National Insurance Trust Fund Board - 2023

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Insurance Trust Fund Board("Board") for the year ended 31 December2023comprising the statement of financial position as at 31 December 2023and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 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 Board as at 31 December 2023, 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 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 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 Board'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 Board or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board 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 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 Board'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 Board'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 Board 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 Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;

- Whether the Board has performed according to its powers, functions and duties; and

- Whether the resources of the Board 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 Internal Control over the preparation of financial statements.

	Audit Issue	Management Comment	Recommendation
i)	Integrated system with policy holder's master data had not been available for the Board. Therefore, Irregularities in acceptance of claim applications, loss of claim information, delays of rectifying errors in claim applications and unnecessary delays of claim processing had been occurred. Total number of policy holders in Government Servant'sAgrahara Insurance Scheme and Pensioner'sAgrahara Insurance Scheme was 1,362,886 as at 28 February 2025. However, the Board has failed to provide total number of beneficiaries of policyholders and their details of the Agrahara Insurance Scheme as at 30 May 2025.	As of 31st March 2025, 936,600 public officers contribute to the Agrahara scheme, but only 361,424 are enrolled in the NITF web portal, with just 244,626 verified. Government institutions have not updated or verified employee data as expected. To resolve this, NITF signed an MoU with the Department of Pensions to access the W&OP database for member verification. System updates for this integration are nearly complete and expected to be finalized by 30th June 2025. This move aims to improve data accuracy and streamline verification.	The Board should establish and maintain an integrated system for the Agrahara Insurance Scheme to enhance the data accuracy and validity.
ii)	Reinsurance outstanding claims provision as at 31 December 2023 was Rs. 3,233,733,923 (Rs. 3,248,073,982 as at 31 December 2024 and Rs. 5,616,058,199 as at 30 April 2025 without payable claims for flood in 2016 & 2017) and reinsurance claims paid for the year under review was Rs. 192,372,895 & USD 12,387 (Rs. 308,363,311& USD 403,050 as at 31 December 2024 and Rs. 66,491,858 & USD 221, 855 January to April 2025). However, the reinsurance claims had been maintained and recorded manually in excel sheets. Therefore, it was	The Reinsurance Department has taken steps to use the Oracle Claims System to manage reinsurance claims from 2024 onwards. Accordingly, this oracle system handles the entire process from the claim intimation stage to the claim approval stage. Further, all claims from the claim certification stage to the approval stage is done under close supervision and control according to Delegation of Financial Authority levels. The current Oracle system is being further developed to be able to	The Board should implement a Reinsurance Claims Management System to ensure accurate, timely, and systematic handling of reinsurance claims.

