



ANNUAL REPORT 2012



NATIONAL INSURANCE TRUST FUND

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1. CORPORATE PHILOSOPHY

VISION



*SAFETY-NET AND PROTECTION
FOR ALL NEEDY SECTORS*



MISSION

To contribute to the social and economic development of Sri Lanka through:

- *Affordable, Efficient and Progressive Insurance Schemes for all needy segments in the society;*
- *Providing solutions to local market to cover high risks arising from changing needs through pooling and other arrangements; and*
- *Creating a reinsurance market in Sri Lanka to provide additional capacity to the local Insurance Market.*

CORPORATE VALUES



- Credibility
- Integrity
- Accountability
- Financial Stability
- Professional Management



2. GOALS AND OBJECTIVES

- *Implement insurance schemes for the benefit of intended target groups covering all segments of society.*
- *Design and manage a reinsurance programme to capture minimum of 50% of the reinsurance market.*
- *Automate the management of all schemes implemented by the NITF.*
- *Develop human resources to provide highly effective service to all beneficiaries.*
- *Manage the investments effectively to achieve a maximum return to shareholders during the next 5 year period.*
- *Promote and encourage the stakeholders to participate in relevant insurance schemes through educational awareness programmes.*
- *Develop adequate infrastructure facilities to cater to the future operations of NITF.*
- *Establish a risk management unit and conduct market studies and provide guidance to NITF on its future insurance businesses.*



3. MEMBERS OF THE BOARD OF NATIONAL INSURANCE TRUST FUND - 2012



Mr. D. Widanagamachchi

Chairman



Mr. J. Dadellage

(Board Member)



Dr. Lohitha Samarawickrama

(Board Member)



Mr. W. H. Piyadasa

(Board Member)



Mr. N. Kulasekera

(Board Member)



Mr. A.K. Seneviratne

(Board Member)



4. CHAIRMAN'S REVIEW

Presentation of Annual Report -2012

On behalf of the NITF Board I am privileged to present the Annual Report of National Insurance Trust Fund for the year ended 2012.

The Net Earned Premium Income of NITF in 2012 amounted to Rs.3.02 billion as against to Rs. 2.5 billion in 2011 which is a slight increase. The Net Profit in 2012 remained at Rs. 2.1 billion which is slightly lower than 2011's Net Profit of Rs. 2.2 billion. The financial performance of NITF is elaborately emphasized in Performance Review section. NITF continued to implement socially inclined insurance schemes such as "Agrahara" Health insurance scheme, Parliamentary Members insurance scheme. The management of the special account in respect of issuance of insurance policies for strike riot, civil commotion and terrorism covers, general insurance businesses undertaken in terms of the Order by His Excellency the president under section 2 of the NITF Act No 28/2006, and accepting 20% mandatory cession on reinsurance placements by the insurance companies, have mainly contributed for performance achieved during the year under review.

In addition during the year 2012, several strategic initiatives has been proposed such as to increase the 20% mandatory cession to

30% and to turn around the Agrahara Medical insurance scheme.

Appreciation

I take this opportunity to convey my thanks to the Minister in Charge of the subject of Finance, Secretary to the Treasury for the guidance, the officials of Ministry of Finance and Planning and officials of IBSL, for their corporation extended to the Board.

My special thanks to the members of the Board for their valuable contributions and valued clients and business partners for the trust and confidence placed on us.

Our employees are our foundation. Their dedicated service is the only way forward for the success of NITF Board. I convey my sincere appreciation to the dedicated team led by managers and assistant managers of NITF Board for their commitment.

Sgd,

D. Widanagamachchi

Chairman



5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 GENERAL ENVIRONMENTAL REVIEW

Review of the Insurance Industry

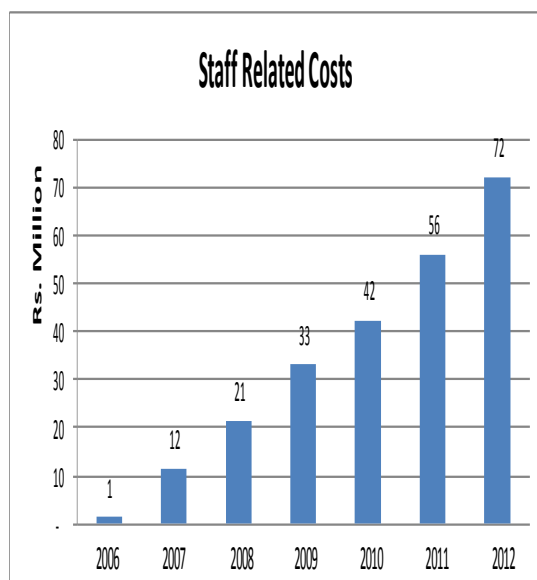
During the year 2012, there were 21 insurance companies registered with the Insurance Board of Sri Lanka in operation. The insurance sector as a whole, accounted for about 3% of the total assets of the Financial sector. However, the industry continued to be dominated by a few large insurers, with two companies accounting for over 60% of the assets of the entire insurance sector. The growth in the insurance market was adversely affected by the low growth in vehicle imports caused by the sharp increase in vehicle import duties coupled with high leasing rates. The drop in demand for unit-linked life insurance products as a result of the weak performance of the equity market and the low growth in housing loans due to high interest rates also had a negative impact. Nevertheless, the Non - Life Insurance market grew by 14.65% and the Life Insurance market by 6.56% in 2012 with signs of a potentially better performance emerging in future years with the gradual improvement in macro-economic conditions. Insurance penetration, which measures the level of insurance activity, is low in relation to the size of the Sri Lankan economy when compared with other Asian countries. Insurance penetration measured in terms of the total premium as a percentage of GDP and the insurance density which relates the total premium to the population accounted for relatively insignificant levels of 1.15% and Rs. 4,287 respectively.

Role of the NITF

During the year 2012, NITF contributed by providing resiliency towards the sustained economic development of the country. This contribution of the NITF has been done by providing various insurance covers such as health insurance schemes, general insurance schemes and reinsurance. The Agrahara medical insurance scheme is carried out for Government sector work force responsible for the major development activities in Sri Lanka and shouldered the risks of the economy through Reinsurance scheme.

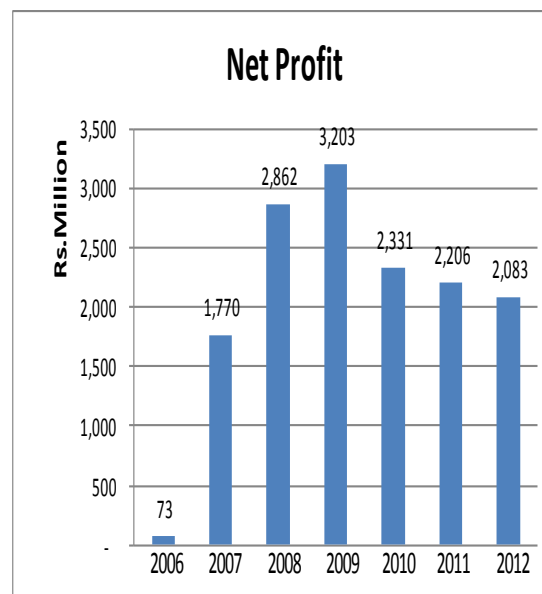
5.2.1 SEVEN YEAR FINANCIAL REVIEW

Chart- 5.01: Past Trend in Staff Related Costs



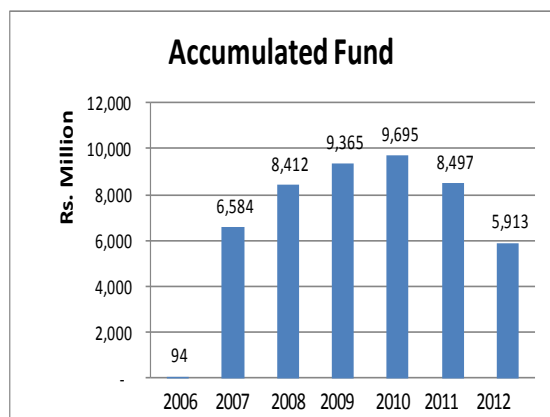
The pattern staff related expenses displayed consistent increase over the seven years while in 2012 the increase is slightly high due to higher recruitment rate. It recorded Rs.72 million while in 2012 it is the highest. This is due to recruitment of new employees as well as increase in the salaries and wages.

Chart- 5.02: Past Trend in Net Profit



The pattern of the Net Profit displayed an increasing trend over the 4 years till 2009., and thereafter reduced substantially in 2010 due to reduction in demand for terrorism cover. In 2011, it has decreased slightly by 7% relative to 2010. While 2010 – 2012, it decreased slightly.

Chart- 5.03: Past Trend in Accumulated Fund



The accumulated fund has grown till 2010 to a Rs.9,695 million but reduced by 12% in 2011 compared to 2010. Further, Fund has been reduced to Rs.5,913 million as at end of 2012. As a result of imposing a levy over and above annual net profit for the year 2012 on retained profit transferred to the Fund, accumulated Fund has been eroded.

