

Management Services Rakshana (Pvt) Ltd – 2024

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Management Services Rakshana Private Ltd (the “Company”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and statement of cash flow 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2024, 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

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.

Emphasis of Matter

Without qualifying my opinion, I draw attention to Note 2 of the financial statements which describe, employees who were seconded to Sri Lanka Insurance Corporation Limited (SLICL) by Management Services Rakshana (pvt) Limited have been transferred to Sri Lanka Insurance Corporation Life Limited and Sri Lanka Insurance Corporation General Limited with the implementation of the Segregation of Sri Lanka Insurance Corporation Limited effective from February 1st 2024.

Due to the pending legal matters involving employees, the board has decided to continue the operations of Management Service Rakshana (Pvt) Ltd until these issues are fully resolved. Once all outstanding legal cases have been settled, the management will evaluate the situation and make a decision regarding the potential winding up of the company. Accordingly, the Financial Statements have been prepared based on the assumption of the principle of a going concern.

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 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 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 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| <p>a. It was observed that the payment vouchers of the Sri Lanka Insurance Corporation Limited (Parent) were used for the company's payments. Since the Company being a separate legal entity, it is required to use the payment vouchers of their own. In accordance with Section 12 of the Company Act No. 07 of 2007, the business must make sure that its name and company number appear prominently on all bills of exchange, checks, and orders for cash or products that are signed on the business's behalf, as well as on all correspondence, invoices, and letters of credit.</p> | <p>Although Management Services Rakshana Pvt Ltd (MSRPL) operates as a separate legal entity, Sri Lanka Insurance Corporation Ltd has historically handled all payments on behalf of MSRPL through its own bank accounts. Subsequently, MSRPL issues invoices to Sri Lanka Insurance Corporation Ltd to reimburse these expenses.</p> <p>This arrangement is consistent with our internal financial procedures and facilitates centralized payment processing, ensuring efficiency and proper</p> | <p>It is recommended that the Company should establish a dedicated payment voucher system and related procedures to ensure all financial transactions are conducted in its own name. The Company should also ensure compliance with Section 12 of the Companies Act, No. 07 of 2007.</p> |

financial oversight.

Moreover, this practice has been reviewed and accepted by Auditors in previous years, confirming its compliance with applicable standards and regulatory expectations.

1.5.2 Accounting Deficiencies

| Audit Issue | Management Comment | Recommendation |
|---|--|---|
| <p>a. According to the report on the actuarial valuation, the gratuity liability as at 31 December 2024 was Rs. 163,524,724. However, as per note No. 03 to the Financial Statements, a gratuity liability of Rs. 165,046,174 had been recorded under non-current liabilities in the Statement of Financial Position. By following the segregation, the gratuity liability of Rs 163,524,725 had been transferred to the Sri Lanka Insurance Corporation General Limited and Sri Lanka Insurance Corporation Life Limited since all employees have been transferred to those companies. However, a net liability of Rs. 1,521,452 had been remained in the Company's Financial Statements. Any explanation or documentary evidence have not been provided for this remaining gratuity liability amount.</p> | <p>This balance is a long outstanding balance has arisen from an unrecorded expense in 2021. Since all employees have been transferred to Sri Lanka Insurance Life and General, the respective gratuity obligation have been transferred to Respective companies at the 01st February 2024.</p> | <p>It is recommended that the management investigate and reconcile the remaining gratuity liability to ensure accuracy, transparency, and compatibility with applicable accounting standards of its Financial Statements.</p> |

1.6 Going Concern of the Organization

| Audit Issue | Management Comment | Recommendation |
|---|---|--|
| <p>a. Following the segregation of Sri Lanka Insurance Corporation Limited, effective 1 February 2024, the staff of Management Services Rakshana (Pvt) Ltd (MSRPL) were transferred to Sri Lanka Insurance Corporation Life Limited and Sri Lanka Insurance Corporation General Limited. Consequently, the Company's operational activities were significantly reduced during the year 2024. The limited operational activity and the absence of ongoing business transactions raise substantial doubts about the Company's ability to continue as a going concern.</p> | <p>Due to the pending legal matters involving employees, the Board has decided to continue the operations of Management Service Rakshana PVT Ltd (MSRPL) until these issues are fully resolved. Once all outstanding legal cases have been settled, the management will evaluate the situation and make a decision regarding the potential winding up of the company.</p> | <p>It is recommended that the Board of Directors and management conduct a comprehensive going concern assessment in accordance with the applicable financial reporting framework, considering the Company's current financial position, operational capacity, and future cash flow projections. Based on this assessment, management should disclose in the financial statements any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern.</p> |

1.7 Cash Management

| Audit Issue | Management Comment | Recommendation |
|---|---|--|
| <p>a. It was observed that a fixed deposit amounting to Rs. 1,000,000, initially placed in 2018, had accumulated to Rs. 1,630,247 as at 31 January 2024. When considering the objectives and operational nature, the Company remains operationally inactive at present. Therefore, this deposit has become idle and is not being effectively utilized to generate value or support the achievement of organizational goals.</p> | <p>At the time of the company's winding-up, the management will make a final decision regarding the Fixed Deposit owned by Management Services Rakshana (Pvt) Ltd. The decision will be based on the overall financial assessment and in accordance with the company's winding-up procedures.</p> | <p>It is recommended that the Board of Directors critically evaluate the utilization of the fixed deposit in line with the Company's objectives and financial strategy. In the absence of active operations, the Company should consider alternative options such as reinvesting in income-generating opportunities.</p> |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 192,220 and the corresponding profit in the preceding year amounted to Rs. 6,954,068. Therefore, a deterioration of amounting to Rs. 6,761,848 of the financial result was observed. The reasons for the deterioration was from 1 February 2024, the staff of Management Services Rakshana (Pvt) Ltd (MSRPL) were transferred to Sri Lanka Insurance Corporation Life Limited and Sri Lanka Insurance Corporation General Limited and Consequently, the Company's management fee was reduced by Rs. 809,576,651 during the year 2024.

