prospective bidders along with the Request for Proposal. A copy of the Tech 4 of the selected bidder is attached.	It was observed that, during our audit the Commission sent letters by requesting work plans from audit firms subsequent to the bid closing date and during the procurement evaluation process. Therefore, it is recommended that, plan the procurement in advance and call all the required information along with the bids.
b.	According to the section 8.4.1 of the Procurement guideline, proposal evaluation shall be undertaken expeditiously, leaving ample time to seek all the requisite formal approvals. Hence, Proposals shall be evaluated within the period specified in the Procurement time schedule. However, it is observed that the evaluations of proposals received for the internal audit service for the year 2020 had been carried out with 6 months delay from the bid opening date.	Due to outbreak of COVID 19, most of the office functions were performed on work from home concept. Therefore, the procurement process has taken a longer time than under normal conditions.	It is observed that the covid pandemic had hit from the month of March 2020. So IRCSL had sufficient time to evaluate the bids. Therefore, management should follow the procurement time table and complete the procurements within the planned time schedule.
c.	According to the section 6.5.9 of the procurement guideline the evaluation criteria and sub criteria shall be decided before calling request for proposals (RFP’s). However, a marking	Under the Terms of Reference (TOR), the evaluation criteria and point system have been clearly mentioned and has informed to consultants at the time of sending the Request for Proposals (RFP) to	However, we were not provided those information during our audit and not observed evaluation criteria in the Technical Evaluation Committee Meeting Minutes.

scheme and evaluation criteria for the selection of an internal auditor had been defined after opening of the bids.	consultants and attached a copy for information. The evaluation has been performed on that basis.	Therefore, management should properly plan the procurement activities of the Commission by deciding predefined criteria for the procurements.

3.5 Human Resources Management

	Audit Issue	Management Comment	Recommendation
a.	The Management Services Circular No. 03/2018 dated 18 July 2018 had instructed that all ministries and other relevant authorities should refrain from recruiting employees and increasing the salaries and cadres without prior approval from the General Treasury. However, the Commission had increased the cadre, promotions and salaries without approval of the General Treasury.	Due to the maturity of the organization and expansion of responsibilities, it had become necessary to revise the cadre, salaries and implement a promotion scheme. Since the inception of the organization no promotion scheme has been in place, other than from the position of Executive to Senior Executive. Due to this reason, the staff stagnated in the same post for a long time and the employee turnover was also very high. As per section 5 (e), 10(1) and 10(2) of the Regulation of Insurance Industry Act, the Commission is empowered to appoint such officers as it considered necessary for the efficient discharge of its functions and remunerate such officers in such manner and at such rates, subject to such conditions as may be determined by the Commission. The Commission has acted in pursuance of such powers vested upon the Commission by Parliament. Accordingly, a Remuneration Committee was appointed by the Commission consisting of three Commission members. The Remuneration committee's recommendations were submitted to the Commission and same were approved. The said changes have been informed to the Management Services Department after implementation in its quarterly cadre information sheet as at 30th June 2019 upon the same being approved by the Commission. Revision of salary for staff of IRCSL had only been done in years 2012 and 2018, since	The Commission should adhere to the applicable circular instructions given by the respective authorities for human resources functions of the Commission.