FINANCIAL PERFORMANCE – 2012

CATEGORY WISE CLASSIFICATION OF PREMIUM INCOME

Table-5.01a: **CATEGORY WISE CLASSIFICATION OF PREMIUM INCOME**

CATEGORY	2012 Rs.	2011 Rs.	2010 Rs.
01.NET EARNED PREMIUM INCOME			
Premium income –Gvt. Motor	206,595,378	215,199,457	237,386,267
Premium income – Reinsurance	463,610,216	198,551,912	296,078,296
Premium income – Parliamentary members	10,000,000	10,000,000	10,000,000
Premium income – Foreign Employment	54,577,250	208,799,952	231,968,216
Premium income – Non Motor	104,047,985	170,876,837	149,796,387
Premium Income- SRCCT	2,281,210,351	2,006,556,886	1,874,425,103
Premium Refund	(34,291)	(26,080)	(4,194,863)
Gross Written Premium	3,120,006,892	2,809,958,964	2,795,459,406
Reinsurance Premium	(1,304,600)	(179,367,937)	(132,180,421)
Net Written Premium	3,118,702,292	2,630,591,027	2,663,278,785
Net Change in Reserves for neared Premium	(95,954,471)	(141,879,032)	225,260,471
Net Earned Premium	<u>3,022,747,821</u>	2,488,711,994	2,888,539,456

Table-5.01b: **CONTRIBUTION TOWARDS AGRAHARA MEDICAL INSURANCE SCHEME**

SOURCE	2012 Rs.	2011 Rs.	2010 Rs.
Contribution from Govt. Employees	588,435,521	623,424,037	595,140,400
Contribution from Government	275,000,000	494,299,000	442,790,000
Total	863,435,521	1,117,723,037	1,037,930,400

Table-5.02: **TREND ANALYSIS OF PREMIUM INCOME AND CONTRIBUTION INCOME**

(All Figures in Sri Lankan Rupees)						
	2007	2008	2009	2010	2011	2012
Contribution Income						
Agrahara Health Insurance Scheme	925,340,682	1,075,339,833	1,013,898,510	1,037,930,400	1,117,653,037	863,435,521
Premium Income Motor		130,018,979	244,352,905	237,386,267	215,199,457	206,595,378
Premium Income Reinsurance		341,170,103	473,434,837	296,078,296	198,551,912	463,610,216
Premium Income General Insurance (Non Motor)		148,428,753	216,086,561	391,764,603	389,676,789	168,625,230
Gross Written Premium - SRCC & TR	2,178,012,010	2,317,492,759	2,420,345,104	1,874,425,103	2,006,556,886	2,281,210,354
Total Premium Income	3,103,352,692	4,012,450,427	4,368,117,917	3,837,584,669	3,927,638,081	3,983,476,699

Member Contribution for Medical Insurance Scheme

The Government employee who is eligible to be a member of the scheme monthly contributes to the scheme by paying a sum of Rs.75. Since revenue recognition is on cash basis. Annual revenue varies upwards and downwards. There should be marginal increase in contribution, due to new recruitments.

REVIEW OF THE INSURANCE SCHEMES

The National Insurance Trust Fund was established in 2006 under the National Insurance Trust Fund Act No. 28 of 2006. With its inception, a mandate was given to NITF to implement dedicated insurance schemes for the benefit of needy segments of the society.

i. Medical Insurance Scheme for Government Employees (Agrahara)

The Medical Insurance scheme which was established in 1997 for the benefit of government officers is known as Agrahara Health Insurance scheme. It commenced its operations with an initial payment of Rs. 11 per member per month. Subsequently as per a decision taken by the Government in 2005, premium of Rs.75 per month was deducted from the monthly salary from all pensionable Government Officers towards the scheme. Until such time as the Sri Lanka Insurance Corporation was privatized, the scheme was implemented by the Sri Lanka Insurance Corporation. But with its privatization, the Government took over the scheme with effect from 1st January 2006 and implements it as a separate Government scheme under the National Insurance Trust Fund.

ii. Strike, Riot & Civil Commotion & Terrorism Fund (SRCC&TF)

The SRCC&T Fund was established in 1987 in terms of a Cabinet Decision made by the Cabinet of Ministers, with the objective of providing additional insurance cover on Insurance Policies, extended to cover against loss / damage to property and or personal health, accident, bodily injuries occurring due to strike, riot, civil commotion and terrorist activities within the geographical limits of Sri Lanka, issued

by all members of the Fund who are licensed General Insurance Organizations in Sri Lanka. From 1987 onwards the Fund has been administered by the National Insurance Corporation.

With effect from 01.08.2005, the Fund was administered by the Ministry of Finance and Planning taking over from the Janashakthi Insurance Co. Ltd, the successors of National Insurance Corporation. Subsequently, with incorporation of NITF all monies lying to the credit of the SRCC&T Fund was taken into to the NITF.

Eventually, these money were transferred to the special account of maintained by NITF

iii. Parliamentary Members Insurance scheme

The NITF has introduced an Insurance Scheme for Parliamentary members. Under this scheme the 225 members of Parliament are benefited. This scheme provides following benefits for Parliament members:

- | | | |
|----|--|------------------|
| 1. | Accident insurance cover up to Rs. 5 million | |
| | Accidental death | Rs. 5,000,000.00 |
| | Complete disability due to an accident | Rs. 5,000,000.00 |
| 2. | Medical Insurance cover per year | Rs. 200,000.00 |

iv. Re-insurance Coverage to the Insurance Industry in Sri Lanka

NITF commenced acceptance of reinsurance risk in Sri Lanka, pursuant to the provision of NITF Act. It is mandatory for General Insurance Companies in Sri Lanka to obtain up to 20% of the total sum of reinsurance business. NITF has reinsured this 20% provision under retrocession programme up to end of October 2011.

v. Motor Vehicle Insurance Scheme (for the motor vehicles owned by the Government)

Motor vehicles owned by Government institutions (optional) and Semi-government institutions (optional) are insured against any risk of loss or damages and such losses are borne by the Government. The NITF initially begun to offer Motor Vehicle Insurance to the Government sector and thereafter extended it to private sector at an affordable premium. Its comprehensive motor insurance will cover all damages by fire and theft, third party damages (death and injury) and additional covers such as flood, strike, riots, civil commotion and terrorism etc.

vi General Insurance Scheme

Pursuant to the gazette notification No. 1615/20 issued on 20.08.2009 NITF has been given a mandate to provide Fire Insurance policies, Marine Insurance policies, Workers Compensation Insurance policies and Miscellaneous Insurance policies under the General Insurance Business.

Agrahara Medical Insurance



“Agrahara” medical insurance scheme was implemented by the Sri Lanka Insurance Corporation in event of circular issued by Treasury of Circular No: 12/2005 and it came under the purview of National Insurance Trust Fund from 1st of January 2006 for the benefit of Married Employees Member, Spouse and Children (only if they are unmarried, unemployed and below 21 years old) and Unmarried Employees – Member, Parents (only if the parents below 70 Years old)

The “Agrahara” medical insurance scheme has been introduced in order to uplift the living standards of the public servants and provincial public servants and their families. Therefore management has taken steps to expedite all claims received by us as early as possible.

National Insurance Trust Fund had implemented a new claims processing system after implementing the e-card system to expedite the claims payment process as early as possible. The Agrahara claims intimated which fulfilled all the necessary requirements have been paid within 3 working days after the introduction of e-card system. Under this insurance scheme the following categories of benefits have been offered

1. Medical benefits against hospital charges:

Under these benefits such as hospital and nursing home charges, medical and surgical expenses, Fees for medical consulting services or for specialist physicians’ service and specialist services, indoor treatment etc. will be provided

2. Purchase of spectacles:

Under this scheme members are eligible to claim a sum of Rs.3,500/- to meet expenditure on purchase of spectacle once in every 3 years.

3. Heart Surgery Expenses (Cardiac):

Under these scheme members are eligible to claim a sum of Rs.400,000/- to meet expenditure on pay for Heart surgery.

4. “Naya Surakum” loan guarantee scheme:

A loan guarantee for a value of ten times of the monthly salary will be provided and on account of any sickness or total or partial disability, the debtor was to lose his life or his usual means of livelihood the outstanding amount of the loan will be paid.

Table-5.03:CLASSIFICATION OF AGRAHARA MEDICAL INSURANCE CLAIMS – YEAR 2012 (IN NUMBERS)

CLAIM TYPE	TOTAL CLAIMS RECEIVED	CLAIMS PAID	OUTSTANDING CLAIMS	CLAIMS REJECTED
Death	1,992	1,886	39	67
Disability	604	529	52	23
Child birth	10,172	9,171	800	201
Cancer	356	320	22	14
Cardiac	495	488	03	04
Spectacles	59,256	51,229	2,275	5,752
Other Government hospital charges for other illnesses	30,833	27,675	1,956	1,202
Other private, hospital charges for other illnesses	17,551	14,112	1,332	2,107
Kidney	06	05	01	-
Paralysis	07	05	01	01
TOTAL	121,272	105,420	6,481	9,371

Motor Insurance



It is a basic requirement of the sri lanka government that all types of motor vehicles used on public high ways should have at least a third party insurance cover. Through a comprehensive insurance cover benefits can be extended to cover passengers, vehicles, buildings, etc.