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 four (04) years period with the percentage of increase or decrease are given below.

| Line Item | 2024 Rs.000 | 2023 Rs.000 | 2022 Rs. 000 | 2021 Rs. 000 | 2020 Rs. 000 |
|--------------------------------|----------------|----------------|-----------------|-----------------|-----------------|
| Management Fees | 84,702 | 894,279 | 783,149 | 739,905 | 700,922 |
| Variance | -809,577 | 111,130 | 43,244 | 38,983 | 117,400 |
| Increase/ (Decrease) | -91% | 14% | 6% | 6% | 20% |
| Salaries | 38,048 | 378,119 | 329,202 | 304,247 | 293,090 |
| Variance | -340,071 | 48,917 | 24,955 | 11,157 | 48,323 |
| Increase/ (Decrease) | -90% | 15% | 8% | 4% | 20% |
| Incentive/ leave/ Bonus | 14,321 | 232,833 | 189,532 | 214,591 | 187,944 |
| Variance | -218,512 | 43,301 | -25,059 | 26,647 | 44,168 |
| Increase/ (Decrease) | -94% | 23% | -12% | 14% | 31% |
| Directors Remuneration | 550 | 6,050 | 3,126 | 5,099 | 10,178 |
| Variance | -5,550 | 2,924 | -1,973 | -5,079 | -44,324 |
| Increase/ (Decrease) | -91% | 94% | -39% | -50% | -81% |
| Administrative Income | 84,559 | 878,367 | 756,341 | 729,451 | 693,852 |
| Variance | -793,808 | 122,026 | 26,890 | 35,599 | 118,051 |
| Increase/ (Decrease) | -90% | 16% | 4% | 5% | 21% |

3. Operational Review

3.1 Operational Inefficiencies

| Audit Issue | Management Comment | Recommendation |
|--|--|---|
| <p>As per the Memorandum of Association, Management Services Rakshana (Pvt) Limited (MSRPL) was established with the following primary objectives.</p> <ul style="list-style-type: none">• To provide insurance management and technical services• To provide insurance advisory and consultancy services• To provide insurance research and development services• To provide general management and consultancy services | <p>The staff recruited through Management Service Rakshana (Pvt) Limited (MSRPL) were seconded to the Sri Lanka Insurance Corporation, which was the procedure followed prior to the segregation. The Key Performance Indicators (KPI) were set by the Sri Lanka Insurance Corporation Limited based on the Strategic Plan and business.</p> <p>Accordingly, individual KPIs were assigned to senior managers seconded from MSRPL.</p> | <p>It is recommended that the Board assess the future of Management Services Rakshana (pvt) Limited (MSRPL) and take a formal decision to either reactivate or liquidate the company, as it currently remains dormant with no operational actives or strategic purpose.</p> |
| <p>However, following the segregation of the Sri Lanka Insurance Corporation into Sri Lanka Insurance Corporation Life Limited and Sri Lanka Insurance Corporation General Limited, all employees who had been seconded from MSRPL to SLIC were subsequently transferred to these two new entities. As a result, MSRPL no longer has any employees or operational activities related to its objectives.</p> | <p>Following the segregation, employees who had been seconded from MSRPL to SLIC were transferred to either Sri Lanka Insurance Corporation Life Limited or Sri Lanka Insurance Corporation General Limited. At present, MSRPL is a non-operative company.</p> | |
| <p>At present, MSRPL functions as a non-operative company, with no defined strategic purpose, active business engagements, or operational framework. The existence of the company is in a dormant state, without a clear decision on its future such as reactivation, restructuring, or liquidation.</p> | | |

4. Accountability and Good Governance

4.1 Internal Audit

| Audit Issue | Management Comment | Recommendation |
|--|--|--|
| <p>a. In accordance with Section 40(1) of the National Audit Act, No. 19 of 2018, every auditee entity is required to establish an internal audit function headed by an Internal Auditor, duly appointed by the Board of Directors, to carry out independent internal audit activities. However, it was observed that the Company had not carried out an internal audit for the year under review.</p> | <p>It is a fact that the management initiated an internal audit with external parties in 2022, which resulted in certain improvements. However, since all employees have been transferred to SLIC Life and SLIC General Limited, and as there are currently no ongoing operations, we believe that the requirement for an internal audit does not arise.</p> | <p>It is recommended that the Board formally evaluate and document the current operational status of the Company and assess the necessity of maintaining an internal audit function under these specific circumstances in order to comply with Section 40 (1) of the National Audit Act, No. 19 of 2018.</p> |