		inception of year 2005. Will write to Ministry of Finance in terms of PED 01/2021.	
b.	Thirteen (13) numbers of designations were increased by the commission as at 31 December 2020 without obtaining the approval of the Department of Management Services.	The Commission has re-designated the positions as mentioned above considering the fact that no promotion scheme was available except the Senior Executive position for Executives from the inception of the Board/ Commission and due to this reason, the staff was stagnated in the same post for a long time. There is no increase to the total cadre due to the re-designation of posts. Will write to Ministry of Finance in terms of PED 01/2021.	The Commission should obtain the prior approval from the respective authorities for human resources functions of the Commission.
c.	Fifty-one (51) employees had employed by the commission as at 31 December 2020. From these positions one (01) Director, thirteen (13) Manager/ Assistant Manager and 01 Secretary positions had not been approved by Department of Management Services.	The Commission has obtained approval from the Ministry of Finance for 57 positions. Manager/ Assistant Manager positions are only promotional grades to the post of Executive and there is no effect to the total cadre. All the positions were recruited with the Ministry approvals. Approval obtained prior to recruitment of new positions. Will write to Ministry of Finance in terms of PED 01/2021.	The Commission should adhere to the applicable circular instructions given by the respective authorities for human resources functions of the Commission.
d.	Based on the Attorney General's opinion the commission had decided their own carder and the salary scheme on 31 May 2019 and made salary adjustment, carder revision, payment of cost-of-living allowance of Rs. 7,800, Competency Allowance of 15% from Basic salary and Special Living Allowance of Rs.12,500 for the commission staff with effect from 01 July 2018.	The Committee appointed by the Commission on remuneration of the IRCSL, noted that only one salary revision has been granted in 2012 for the last 13 years and hence staff salaries were not comparable with market rates, particularly with the remuneration offered by the other financial sector regulators. As a result, the IRCSL will not be in a position to hire qualified and experienced staff and to retain the existing qualified and experienced staff to meet the ever-increasing complex challenges in the insurance industry, more so in the context of investigations, mergers and takeovers. There is also a need for the current framework to be enhanced in order to be in line with international insurance	The Commission shall obtain approval from the Ministry of Finance for their cadre position and remuneration structure.

	Even though the commission is an entity subject to the purview of the Ministry of Finance the commission had not obtained the clearance or concurrence from the General Treasury to decide their carder and increase of salaries and allowances.	practices to enhance the effectiveness, efficiency and relevance of the Regulator. Further, we wish to highlight the following facts related to having a good compensation package like other regulators. Recruitments for each and every position of the IRCSL are made with previous experience in reputed organizations and all Executive & above staff should have appropriate qualifications. As per the provisions of the Act, the legislature has given certain autonomy to the institution that it has established. The salary component is around 24% of the total income of the Commission. Will write to Ministry of Finance in terms of PED 01/2021.	
e.	The salaries of the commission had increased between 12.98% to 59.73% in the year 2019 based on Attorney General's opinion without obtaining the prior approval of the Management Services Department in contrary to the Management Service circular 03/2018 dated 18 July 2018. The treasury representative in the board had not taken necessary actions to secure public interest by bringing his independent opinion to the board in this regard.	The salary was revised based on a study carried out by the Remuneration committee and on their recommendation with the approval of the Commission. Attorney General's opinion confirmed the legal position taken by the Commission. The Commission has unanimously agreed with the decision to revise the salary structures. The salary component is around 24% of the total income of the Commission. Will write to Ministry of Finance in terms of PED 01/2021.	The Commission shall obtain prior approval from the Ministry of Finance for revision of cadre and pay structure.
f.	A performance incentive from the year 2010 had been paid without approval of the General Treasury.	The existing performance appraisal system has been implemented after scrutinizing various performance appraisal systems and covered many aspects with regard to the performance of an employee. The Ministry has not raised any objections to the performance-based incentive scheme implemented by the Commission throughout the years.	The Commission should obtain the prior approval from the General Treasury for the performance incentive scheme.

		IRCSL has shared the performance incentive scheme and all amendments made thereto to the Ministry of Finance from time to time. However, will act in terms of PED 01/2021.	
g.	Evaluation of the Director General's performances had been done by the Chairman. This may lead to collusion between two powerful positions in the commission and may lead to take unfavorable decisions. Further, the Director General shall responsible for the Commission in discharging responsibilities. Therefore, the best practice is the performance of the Director General shall be evaluated by the commission.	According to guidelines on corporate governance for SOEs issued on 16/11/2021, section 2.2.2, (b) vi, "The Board must also enter into a performance contract with the CEO which is a reflection of the strategic plan, against which the CEOs performance must be evaluated annually and the incentives including bonuses must be decided". Hence, we will follow the guideline.	The Director General shall be responsible to the commission and performance of the Director General shall be evaluated by the Commission as a whole according to the good governance principles.
h.	Incentive payment had not been directly matched and scaled with the employee's score. It pays off depending on the range of the score obtained. It is an injustice on the part of the employee. As an example, an employee who earned 81 marks and the employee earned 100 marks had been treated equally when paying incentives.	Incentive payment has linked to the Marks Ranges in 4 categories. Employees who scored the highest marks range will get 100% of the performance incentive. In general, candidates who score more than 80% marks are considered as best performers and candidates scores below 40% as poor performers. The same concept has been used in this evaluation. We will be adopting a new incentive scheme based on the advice of the HR Consultant of the FSMP Project. According to the same, the incentive payment is based on individual smart objectives and payment varies one to other based on their achievement.	Incentive payment should be directly matched with the employee's individual score.
i.	The performance evaluation form of the Director General had not been available for the	The performance appraisal forms are filed in the personal files and as the DG's file is kept in custody of the Chairman. Non availability of information to audit is	The requested information shall be presented to the audit in accordance with the provisions of the Constitution