Therefore NITF motor insurance has introduced a comprehensive motor insurance by providing best service to the owner of the vehicle and third parties as well.

To Whom

From 2008 NITF is providing the motor insurance cover for all the government bodies which is mandatory to them with all the necessary benefits.

We have taken another step ahead on 01/09/2009 and expanded our service by insuring the private vehicles by aiming to provide extensive benefits with best service by settling claims within a short period to private sector as well as government sector. However, during the year 2012, NITF confined its business to government sector.

Benefits

Normal comprehensive cover does not provide all types of perils . By the owner of the vehicle has the option to get under mentioned perils, by paying an additional premium.

Covers That NITF Offer	Covers That NITF Offer
Third Party Property Damage Cover	PAB Driver/Pgs-SRCC Cover(PC)
PAB - Driver/Passengers Cover	PAB Driver/Pgs-TR Cover(PC)
Duty Free Loading Cover	PAB Dr/CI/Atten-SRCC Cover (CMV)
Hire Purchase Cover	PAB Dr/CI/Atten-TR Cover (CMV)
Air Bags Cover	PAB Pgs - SRCC Cover (CMV)
Towing Charges Cover	PAB Pgs - TR Cover (CMV)
Windscreen Cover	PAB Emp/Rider - SRCC Cover (MC)
Learner Driver Cover	PAB Emp/Rider - TR Cover (MC)
WCI for Driver/Cleaner/Attendant Cover	PAB for Driver/Cleaner/Attendant Cover
Legal Liability for Passengers Cover	Learner Driver Cover - PC/MC
Personal Accident Benefits Cover- Emp/ Rider	Learner Driver Cover - CMV
Personal Accident Benefits Cover- Emp/ Rider	Goods in Transit Cover- SRCC
Personal Accident Benefits Cover- Emp/Pillion Rider	Goods in Transit Cover- TR
Goods in Transit Cover- Non Hazardous Goods	Learner Driver Cover MCP
Goods in Transit Cover - Hazardous Goods	Flood Cover

Table-5.04:CLASSIFICATION OF MOTOR CLAIMS PAID

CATEGORY	2011		2012	
	TOTAL		TOTAL	
	NO OF CLAIMS	AMOUNT (RS.)	NO OF CLAIMS	AMOUNT (RS.)
TRACTOR	4	63,136	6	3,415
PRIVATE CAR	603	47,904,785	685	45,993,550
MOTOR CYCLE	45	742,533	65	660,069
MOTOR COACH	79	10,291,531	142	6,579,077
LORRY/LAND VEHICLE	100	14,099,309	104	3,900,131
LORRY TRAILOR				
DUAL PURPOSE VEHICLE	379	31,187,672	531	30,946,886
VAN	1	61,550		
TRADE PLATE				
TRAILOR			1	24,596
TOTAL	1,211	104,350,516	1534	88,083,129

General Insurance



Basic requirement of the Sri Lanka government that all types of Fire, Marine and Miscellaneous Insurance.

To Whom

General Insurance Cover for all the Government Bodies which is mandatory to them with all the necessary benefits.

Benefits

NITF has been providing the following insurance covers:

- Fire Insurance
- Contractors All Risk Insurance
- Electronic Equipment Insurance
- Marine Insurance
- Workmen Compensation
- Personnel Accident Insurance
- Health Insurance
- Travel Insurance

Table-5.05: **CLASSIFICATION OF GENERAL INSURANCE POLICIES**

POLICY CATEGORY	2012	
		NO OF POLICY
FIRE		3
MARINE	US	110
PERSONAL ACCIDENT	EQ	3
WORKMAN COMPANSATION INSURANCE	N	2
BURGLARY	A	3
CASH IN TRANSIT	L	4
ELECTRICAL EQUIPMENT	L	7
CONTRACTORS ALL RISK	E	17
PLANT AND MACHINERY	C	N/A
MEDICAL	S	15
TRAVELLING	M	9
TOTAL		173

Table-5.06: **CLASSIFICATION OF MEDICAL CLAIMS PAID –YEAR 2012****CLASSIFICATION OF MEDICAL INSURANCE CLAIMS PAID - YEAR 2011 & 2012**

CATEGORY	2011	2012
	(Rs.Million)	(Rs.Million)
ACCIDENT	1.26	2.71
BIRTH CHILD	3.18	3.09
CRITICAL ILLNESS	0.00	2.31
DEATH	1.90	0.03
GOV.HOSPITAL	7.36	2.42
OUT DOOR	8.08	28.23
PVT HOSPITAL	31.79	72.07
SPECTACLE	4.32	8.21
TOTAL	69.78	119.08

Strike, Riot, Civil Commotion & Terrorism Extension



In terms of the Cabinet decision made in year 1987, the Strike, Riot and Civil Commotion fund (SR & CC) was formed to meet claims on Insurance policies extended to include cover against SR & CC and administrated by National Insurance Corporation. As the risk of Terrorism was not covered under Standard policies and in response to public appeals made during the turbulent period 1988/89, the Government of Sri Lanka in 1989 decided to extend the scope of the SR & CC Fund to extend the scope of the SR & CC Fund to include damage/loss caused by act of Terrorism and the Fund was renamed as the Government Fund for Strike Riot & Civil Commotion & Terrorism (hereinafter referred to as the SR & CC & TR Fund)

Thereafter the Strike, Riot & Civil Commotion and Terrorism Fund was taken into the Ministry of Finance and Planning, and managed by the Ministry of Finance and Planning from 2005 onwards. Ultimately, the Strike, Riot & Civil Commotion and Terrorism Fund was absorbed into the National Insurance Trust Fund in 2007, National Insurance Trust Fund Act No. 28 of 2006.

After the absorption of Strike, Riot & Civil Commotion and Terrorism Fund all money credited to the Fund in terms of paragraph (c) of subsection (1) of section 18 of the Act has been transferred to a special account maintained by the National Insurance Trust Fund.

Membership of the Fund is obligatory to all direct Insurers registered under the Companies Act and licensed to Transact General Insurance in accordance with the current legislation.

The main activities of SR & CC & T Fund includes

- Collection of premium through Insurance Companies and remitting to the Fund and invest at a higher rate.
- Claim settlements are strictly monitored by the NITF and claims to be paid by Insurance Companies and reimbursed by the SR & CC & TR Fund on the approval of the NITF Board (The cover provided by the Fund is limited to varying maximum values under different classes of Business as determined by the NITF time to time)
- The management of the soft loans granted to the institutions damaged due to terrorist attacks which was administered by the Bank of Ceylon

The objectives of the Strike, Riot, Civil Commotion and Terrorism Fund are:

- ❖ To establish the Fund out of the Strike, Riot & Civil Commotion and Terrorism component of insurance premiums received by all the members of the Fund as defined in insurance policies extended to include the risks of Strike, Riot & Civil Commotion and Terrorism covered by the Fund.
- ❖ To afford protection against loss/ damage to property/ or personal injury occurring due to Strike, Riot & Civil Commotion and Terrorism activities as defined in the insurance policy to such risks insured and situated within the geographical limits of the Democratic Socialist Republic of Sri Lanka including those type of general insurance risk which provides for an extension of the geographical limit.
- ❖ It could prevent valuable premium without going overseas by securing cover from very own Sri Lankan Fund.

In 2012 Business year has been a robust performance of SR & CC & TR Fund by providing combined GWP increased to LKR 2,270 Mn versus LKR 2,006 Mn in the previous year and cash transferred to consolidated fund increased to LKR 4,200 Mn versus LKR 3,495 Mn in the previous year.

SR & CC & TR Fund has convened 10 Working Committee meetings and 10 Technical Advisory Committee meetings during year 2012 and the Working Committee and TAC set up to administer to Fund have honoured 160 claims amounted to LKR 190 Mn as against to 25.3mn in 2011.

Reinsurance



Reinsurance Department of National Insurance Trust Fund was established in the year 2008 to undertake to carry out re-insurance business prescribed in the Gazette notification No.1528/20 of 19th December 2007 under the NITF Act, No. 28 of 2006. NITF has accepted 20% compulsory cession of reinsured risks of General Insurance (non life).

The main objective, behind the establishment of this department, is to retain the foreign currency in Sri Lanka. The Department extends Guideline and the necessary support to all primary insurance companies in Sri Lanka with regard to the subject of reinsurance. Therefore NITF plays a major and decisive role as the “National Reinsurer” in Sri Lanka.