	observed that, there is no proper system to handle the reinsurance claims.	generate claim reports directly through the Oracle Claims System. Further, it is in the process of developing the claim system through the ERP system with the support of a IT Consultant.	
iii)	The Board has not obtained the 30 per cent mandatory reinsurance cover to cover its own risk exposure after expiry of the existing retrocession cover on 31 January 2023. This will reduce the Board’s capacity to absorb potential losses, more exposed to losses in specific areas. This may increase Boards overall risk profile and lead to downgrade credit rating by credit rating agencies. Overall, the non-availability of retrocession coverage can significantly weaken Board’s financial position and stability, potentiality affecting the insurance market of Sri Lanka. The reason of the Board’s inability to obtain the reinsurance cover is due to poor past performance of settlement of reinsurance premiums and claims. Due to this, the credit rating of the Board had been downgraded in twice from A – to BBB+on August 2023 and from BBB+ to BBB on October 2023 by Fitch ratings Lanka Limited. The credit rating remains BBB through February 2025. In addition, the Insurance Regulatory Commission of Sri Lanka (IRCSL) has issued a direction to the Board by the letter No. IRCSL/DG/SUP/2024/07/236 dated 18 July 2024, to discontinue accepting 30 per cent on facultative reinsurance until adequate retrocession arrangements are in place and demonstrated to IRCSL. Therefore, this will negatively affect the insurance risk management and cash flow management of the Board.	Since 31.01.2023, National Insurance Trust Fund made five attempts through International Competitive Bidding (ICB) to secure retrocession cover, but all were unsuccessful due to lack of bids, non-compliance, or bidder disqualification. The current procurement process is ongoing, with the Bid Evaluation Committee (BEC) already convened. Due to challenges in aligning standard procurement procedures with the specialized nature of reinsurance, National Insurance Trust Fund, in consultation with the National Procurement Commission (NPC) and the line ministry, is developing a tailored procurement framework. A committee has been appointed to design this new mechanism. The absence of reinsurance covers and the downgrade in country credit ratings have negatively impacted National Insurance Trust Fund’s credit standing. However, a reinsurance agreement for the Strick. Riot, Civil, Commotion and Terrorist (SRCC&T) fund was successfully secured in December 2024 after a rating review.	The Board should expedite the development and implementation of a specialized procurement framework for reinsurance and retrocession arrangements, in consultation with the National Procurement Commission (NPC) and the relevant line ministry.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
As per LKAS 12, deferred tax Asset/liabilities should be recognized for all taxable temporary differences unless a specific exemption applies. The Board had not considered Right of use assets and intangible assets for deferred tax calculation for the year under review.	The Board will considered the items of intangible assets and Right of use assets in future submissions.	Need to ensure the compliance with relevant accounting standard when calculating the deferred tax asset or liability of the Board.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
i)	An amount of Rs.19,993,473 recorded as reinsurance receivables (NNIDS) had been unchanged for over 5 years and reasonable provisions had not been made in the financial statements in this regard.	Agreed	By following a comprehensive assessment of recoverability the Board should make an adequate provision on long outstanding reinsurance receivable balance.
ii)	It was observed that reinsurance claim payable amounting toRs. 521,287,319 andRs. 251,742,612 had been remained unchanged from the years 2016 and 2017 respectively. It was not confirmed whether an obligation to make these payments are still existed.	Letters were sent to all general insurance companies on 26.08.2024 and 25.09.2024, requesting confirmation of claim reserves by 07.10.2024 for claims before 2020. While some companies complied, others did not submit their data. Based on the submitted information, the Board of Directors approved the removal of excess reserves. As a result, the flood claim reserves for 2016 and 2017 will be reduced by Rs. 491,424,871 and the process of updating and removing excess reserves is currently processing.	Perform verifications on reinsurance claim payable balances and make timely adjustments in the Financial Statements to reflect accurate liabilities.
iii)	An amount of Rs. 1,417,548,336 had been recorded as reinsurance receivables for which Rs. 833,899,635 or 58 per cent had	The Board received email confirmation from a reinsurance broker (Strategic Insurance Brokers Private Ltd.) in respect of "Omega Line" reinsurance recovery to be received under	The Board should strengthen its assessment and documentation process for

	been made as an impairment provision in the financial statements for the year under review. However, documentary evidence had not been provided for the recoverability of the remaining balance of Rs. 583,648,701.	retrocession. The Broker has placed a condition upon recovery of the said claim. Therefore, impairment provision for Reinsurance on retrocession was made based on the objective evidence available for a specific provision. Additionally, no evidence is available for non-recovery for the balance and therefore, no provision was made according to the accounting policy.	reinsurance receivables to ensure that impairment provisions are made based on reliable and verifiable evidence.
iv)	It was observed that an amount of Rs. 149,768,140 relating to commission payable and Rs. 22,465,243 relating to payable to Accounts and Reinsurance Departments had been remained unchanged from the year 2022. It was observed that the payable balance to Accounts and Reinsurance Department is an inter department balance and need to be netted off when preparing the Financial Statements.	The Board of Directors decided to pay the Profit Commission for the year 2022 in the year 2025. Accordingly, The Board has settled the profit commission payable in 2025.Further, payable to Finance Department – Rs. 22,465,243 is an inter department balance and will be settled in 2025.	The Board should timely review, reconcile, and make the settlements of outstanding payables, particularly those that are long overdue or inter-departmental in nature.
v)	The Board had recorded other non-financial assets aggregating to Rs. 8,519,231 which are remained unchanged and uncovered over a period of 2 to 5 years. However, reasonable provisions had not been made in this regard.	The total of other non-financial assets amounting to Rs. 8,519, 231 are long outstanding balances brought forward from previous years. The Board will take necessary steps to clear and make provisions for these balances in future reporting period.	The Board should assess the recoverability of the long outstanding non-financial assets and make the impairment provision accordingly.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Section 04 of Public Enterprises Circular No.	According to the provisions of the circular the cost of purchasing mobile phones should be personally born by the	The Board approved the provision of official mobile phones to staff on August 18, 2020 (Decision 165-04) to	It recommended to comply with the relevant circular

Public Enterprise Department 2/2022 dated 18 January 2022.	officers. However, the Board has purchased mobile phones for three (03) employees by incurring Rs.253, 000 for the year 2023. Further, total cost of Rs. 3,074,071 had been incurred to purchase mobile phones for the period from 2016 to 2023 by the Board. It was further observed that proper inventory and documentation process to hand over and taken over had not been maintained in this regard.	support business operations. However, the facility was discontinued on February 10, 2023, following instructions from the Audit & Management Committee. An inventory and documentation process is in place for issuing and recovering phones, which has been further improved by introducing a mandatory clearance form for resigning employees.	instructions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 6,545,895,266 and the corresponding profit in the preceding year amounted to Rs. 6,835,723,619.Therefore, adeterioration amounting to Rs. 289,828,353 of the financial result was observed. The reason for the deterioration wasthe reduction of Gross Written Premiums and Crop Insurance Levy collected, during the year under review.