	audit.	regretted. Had same be brought to the notice of DG, same would have been provided. Please refer to copy of the performance evaluation 2020 attached.	and the National Audit Act at the time of investigations were carried out.
j.	Duty lists had not been available in personal files of the officers. Therefore, it is not clear that how the Key Functional Indicators (KFIs) had been developed and evaluate the performance.	Key performance indicators (KPIs) are measured based on the Actions/ Activities set against the Key Results Areas (KRAs) which are similar to the job descriptions (JDs) of the employees. KRAs are set for each employee annually. However, HR Consultant has drafted job descriptions for the target organization and based on the same new job descriptions will be issued to the staff. We have started to prepare JD's based on HR Consultants advise. The JDs will be issued by end 2022.	The job descriptions should be available for all the employees in the commission and that information shall be considered in their performance evaluations.
k.	Performance incentive payment for the year 2020 had been done without obtaining the approval of the Commission and the General Treasury.	The performance-based incentive scheme has commenced in year the 2009, during which the former Chairman has written to the Ministry of Finance and got a ruling for future payments, based on a performance-based incentive scheme, which should be mandatorily adopted and the approval of the Commission was received for the said payment. In the year 2020 too, the same procedure has been adopted in paying according to the performance-based incentive scheme. The Commission has sent revised versions with major changes of the Performance Appraisal Scheme to the Ministry of Finance. In the year 2020 payments have been affected according to the execution of the approved performance appraisal system, approved budget and as per the delegation of financial authority. Payments done according to delegation of financial authority approved by the Commission. In same the authorization is as per approved budget.	The approval had not been presented to the audit. The approval of the commission and the General Treasury should be required for incentive payments.
l.	The scheme, incentive payment basis of one (01) month basic salary had been changed to one and half months (1 ½) gross	The Commission granted the approval to pay a maximum of 1.5 months gross salary as performance-based incentive for the staff after having evaluated their performance for the period. Based on the Commission decision	The changes to the incentive scheme shall be made according to the approval of the General Treasury.

	salary from the year 2019 onwards without obtaining the approval of the General Treasury. Due to this, the total incentive payment had been increased by Rs. 4,376,136 which is 108% more compared to the previous year.	payments have been made. We will be adopting a new incentive scheme based on the advice of the HR Consultant of the FSMP Project. PED 01/2021 will be complied with.	
m.	All employees had earned 100% marks for the final evaluation. Therefore, it does not seem that the realistic performance evaluation had been carried out by the commission.	As per the existing Performance Appraisal System, performance criteria marks are a combination of planned main activities, key functional indicators and key behavioral indicators. The marks range 80 – 100 falls under the rewarding scale 100. For 2020 the staff scored different performance marks. In the previous years some scored less than 80 performance criteria marks. No employee scored 100 marks for year 2020. However, we will be adopting a new incentive scheme based on the advice of the HR Consultant of the FSMP Project. This scheme is not based on range marks but on individual marks. PED 01/2021 will be complied with.	There should be a realistic performance evaluation system.
n.	According to the section 9.14.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the manual of procedures prepared should be approved by the board and thereafter the concurrence of the Secretary to the Treasury should be obtained through the Department of Public Enterprises, General Treasury. However, the Administration Manual of the commission had not been sanctioned by the	The Administration manual which includes the payment of Leave encashment has been forwarded to the approval of the Ministry of Finance and Mass Media based on the Public Enterprise Guidelines for Good Governance. The initial Manual was forwarded to the Ministry on 23rd October 2012 and sent reminders from time to time. Subsequently the changes made to the manual were also informed. On 05th April 2018, the Department of Public Enterprises informed the Commission that there is a delay in the process in granting approval for Administration Manuals due to the complications of the procedure to be followed. Therefore, the Commission has adopted the provisions in the Administration manual.	The Commission should get the approval for the administration manual from the General Treasury. The coordination with the General Treasury shall be done through the representative of the General Treasury.