It is compulsory, in accordance with the conditions specified in the subject Gazette notification , all primary Insurance companies to cede 20% of their with NITF and responsible for settlement of any claims submitted by any primary insurance company to sum equivalent to the accepted liability.

The Insurance companies who deal with NITF are given below

1. Allianz Insurance Company Ltd.
2. Amana Takaful Insurance PLC
3. Asian Alliance Insurance PLC

4. Aviva NDB Insurance PLC
5. Ceylinco Insurance Company Limited
6. Chartis Insurance Company
7. Continental Insurance Lanka Limited
8. Co-operative Insurance Company Limited
9. HNB Assurance Privet Limited Company
10. Janashakthi Insurance Privet Limited Company
11. LOLC Insurance Company Limited
12. MBSL Insurance Company Limited
13. Orient Insurance Limited
14. People's Insurance Limited
15. Sanasa Rakshana Samagama
16. Sri Lanka Insurance Corporation
17. Union Assurance Privet limited Company



6. SUSTAINABILITY REPORTING

Sustainability is firmly on the corporate agenda – although as with many business challenges, committing to a course of action often proves difficult. Some believe, like Peter Drucker, that the purpose of a firm is to serve society.

But there is common ground, which is to focus on the value that sustainability can add to a business and society – its contribution to the ‘triple bottom line’ of profit, planet and people

Sustainability has a pragmatic and profound impact on the strategy and operations of firms today. It isn’t just about being ethically responsible, it is about smart business. Eliminating waste and inefficiencies makes simple economic sense and produces real bottom line impact. Sustainability initiatives often combine tangible, short-term gains with longer term benefits to generate new sources of revenue and enhance intangible assets such as brand and reputation.

Sustainability, when embedded throughout an organisation, its strategy and operations, can drive value across a number of dimensions:

- Revenue generation – from new products, services and markets.
- Cost control – resource efficiency, lower energy consumption and waste minimization.

Sustainability and the value it creates must be quantified and linked to business performance if the case for sustainability is to be made and the benefits are to be realized.

National Insurance Trust Fund’s sustainability strategies are aligned to the core business where:

- The NITF has adopted a strategic approach to sustainability.
- Business and the sustainability strategies are inter dependent where all business decisions stem from the sustainable development and growth of the organisation.
- The NITF strives to ensure that sustainability is featured in all strategic business decisions and also integrated to all aspects of NITF’s operations.

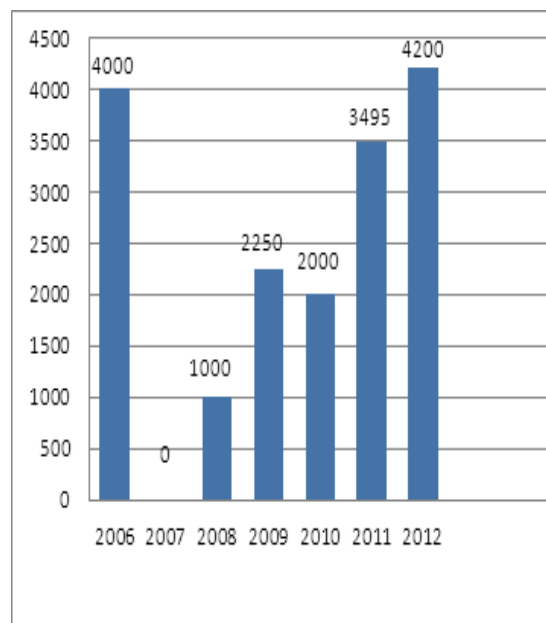
STAKEHOLDER GROUP 1 - GOVERNMENT

NITF increased its annual contribution to the Consolidated Fund by giving the highest ever amount of Rs. 4,200 million. Which is 20% higher than the previous years contribution Rs. 3,495 million to the consolidated fund in 2011. By continuing its past trend NITF has contributed Rs. 2,000 million in 2010, Rs. 2,250 million in 2009 and Rs. 1,000 million in 2008.

Table – 6.01: Contribution to the Consolidated Fund

FISCAL YEAR	RS. MILLION
2006	4,000
2007	-
2008	1,000
2009	2,250
2010	2,000
2011	3,495
2012	4,200

Chart –6.01: National Insurance Trust Fund's Contribution to Development of Country

**STAKEHOLDER GROUP 2 - CUSTOMERS**

During the year 2012, NITF was able to maintain its AAA RAM rating to maintain its customer confidence to project NITF's claims paying ability. NITF has been continuously updating its RAM rating of AAA at the highest level.

NITF has made arrangements to compensate over Rs. 67 million among 30 qualified insurance claimants of Kilinochchi and Mullaitivu districts on 19th November 2012 at

the “Randora” auditorium of the Ministry of Finance and Planning.

Under the Foreign Employment Insurance Scheme, the NITF has provided insurance covers for Sri Lankan housemaids who have been working in Middle East countries during the initial months of 2012. NITF has also been carrying out the “Agrahara” medical insurance scheme in a concessionary basis during 2012.

A project was formulated to issue e –card to each public servant so that database for “Agrahara” medical insurance membership can be created and members would be privileged to obtain medical services from hospitals conveniently.

STAKEHOLDER GROUP 3 – SOCIETY

During the Dayata Kirula Exhibition-2012 held in Alayapatthuwa, Anuradhapura National Insurance Trust Fund carried out a free eye clinic and spectacle donation campaign. Also NITF has given the protection of personal accident covers for the Dayata Kirula exhibition -2012

NITF has undertaken to construct and donate a medical ward at Alayapatthuwa rural hospital

under Dayata Kirula Development program - 2012. For this purpose, a sum of Rs. 19.0m was allocated in the budget of NITF and the foundation stone was laid in February 2014.

STAKEHOLDER GROUP 4 – EMPLOYEES

Training and Development

The National Insurance Trust Fund believes in business focused training to enhance competencies and expertise in an attempt to build a highly skilled workforce. As a newly established institution related to Insurance field NITF provided guidance to their employees to enhance knowledge about Insurance and Accounting. Therefore NITF have conducted classes for employees who sit for Indian Insurance Exams and as well as sponsored for the exam fees. The classes were conducted by professional lecturer in Insurance Industry.

Training programs were provided to the employees in accounting section about the Accpac ERP system that is currently use for prepare financial accounts.

Recreation

The “Annual Bak Maha Ullela” of National Insurance Trust Fund was held in April 2012 at the Henry Pedris ground.





7. GOVERNANCE REPORTING

-ENTERPRISE GOVERNANCE

➡ INTRODUCTION

Enterprise governance is an emerging term which describes a framework covering both the corporate governance and the business governance aspects of an organisation. Achieving a panacea of good corporate governance that is linked strategically with performance management will enable companies to focus on the key drivers that move their business forward. This is both a challenge and an opportunity.

The key point to note about the framework is that enterprise governance encapsulates two dimensions of corporate governance processes i.e. conformance and performance that need to be kept in balance.

The conformance dimension covers issues such as board structures and roles as well as executive remuneration. Codes and/or standards can generally address this dimension with compliance being subject to assurance/audit.

The performance dimension centers on strategy and value creation. The focus is on helping the board to make strategic decisions, understand its appetite for risk and the key drivers of performance.

At the heart of the enterprise governance framework is the argument that good corporate governance can help to prevent failure, but it does not guarantee good business performance. As it has been already seen, corporate failures led to significant efforts to reform the corporate governance side of the equation in the early 2000s, but, until more recently, there has not been as much attention on the performance side in terms of strategic decision making and implementation. The enterprise governance framework helps us to understand the importance of both conformance and performance to the National Insurance Trust fund's long-term success.

The National Insurance Trust Fund carries out its Enterprise Governance practices underpinned by Corporate Governance Code of Best Practices issued by the Institute of Chartered Accountants of Sri Lanka and the Public Enterprises Guidelines for Good Governance and Corporate Governance practices while adopting the salient corporate governance values such as discipline, transparency, independence, accountability, responsibility, fairness and social responsibility.

➡ FINANCIAL AND INSURANCE ACUMEN

During the year 2012, financial and insurance competence is strengthened by the Board of Directors and Chairman.

➡ THE COMPOSITION OF NITF BOARD

The NITF is managed by a Board consisting of eight members appointed by the Minister in charge of the subject of Finance, consisting an officer to represent the Ministry of Finance, Chief Accountant of the Ministry of Finance, An officer representing the Ministry of Health, An officer representing the Ministry of Public Administration, Director General of the Insurance Board of Sri Lanka and three other persons nominated by the Minister to represent expertise in the fields of Finance, Banking, Insurance, Management and Law. The Minister is empowered to appoint one person of the Board as Chairman. In terms of the Act, all members of the Board shall hold office for a period of five years from the date of appointment. The names of the Board of Directors are given in the Members of the Board of National Insurance Trust Fund -2012 page.