2.2 Trend Analysis of major Income and Expenditure items

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

Line Item	2023 Rs.	2022 Rs.	Variance Rs.	Variance %	Reason for the Variance
Income					
Interest on Soft Loans.	144,229	1,955	142,275	7278	Increase of Soft Loans settlement.
Held to maturity interest income	42,267,223	71,806,844	(29,539,621)	(41)	Maturity of SLDBinvestments during the year 2023.
Other Income	178,231,424	1,369,925,753	(1,191,694,329)	(87)	Due to incurring of exchange losses during the year 2023.
Gross Written Premiums	11,402,441,499	12,201,341,213	(798,899,714)	(7)	Decrease of reinsurance premium during the year 2023.

Crop Insurance Levy Collected	2,441,408,966	2,572,862,779	(131,453,813)	(5)	Decrease ofthe profit of related member institutions.
Expenditure					
SSCL Expenses	221,957,913	17,884,044	204,073,869	1141	Increase of SSCL on Agrahara
Premium Receivable Impairment	148,315,734	12,054,127	136,261,608	1130	Provide an additional impairment provision on Premium Receivable.
Reinsurance Receivable Impairment	863,896,464	-	863,896,464	100%	Provide an impairment provision on Reinsurance Receivable Balance during the year 2023.

2.3 Ratio Analysis

The key ratios of the Boardas compared with the preceding year are given below.

Description	2023 %	2022 %
Gross Profit Margin	97.4	99.9
Operation Profit Margin	59.3	41.0
Net Profit Margin	37.0	33.0
Return on Capital Employed	21.0	44.0
Return on Equity	29.0	35.0
Total Asset Turnover	40.0	50.0

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
As per the Statistical PocketBook – 2022 published by the Department of Census and Statistics, the total number of Semi-Government employees was approximately 240,000 in 2023 and 217,255 in 2024. In contrast, only about 40,000 employees were enrolled in 2023 and 30,700 in 2024 under the Agrahara Semi-Government Scheme. This	The semi-government Agrahara Insurance Scheme, introduced in 2018 as a non-mandatory program, was redesigned recently with a new product and higher premium. The Marketing Department has successfully attracting 83 institutions and is actively promoting the scheme	It is recommended to develop and implement a business expansion strategytoincrease membership in the Agrahara Semi-Government Insurance Scheme.

indicates that a substantial portion over 200,000 eligible Semi-Government employees remains outside the coverage of the scheme. The absence of a structured and proactive enrollment mechanism represents a missed opportunity for the Board to expand its market base, increase premium income, and strengthen its presence in the Semi-Government Sector.	through island-wide awareness programs. However, participation remains voluntary, and some entities like state banks and other SOEs prefer their own or private insurance arrangements

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
According to the approved carder of the Board, there was a shortage of 15 employees as at 30 April 2025. It comprises of five (5) Executive management positions as at that date. The Assistant General Manager – Finance and Chief Executive Officer positions were recruited on acting basis since 16 December 2019 and 27 June 2022 respectively. Therefore, it was observed that remaining vacancies of managerial positions since significant period may affect the smooth and effective functioning of the Board.	As of today, the updated cadre status of the Board shows key vacancies remain unfilled. The AGM-Finance and CEO positions are on hold due to ongoing court cases filed by previously interdicted officers based on Insurance Regulatory Commission of Sri Lanka’s recommendations. The DGM-Insurance interview was conducted on June 19, 2025. Recruitment for the Risk Managerrole is still pending after a failed previous attempt no suitable candidates applied following a February 9, 2025, advertisement. Low government salary scales have hindered attracting qualified applicants. Additionally, the recent election period delayed hiring for positions below MM grade. Recruitment for remaining vacancies will proceed upon receiving necessary approvals.	The Board should adopt a proactive and structured human resource strategy to address the ongoing shortage of key staff, especially at senior management level.