General Treasury. Therefore, it is observed that the leave encashment payment of Rs. 1,639,753 had been made without proper authority.	According to the instructions in the Operational Manual issued under PED 01/2021, the CEO should in collaboration with other heads of operations undertake a gap analysis between the existing structures and those recommended in this Manual and must take action in consultation with the Boards to enhance their existing operational structures as appropriate to meet the requirements as noted in the Manual. Accordingly, we have currently initiated a study to carry out a gap analysis of the provisions of the Operational manual and the Administration manual of IRCSL to make recommendations to the Commission. Further according to section 2.3 of the Operational Manual, the SOE should have their own systems, processes and protocols clearly defined in Manuals covering all major operations, which are periodically reviewed and updated. The Board should have clearly defined delegation of authority and responsibility for carrying out these major operations, in line with the Organization chart. All SOEs are required to adopt their own Administrative and Financial manuals in line with the relevant provisions of this Manual and should be approved by the Board of Directors.	

4. Accountability and Good Governance

4.1 Internal Audit

	Audit Issue	**Management Comment**	**Recommendation**
a.	Procurement of internal audit service from the audit firm in public practice had been done by the five-member Department Consultants Procurement Committee (CPCD) appointed by the Chief Accounting Officer (CAO) on 19 September 2019 in accordance with Guideline for Selection & Employment of Consultants of August 2007. The independence of the appointment is questionable since the four members of the CPCD were key	The CPCD has been appointed complying with the guidelines. However, in view of the comments given by the audit, the Commission will make arrangements to appoint an Internal Auditor for years 2022 to 2024 having obtained the recommendations of the	An independent and transparent procedure should be followed when selecting an internal auditor.

	employees of the Commission including Director General and the Director Finance and Administration whose affairs and actions were under the purview of the internal auditor. Therefore, a transparent procedure had not been followed when appointing an internal auditor for the commission. Therefore, the independence and the objectivity of the internal auditor may be impaired.	Audit and Management Committee and the Commission approval on same. The procurement committee for selection of internal auditor for year 2022 onwards will be headed by the Audit Committee Chairman, a representative from the Line Ministry and a Senior officer from IRCSL.	
b.	The Reporting frequency and reporting time targets for the internal auditor had not been defined when appointing an Internal Auditor for the year under review.	TOR has requested audit plan/ work schedule and will form part of the selection criteria.	The performance criteria shall be clearly defined when appointing an Internal Auditor.
c.	According to the article 40(3) of the National Audit Act No.19 of 2018 and F.R.134(1) the internal auditor shall directly report to the Head or the Governing Body. However, the Terms of Reference had not been made provisions for reporting responsibilities in accordance with the applicable laws and regulations. In contrary to the above provisions the internal audit reports for the year 2019 had been submitted to the Director General on 06 July 2021.	2020 IA report has been submitted to Chairman. 2021 report yet to receive.	Internal Audit reports should be presented to the Chairman.
d.	Internal Audit Reports for the year 2020 had not been available as of 05 May 2022. Therefore, timely actions for the issues identified may not be possible for the commission. Further, the external auditor could not be able to use the work of the internal auditor when planning and performing external auditor's works.	The report of the year 2020 has been received by the IRCSL in February 2022. The report was presented to the Audit Committee meeting held thereafter.	The internal audit reports shall be timely presented.

4.2 Audit Committee

	Audit Issue	Management Comment	Recommendation
a.	Only one audit committee meeting was held for the year 2020. The convener for the Audit Committee is Director – Finance and Administration. Further representative of the Auditor General had not been invited for the audit committee regularly in terms of the provisions of the Public Enterprises Circular No. PED 55 dated 14 December 2010.	Details of the dates of Audit and Management Committee meetings held for year 2020 are as follows: Year 2020 - Meeting 1 - 16-07-2020 Please note that in year 2020, due to COVID 19 outbreak, frequent lock down of country took place and hence periodic audit committee meetings could not be held.	Even for the years 2021 and 2022 the Audit Committees had not been called on timely basis. Therefore, the Audit Committee Meetings shall be held on timely basis, the representative of the Auditor General shall be invited and convener for the audit committee shall be a person who do not hold the responsibilities of the finance and administration.