➡ CODE OF CONDUCT

All management and staff are subject to a formal Code of Conduct which places them under specific obligations as to the ethics and principles by which our business operations are conducted. The Code of conduct of employees of NITF is evaluated during the performance evaluation once a year

➡ PROCUREMENT POLICY

The NITF has also introduced a comprehensive Procurement Policy to be followed by staff members involved in procurement activities. Procurement activities are carried out based on the NPA Procurement Guideline Manuals.

➡ FINANCIAL STATEMENTS

The National Insurance Trust Fund presented its Financial Statements in line with the Sri Lankan Accounting Standards and other applicable laws and regulations as well as IBSL regulations. The NITF provide a detailed and transparent analysis of performance and future strategies for stakeholders to make prudent decisions

➡ BUSINESS CONDUCT AND BUSINESS ETHICS

National Insurance Trust Fund adopted well accepted business conducts and business ethics for the behavior of its employees. Those includes conduct in public, ethical business standards and non-fraudulent conduct, protection and proper use of NITF assets, avoiding conflict of interests, fair dealing when dealing with insurance customers and clients of NITF, proper use of computer systems of NITF, customer satisfaction, compliance with laws and regulations.

➡ THE ANNUAL REPORT 2012

The Annual Report 2012 of National Insurance Trust Fund has been prepared to project an overall view of NITF's affairs during the year 2012 in order to make informed decisions.

➡ SUPPLY OF INFORMATION

The monthly reports of performance and minutes of previous Board meetings and Board papers are circulated to members of the Board well in advance to the Board meetings. The Chairman and the Board meet on a monthly basis in order to make Board decisions. During the year 2012 the Board met 16 occasions.

During the year 2012, 5 Audit Committee meetings were also held.

➡ THE INTERNAL CONTROL

The Board is primarily responsible for the Company's system of internal controls and for reviewing its effectiveness. Internal Auditors and the management conduct frequent reviews of the effectiveness of the Company's system of internal controls. The Audit Committee reviews the findings of the Internal Auditors as well as the management on the effectiveness of the Company's system of internal controls at least once every quarter, and reports to the Board on such reviews.

Plan the scope, Review of the Internal Audit Reports and discussions and issues concerns and management where necessary, Review of the NITF's risk management strategy and discuss and agree on further actions to be taken to mitigate the risk, Maintain an effective relationship with Internal/ External Auditors at all times, Meet separately with Internal and External Auditors to discuss matters relating to NITF where necessary are the main activities.

During the year 2012, external audit is done by the Auditor General's department. During the

year 2012, internal Audit functions including the internal audit of departments and audit of the Strike, Riot, Civil Commotion and Terrorism Fund has been carried out by the Internal Audit Department.

 THE AUDIT COMMITTEE

performed practices to ensure compliance with laws and regulations, the management and monitoring of effectiveness of insurance schemes with the focus of Financial Reporting, External Audit, Compliance and Litigation, Risk Management, internal Control and Internal Audit.

The Audit Committee met 5 occasions during the year 2012. The Audit Committee has

CORPORATE GOVERNANCE COMPLIANCE

Corporate Governance Principle	Level of Compliance by National Insurance Trust Fund
Chairman and CEO	Board has delegated authority to the Chairman to discharge responsibilities of the CEO.
Division of responsibilities	The Chairman is responsible for leadership of the Board. In particular, he will : • Ensure effective operation of the Board and its committees in conformity with the highest standards of corporate Governance. • Support the Senior Management in the development of the strategy and, more broadly, to support and advice the Senior Management. Heads of the Departments are responsible for leadership of the each division and managing it within the authorities delegated by the board, in particular, he will: • Develop strategy proposals for recommendation to the Board and ensure that agreed strategies are reflected in the business. • Develop annual plans, constant with agreed strategies, for presentation to the board for support. • Plan human resourcing to ensure that the institution has the capabilities and resources required to achieve its plans. • Develop and Organizational structures and establish processes and systems to ensure the efficient organization of resources. • Be responsible to the board for the performance of the business in consistence with agreed plans, strategies and policies. • Lead the executive team, including the development of performance contacts and appraisals. • Oversee the return of the investments.

Procurement Committees	There was no standing Procurement Committee set up at departmental level. Depending on value of the procurement minor or major procurement committee were appointed, on case by case basis.
Audit Committee	The Audit Committee comprises of three non – executive directors. The Audit Committee plays a vital role in the finance and administration where it has the responsibility. A senior officer from the Auditor General Department participates as an observer for the committee meetings. • THE AUDIT COMMITTEE During the year 2012, the Audit Committee established following scope of the Audit. 1. Determination of the responsibilities of the internal audit unit and review of the annual audit plans. 2. Review and evaluate internal control system for all activities of the entity 3. Review performance at regular intervals for cost effectiveness and to eliminate wasteful expenditure etc. 4. Liaise with external auditor and follow up with an Auditor General's/ External auditor's management letters. 5. Ascertain whether statutes, regulations, rules and circulars are complied with. 6. Review financial statements to ensure compliance with Accounting Standards 7. Review internal audit / external audit reports, management letter for remedial action. 8. Review implementation of recommendation / directives of the committee on public enterprises The Audit Committee met 5 occasions during the year 2012. The Audit Committee has performed practices to ensure compliance with laws and regulations, the management and monitoring of effectiveness of insurance schemes with the focus of Financial Reporting, External Audit, Compliance and Litigation, Risk Management,

	internal Control and Internal Audit.																																													
Board Meetings	During the year 2012, there were 16 Board Meetings and Members of the Board has maintained an excellent records of attendance at the meeting. The attendance of the members of the Board at the Board Meetings is detailed as follows; <table><thead><tr><th></th><th>Date of Appointment</th><th>No. of Meetings attended</th></tr></thead><tbody><tr><td>Mr. S D Abeygoonesekera</td><td>10.05.2010</td><td>03</td></tr><tr><td>Chairman</td><td></td><td></td></tr><tr><td>Mr D Widanagamachchi</td><td>09.10.2012</td><td>05</td></tr><tr><td>Chairman</td><td></td><td></td></tr><tr><td>Dr. L. Samarawickrama</td><td>11.06.2010</td><td>16</td></tr><tr><td>Board Member</td><td></td><td></td></tr><tr><td>Mr. A K Seneviratne</td><td>08.07.2011</td><td>16</td></tr><tr><td>Board Member</td><td></td><td></td></tr><tr><td>Mr. N Kulasekara</td><td>18.07.2011</td><td>16</td></tr><tr><td>Board Member</td><td></td><td></td></tr><tr><td>Mr. J. Dadallage</td><td>23.06.2010</td><td>10</td></tr><tr><td>Board Member</td><td></td><td></td></tr><tr><td>Mr. W.H. Piyadasa</td><td>10.07.2010</td><td>13</td></tr><tr><td>Board Member</td><td></td><td></td></tr></tbody></table> There is great attention on Members of the Board to discharge their duties with high ethical values and accountability in their commitment to good governance practices. Strong business ethics, sound policies and procedures, effective and		Date of Appointment	No. of Meetings attended	Mr. S D Abeygoonesekera	10.05.2010	03	Chairman			Mr D Widanagamachchi	09.10.2012	05	Chairman			Dr. L. Samarawickrama	11.06.2010	16	Board Member			Mr. A K Seneviratne	08.07.2011	16	Board Member			Mr. N Kulasekara	18.07.2011	16	Board Member			Mr. J. Dadallage	23.06.2010	10	Board Member			Mr. W.H. Piyadasa	10.07.2010	13	Board Member		
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	efficient monitoring systems are considered as ingredients of good corporate governance system.
Accountability and Audit	The Board is accountable to the stakeholders of the institution to ensure that the business is conducted in an appropriate manner based on approved business plan and financial and physical targets of the institution achieved.
Financial Report	The Board ensures that the Financial Statements of the NITF Board are prepared in compliance with relevant Sri Lanka Accounting Standards and the requirements of the Government, as stipulated in the Treasury circulars. • THE ANNUAL REPORT 2012 The Annual Report 2012 of National Insurance Trust Fund has been prepared with the objective of providing an overall assessment of NITF's affairs during the year 2012 in order to make informed decisions. • FINANCIAL STATEMENTS The National Insurance Trust Fund presented its Financial Statements in compliance with the Sri Lanka Accounting Standards and other applicable laws and regulations.



8. GOVERNANCE REPORTING

-ENTERPRISE RISK MANAGEMENT

Introduction

Enterprise Risk Management is a central part of the strategic management of any organization. It is the process whereby organizations methodically address the risks attached to their activities. A successful risk management initiative should be proportionate to the level of risk in the organization, aligned with other corporate activities, comprehensive in its scope, embedded into routine activities and dynamic by being responsive to changing circumstances. The focus of risk management is the assessment of significant risks and the implementation of suitable risk responses. The objective is to achieve maximum sustainable value from all the activities of the organization. Risk management enhances the understanding of the potential upside and downside of the factors that can affect an organization. It increases the probability of success and reduces both the probability of failure and the level of uncertainty associated with achieving the objectives of the organization

An important part of analyzing a risk is to determine the nature, source or type of impact of the risk. Evaluation of risks in this way may be enhanced by the use of a risk classification system. Risk classification systems are important because they enable an organization to identify accumulations of similar risks. A risk classification system will also enable an organization to identify which strategies, tactics and operations are most vulnerable. Risk classification systems are usually based on the division of risks into those related to financial control, operational efficiency, reputational exposure and commercial activities. However, there is no risk classification system that is universally applicable to all types of organizations.

A risk management policy should include the following sections:

- Risk management and internal control objectives (governance)
- Statement of the attitude of the organization to risk (risk strategy)
- Description of the risk aware culture or control environment
- Level and nature of risk that is acceptable (risk appetite)
- Risk management organization and arrangements (risk architecture)
- Details of procedures for risk recognition and ranking (risk assessment)
- List of documentation for analyzing and reporting risk (risk protocols)

- Risk mitigation requirements and control mechanisms (risk response)
- Allocation of risk management roles and responsibilities
- Risk management training topics and priorities
- Criteria for monitoring and benchmarking of risks
- Allocation of appropriate resources to risk management
- Risk activities and risk priorities for the coming year

Risk	Nature of the risk	Actions
01.Strategic Risk	Strategic risk refers to the inability to achieve set objectives and the risk of the Corporate Plan and Budgets becoming irrelevant or inappropriate due to unexpected changes in external and internal environments	This is managed by the preparation of Corporate Plan after monitoring political, technological, socio cultural, economic developments in the general environment as well as the competitor and customer dynamics A Corporate Plan is prepared every year by the management team addressing potential risks and including plans for the next five years, and it is subsequently approved by the Board after a detailed review.
02.Reputational Risk	Corporate image and goodwill impairment of the National Insurance Trust Fund depletes due to a particular event or behavior.	Good relationships are maintained by the management with regulators such as Ministry of Finance and Planning, IBSL and Central Bank other players in the industry and all other stakeholders, in order to ensure that any potential risk is identified in advance and addressed adequately. The release of all financial information to the public is subject to approval by the Chairman or the Board of Directors.
03.Compliance Trade Risk	As the risk of business discontinuity, interruption to business operations and damage to NITF's reputation as a result of failure (or perceived failure) to comply with relevant laws, regulations, internal policies and procedures or ethical standards, would adversely impact customers, staff and other stakeholders of NITF.	The NITF has mitigated the compliance risk by adhering to laws, rules and regulations stipulated by various governing bodies such as Minister of Finance and Planning

04.International Risk	International risk refers to the risk derived from the changes from international socio – cultural, economical and technological factors. Since NITF is engaged in reinsurance and foreign employment insurance, international PESTEL factors affect the NITF.	The National Insurance Trust Fund mitigates this risk by monitoring trends in the Middle – East countries in which the Sri Lankan migrant workers are concentrated in as well as by monitoring the international business trends related to reinsurance sector of NITF
05.Insurance Underwriting Risk	This refers to accepting insurance business that carries an unacceptably high exposure to the risk of claims and accepting risks at rates that do not contain an adequate risk premium.	To mitigate this risk premium determination committee has been appointed. Significant investments are made for training and development of underwriting and claims management staff, including those attached to the distribution network
06.Foreign Exchange Risk	Forex risk refers to the adverse effects occurring due to fluctuations of Foreign exchange rates with various currencies like Dollar, Sterling Pound, and Euro etc.	Most of the Reinsurance Agreements have been contracted in the home currency values for the payment of the reinsurance premium to mitigate this risk.
07.IT Risk	IT risk derives from data of NITF and current information. NITF counters this by implementation of IT risk mitigation plan	Information security, redundancy and availability is achieved by both infrastructure and database aspects. To provide our clients accurate and current IT services IT department implemented services such as antivirus and backup solutions and implemented small scale disaster recovery plan.

08.Credit Risk	Credit risk is the occurrence of possible financial loss to the institution due to a counter party defaulting or failing to meet their obligations. NITF is exposed to credit risk by its investments, and soft loans.	All receivables, including reinsurance receivables, are reviewed on a monthly basis and recoveries made on time. This risk is managed by risk free investments in state banks such as in treasury bills, REPOs and treasury bonds since the NITF Act only allows NITF to invest in Government securities
09.Claims Settlement Risk	Risk of potential disputes arising due to fraudulent, legal and technical factors.	Fraudulent, legal and technical factors are controlled through taking initiatives to impose stringent regulations in approving claims and segregation of duties in processing of claims.



9. FINANCIAL STATEMENTS-2012

INCOME STATEMENT

(All figures in Sri Lankan Rupees)

For the year ended December 31,

	Notes	2012 Agrahara & Other	2012 SRCC & Tr.	2012 Total	2011 Total
Revenue					
Net Earned Premium Income	01	837,526,229	2,185,221,592	3,022,747,821	2,488,711,994
Agrahara Contribution	02	863,435,521	-	863,435,521	1,117,653,037
Benefits, Losses and Expenses					
Insurance claims and benefits	03	(1,898,258,796)	(383,211,955)	(2,281,470,751)	(1,879,486,696)
		(197,297,047)	1,802,009,637	1,604,712,590	1,726,878,335
Other Revenue					
Investment Income		84,627,761	531,185,783	615,813,544	723,412,241
Interest on Loans		-	7,278,316	7,278,316	10,163,846
Other income		18,732,336	153,846	18,886,182	743,614
		103,360,097	538,617,945	641,978,043	734,319,701
Expenditure					
Staff related costs	04	69,828,165	2,178,544	72,006,709	56,000,854
Administration Expenses	05	50,237,624	24,164,860	74,402,484	68,915,550
Finance & Other expenses	06	3,666,682	13,591,592	17,258,273	21,581,925
Total expenditure		123,732,470	39,934,997	163,667,466	146,498,329
Earnings Before Tax		(217,669,420)	2,300,692,586	2,083,023,166	2,314,699,707
Taxation		-	-	-	108,349,446
Earnings after taxation		(217,669,420)	2,300,692,586	2,083,023,166	2,206,350,261

BALANCE SHEET

NATIONAL INSURANCE TRUST FUND

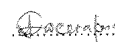
BALANCE SHEET

(All figures in Sri Lankan Rupees)

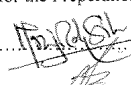
As at December 31,

	Notes	2012 Agrahara & Other	2012 SRCC & Tr.	2012 Total	2011 Total
Assets					
Non-current assets					
Property, plant and equipment	07	21,414,642	3,324,560	24,739,202	29,606,877
Investments	08	969,761,256	4,406,153,417	5,375,914,672	4,444,546,262
		991,175,898	4,409,477,976	5,400,653,874	4,474,153,140
Current assets					
Receivables	09	240,641,969	1,424,005,867	1,664,647,836	1,927,814,565
Cash and cash equivalents	10	94,964,525	8,676,871	103,641,397	3,542,969,945
		335,606,495	1,432,682,738	1,768,289,233	5,470,784,510
Total assets		1,326,782,393	5,842,160,715	7,168,943,107	9,944,937,649
Equity and liability					
Equity					
Accumulated Fund	11	1,078,401,750	4,834,516,767	5,912,918,517	8,497,449,707
		1,078,401,750	4,834,516,767	5,912,918,517	8,497,449,707
Technical Reserves					
Unearned Premium	12	-	1,059,398,308	1,059,398,308	963,443,837
Deferred Commission	13	-	(176,532,688)	(176,532,688)	(161,486,715)
		-	882,865,620	882,865,620	801,957,122
Liability					
Non-Current Liabilities					
Government grant		66,960	-	66,960	142,150
Profit Commission payable	14	-	12,287,375	12,287,375	12,287,375
		66,960	12,287,375	12,354,336	12,429,525
Current Liabilities					
Claim Payable	15	206,295,040	79,783,010	286,078,050	392,410,772
Other payables	16	42,018,643	32,707,942	74,726,585	240,690,522
		248,313,682	112,490,953	360,804,635	633,101,294
Total equity and liability		1,326,782,393	5,842,160,715	7,168,943,107	9,944,937,649

I certify that the Financial Statement of the Fund comply with the requirements of the Sri Lanka Accounting Standards


Finance Manager

The Board of Directors are responsible for the Preparation and Presentation of Financial Statements

Sign on behalf of the Board 1. 
2. 

STATEMENT OF CHANGES IN ACCUMULATED FUND

(All Figures in Sri Lankan Rupees)				
For the year ended December 31,	2012 Agrahara & Other	2012 SRCC & Tr.	2012 Total	2011
ACCUMULATED FUND				
Accumulated fund	1,713,638,127	6,783,811,581	8,497,449,708	9,695,467,155
Less: Prior year adjustments	(243,245,409)	(200,301,466)	(443,546,875)	(17,717,155)
Contribution to Consolidated fund		(4,200,000,000)	(4,200,000,000)	(3,495,000,000)
Write off Receivable from treasury	(174,321,548)		(174,321,548)	
Add: Write off Reinsurance expense		150,314,066	150,314,066	
Income Over expenditure	(217,669,420)	2,300,692,586	2,083,023,166	2,314,699,707
	<u>1,078,401,750</u>	<u>4,834,516,767</u>	<u>5,912,918,517</u>	<u>8,497,449,707</u>

CASHFLOW STATEMENT

CASHFLOW STATEMENT

(All figures in Sri Lankan Rupees)

For the year ended December 31,

	2012	2011
<u>Cash flow from operating activities</u>		
Net profit for the period	2,083,023,166	2,314,699,707
Less: Prior year adjustments - Taxation	(443,546,875)	(17,717,155)
Less: Contribution to Consolidated Fund	(4,200,000,000)	(3,495,000,000)
Less: Prior year adjustments- write off Treasury Receivable	(174,321,548)	
Add: Prior year adjustments - Reinsurance	150,314,066	
	(2,584,531,191)	(1,198,017,448)
<u>Adjustments for:</u>		
Depreciation	10,820,514	12,182,858
Loss on sale of PPE	1,731,806	-
Investment income	(615,813,544)	(723,412,241)
Unearned Premium Income	95,954,471	141,879,032
Deferred Commission	(15,045,973)	(21,741,415)
<u>Operating profit before working capital changes</u>	(3,106,883,918)	(1,789,109,214)
Decrease /(Increase) in receivables	263,166,729	18,001,331
Decrease in Claim payable	(106,332,722)	(125,589,435)
Decrease in Government Grant	(75,190)	(142,180)
Increase in Other payables	(165,963,938)	(1,574,828)
<u>Net cash from operating activities</u>	(3,116,089,038)	(1,898,414,326)
<u>Cash flows from investing activities</u>		
Purchases of property, plant and equipment	(8,154,600)	(5,693,724)
Proceeds from disposal of Assets	469,956	
Withdrawal of (Investment in) Government Securities	(931,368,410)	1,129,561,201
Investment income	615,813,544	723,412,241
<u>Net cash used in investing activities</u>	(323,239,510)	1,847,279,718
<u>Net increase/ (decrease) in cash and cash equivalents</u>	(3,439,328,548)	(51,134,608)
<u>Cash and cash equivalents at beginning of the period</u>	3,542,969,945	3,594,104,553
<u>Cash and cash equivalents at end of the period</u>	103,641,397	3,542,969,945
<u>Analysis of cash and cash equivalents</u>		
Cash in hand and balances with banks	103,641,397	303,644,906
Short-term investments	-	3,239,325,039
<u>Cash and cash equivalents</u>	103,641,397	3,542,969,945

ACCOUNTING POLICIES

1.0 CORPORATE INFORMATION

National Insurance Trust Fund ("The Fund") is incorporated and domiciled in Sri Lanka by the "National Insurance Trust Fund Act, No. 28 of 2006". The registered office of the company is situated at No. 97, Maradana Road, Colombo 10 and the principal place of business is located at the this address.

2.0 SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements have been prepared under historical cost convention in accordance with generally accepted accounting principles and the accounting standards laid down by the Institute of Chartered Accountant of Sri Lanka.

The financial statements are presented in Sri Lankan Rupees (Rs.)

No adjustment for inflationary factors has been made in these accounts.

Where appropriate, the accounting policies have been explained in the succeeding notes.

2.2 Comparative Figures

The accounting policies have been consistently applied by the Fund and are consistent with those used in the previous year. Previous year's figures have been rearranged wherever necessary to the year's presentation

2.3Capital Commitments

There were no capital commitments as at Balance Sheet date.

ACCOUNTING POLICIES

2.4 Cash Flow Statement

Cash Flow Statement is prepared using “indirect method”

2.5 Related Party Transactions

There were no related party transactions.

2.6 Post Balance Sheet Events

All material post balance sheet events have been considered and where appropriate adjustments or disclosures have been made in respective notes to the financial statements .

2.7 Assets and bases of their valuation

2.7.1 Property, Plant & Equipments

The Property, Plant & Equipments are recorded at cost

The Property, Plant and Equipment is the cost of purchase together with any expenses incurred in bringing the assets to its working condition for its intended use.

Expenditure incurred for the purpose of acquiring, extending or improving assets of permanent nature by means of which to carry on the Fund.

Depreciation

The provision for depreciation is calculated by using straight line basis on the cost of all property, plant & equipments in order to write off such amount over their estimated useful lives by equal annual installments as follows

Plant & Machinery	Over 10 years
Furniture & Fitting	Over 08 years
Office Equipments	Over 06 Years
Motor Vehicles	Over 05 years

ACCOUNTING POLICIES

2.7.2 Investments

Investment are shown at Cost

2.7.3 Receivables

Collect ability of premiums, interest and other receivables is reviewed on an ongoing basis. Debtors other Receivables which are known to be uncollectible are written off.

2.7.3 Cash & Cash Equivalents

Cash & Cash Equivalents are defined as cash in hand, demand deposit banks for the purpose of cash flow statement, Cash and Cash Equivalent consists of cash in hand deposit in bank net of outstanding bank over draft.

2.8 Liabilities & Provision

2.8.1 Unearned Premiums

Unearned premiums are those proportions of the premium written in a year that related to the period of risk subsequent to the Balance Sheet date. The unearned Premiums are calculated on the 24th basis of Gross Premium.

2.8.2 Deferred Commission

Deferred Commission represents net commission relates to unearned premium

2.8.3 Profit Commission

Profit Commission is calculated and paid in two installments. First installment is paid after six months after end of the accounting period and the second installment after twelve months after end of the accounting period.

2.8.4 Claims Payable

Claims comprise of approved claims which are not paid during the relevant financial year and the provision for outstanding claims which are declared by the members of the fund together with the related expenses and deductions made for reinsurance and salvage recoveries if available.

ACCOUNTING POLICIES

2.8.5 Other Payables

Other payables are stated at their cost

2.8.6 Other Provisions

All known provisions as at the Balance Sheet date have been fully provided for in the accounts.

2.9 Revenue & Expenses

2.9.1 Revenue

Revenue is recognized to the extent that it is probable that economic benefit will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

a. Premium Contributions

Premium Contributions are recognized when they fall due.

b. Interest Income

Interest income is recognized as the interest accrues unless future collection is in doubt.

2.9.2 Expenditure Recognition

All expenditure incurred in the running of the Fund and in maintaining the Property, Plant & Equipments in a state of efficiency has been charged to revenue in arriving at Net Surplus.

2.10 Contingencies

In the opinion of the Board, litigation which is currently against the National Insurance Trust Fund in the normal course of business will not have significant impact on the reported financial results or future operation of the Fund

NOTES TO FINANCIAL STATEMENTS

(All figures in Sri Lankan Rupees)

For the year ended December 31,

	2012 Agrahara & Other	2012 SRCC & Tr.	2012 Total	2011
01. NET EARNED PREMIUM INCOME				
Premium income - Motor	206,595,378	-	206,595,378	215,199,457
Premium income- Reinsurance	463,610,216	-	463,610,216	198,551,912
Premium income - Parliamentary members	10,000,000	-	10,000,000	10,000,000
Premium income - Foreign Employment	54,577,250	-	54,577,250	208,799,952
Premium income - GI (Fire, Marine & Misc.)	104,047,985	-	104,047,985	170,876,837
Gross Written Premium - SRCC & Tr	-	2,281,210,354	2,281,210,354	2,006,556,886
Premium Refunds	-	(34,291)	(34,291)	(26,080)
Gross Written Premium	838,830,829	2,281,176,063	3,120,006,892	2,809,958,964
Reinsurance Premium	(1,304,600)	-	(1,304,600)	(179,367,937)
Net Written Premium	837,526,229	2,281,176,063	3,118,702,292	2,630,591,027
Net Change in Reserves for unearned Premium	-	(95,954,471)	(95,954,471)	(141,879,032)
	837,526,229	2,185,221,592	3,022,747,821	2,488,711,994
02. AGRAHARA CONTRIBUTION				
Contribution from Members	588,435,521	-	588,435,521	623,424,037
Contribution from Treasury	275,000,000	-	275,000,000	494,229,000
	863,435,521	-	863,435,521	1,117,653,037
03. BENEFITS LOSSES & EXPENSES				
Spectacles - Agrahara	180,838,820	-	180,838,820	180,748,334
Pvt Hospital Charges- Agrahara	494,808,873	-	494,808,873	592,182,669
Child Birth - Agrahara	58,082,627	-	58,082,627	106,577,025
Accidents - Agrahara	16,292,203	-	16,292,203	21,702,772
Medical Charges - Agrahara	22,372,361	-	22,372,361	23,382,719
Cardiac - Agrahara	145,768,353	-	145,768,353	136,497,358
Cancer - Agrahara	10,672,258	-	10,672,258	11,265,221
Normal & Accidental Death - Agrahara	126,466,333	-	126,466,333	162,837,751
Motor Claims Expenses	115,629,748	-	115,629,748	127,633,818
Vedesharakiya Claim Expenses	123,305,107	-	123,305,107	182,688,549
Reinsurance Claim Expenses	308,239,012	-	308,239,012	58,145,812
Medical Insurance Claim Paliamentory Members	12,564,947	-	12,564,947	9,419,786
Medical Insurance Claim- General Insurance	281,564,461	-	281,564,461	96,419,651
Net Claims Incurred -SRCC & Tr.	-	37,076,159	37,076,159	(141,693,868)
Net Commission	1,653,694	346,135,796	347,789,490	311,679,100
Profit Commission	-	-	-	-
	1,898,258,796	383,211,955	2,281,470,751	1,879,486,696
04. STAFF COSTS				
Gross salary	49,562,281	1,588,197	51,150,478	38,783,551
EPF - 12%	5,873,244	176,436	6,049,680	5,701,461
ETF -3%	1,464,516	44,109	1,508,625	1,474,356
Overtime and holiday pay	281,817	-	281,817	397,571
Annual Bonus & Incentives	2,963,334	-	2,963,334	3,020,817
Other allowances	2,864,647	369,801	3,234,449	2,498,004
Casual wages	839,870	-	839,870	893,414
Staff welfare Expenses	1,944,808	-	1,944,808	1,438,399
Staff Training	1,978,059	-	1,978,059	789,575
Gratuity Expense	2,055,589	-	2,055,589	1,003,705
	69,828,165	2,178,544	72,006,709	56,000,854

NOTES TO FINANCIAL STATEMENTS (Contd.)

For the for the year ended December 31,

(All figures in Sri Lankan Rupees)

	2012 Agraphara & Other	2012 SRCC & Tr.	2012 Total	2011
05. ADMINISTRATION EXPENSES				
Traveling	537,305	2,599	539,904	317,532
Depreciation	7,532,513	3,288,001	10,820,514	12,281,608
Rent	1,627,418	18,000,000	19,627,418	6,491,492
Water	511,970	-	511,970	466,522
Electricity	5,448,236	-	5,448,236	3,696,368
Telephone	1,504,472	14,446	1,518,917	1,550,725
Printing and stationary	3,907,422	-	3,907,422	5,284,550
Office Repair & maintenance	8,838,871	-	8,838,871	6,707,712
Janitorial maintenance	1,334,420	-	1,334,420	276,326
Inspection & Assessing	2,335,017	1,578,688	3,913,705	3,497,251
Dayata Kirula Expenses	2,095,279	-	2,095,279	3,649,979
Donation	298,730	150,000	448,730	7,846,862
Entertainment	19,844	264,063	283,907	245,461
Professional fee	34,915	-	34,915	1,350,563
Meeting Expenses	684,966	-	684,966	548,189
Ecard printing	6,025,000	-	6,025,000	4,364,000
5th Anniversary	-	-	-	724,083
Legal Expense	657,115	245,000	902,115	820,206
Consultancy fee	254,800	-	254,800	1,000,916
Internet & Email expenses	934,317	-	934,317	759,809
Fuel Expenses	466,321	-	466,321	468,467
Vehicle Insurance	279,903	195,152	475,055	685,636
Medical Insurance	205,550	18,746	224,296	176,017
Newspaper and periodicals	59,283	-	59,283	68,681
Annual fees paid to IBSL	-	-	-	400,000
Security Charges	1,148,408	-	1,148,408	1,558,056
Branch opening expenses	-	-	-	-
Postage	2,931,895	10,330	2,942,225	2,508,497
Vehicle Maintenance	563,653	397,835	961,489	1,170,044
	50,237,624	24,164,860	74,402,484	68,915,550

06. FINANCE & OTHER EXPENSES

Bank Charges	105,237	78,616	183,853	535,221
Audit Fee	158,160	180,000	338,160	115,650
Nation Building Tax Expenses	-	12,923,461	12,923,461	14,584,151
Stamp Duty	37,861	-	37,861	273,650
Loss of Disposal	-	-	-	-
Loss / (Gain) on Exchange rate Differences	1,731,806	-	1,731,806	-
Technical Advisory Committee Attendance fees	-	199,500	199,500	117,000
Working Committee Attendance fees	-	81,750	81,750	95,250
Pannel Attendance fee	-	-	-	-
Miscellaneous Expenses	356,820	128,265	485,085	572,804
Sales Promotion Expenses	90,653	-	90,653	323,883
Advertising Expenses	1,186,145	-	1,186,145	4,964,316
	3,666,682	13,591,592	17,258,273	21,581,925

NOTES TO FINANCIAL STATEMENTS (Contd.)

(All figures in Sri Lankan Rupees)

Note 7: PROPERTY PLANT AND EQUIPMENT

	<u>Motor Vehicles</u>	<u>Office Equipment</u>	<u>Furniture & Fittings</u>	<u>Software</u>	<u>Misc. Assets</u>	<u>Total</u>
Cost:						
Balance as at 01/01/2012	34,470,255	26,142,782	8,132,941	6,542,073	71,988	75,360,038
Prior year adjustments		(351,658)	351,658			-
Additions	-	7,267,874	886,726	-	-	8,154,600
Disposals	-	(2,130,703)	(2,932,997)	-	-	(5,063,700)
Balance as at 31/12/2012	34,470,255	30,928,294	6,438,328	6,542,073	71,988	78,450,938
Depreciation:						
Balance as at 01/01/2012	23,035,725	12,560,594	3,959,227	6,174,277	23,338	45,753,161
Charge for the year	5,731,803	4,053,446	758,464	274,242	2,559	10,820,514
Disposals for the year	-	(1,213,465)	(1,648,474)	-	-	(2,861,939)
Balance as at 31/12/2012	28,767,528	15,400,576	3,069,217	6,448,518	25,897	53,711,736
Written Down Value as at 31/12/2012	5,702,726	15,527,719	3,369,112	93,555	46,091	24,739,202

	2012 Agrahara & Othe	2012 SRCC & Tr.	2012 Total	2011 Total
8. INVESTMENTS				
Treasury Bills	-	628,369,600	628,369,600	643,964,700
Treasury Bills- REPO	969,761,256	1,062,221,171	2,031,982,426	4,499,484,696
Treasury Bonds	-	1,694,634,700	1,694,634,700	1,506,416,000
Debentures	-	1,045,780,000	1,045,780,000	1,045,780,000
				7,695,645,396
less				
Unamortized Discount	-	(26,380,841)	(26,380,841)	(31,352,432)
Add				
Unamortized Premium	-	1,528,787	1,528,787	19,578,338
	969,761,256	4,406,153,417	5,375,914,672	7,683,871,302

09. RECEIVABLES

Premium receivable from BFE	-	-	-	19,032,832
Receivable from Treasury	-	-	-	174,321,548
Premium Receivable - General Insurance	1,955,673	-	1,955,673	7,612,013
Interest Receivable	33,634,546	115,676,102	149,310,648	158,040,419
Premium Receivable SRCC & Tr	-	308,960,490	308,960,490	338,879,954
Economic Service Charge	11,078,483	-	11,078,483	21,169,387
Receivable from Reinsurance Dept	-	5,349,749	5,349,749	4,262,442
Advances receivable	481,841	-	481,841	6,789,116
Receivable Reinsurance Premium	180,811,195	-	180,811,195	110,153,464
Soft Loans	-	958,456,782	958,456,782	1,054,801,014
WHT receivable	-	23,114,660	23,114,660	11,611,080
Refundable Deposit	800,688	9,000,000	9,800,688	9,974,103
Staff loans	10,110,757	3,442,991	13,553,748	8,887,446
Prepaid Expenses	-	5,092	5,092	5,929
Cheque return Receivable from members	1,768,785	-	1,768,785	2,273,818
	240,641,969	1,424,005,867	1,664,647,836	1,927,814,565

NOTES TO FINANCIAL STATEMENTS (Contd.)

(All figures in Sri Lankan Rupees)				
As at December 31,	2012 Agrahara & Other	2012 SRCC & Tr.	2012 Total	2011
10. CASH AND CASH EQUIVALENTS				
Cash at bank	94,825,737	8,676,291	103,502,028	303,493,729
Cash in Hand	138,789	580	139,369	151,177
	94,964,525	8,676,871	103,641,397	3,542,969,945
11. ACCUMULATED FUND				
Accumulated fund	1,713,638,127	6,783,811,581	8,497,449,708	9,695,467,155
Less: Prior year adjustments	(243,245,409)	(200,301,466)	(443,546,875)	(17,717,155)
Contribution to Consolidated fund		(4,200,000,000)	(4,200,000,000)	(3,495,000,000)
Write off Receivable from Treasury	(174,321,548)		(174,321,548)	-
Add: Write off Reinsurance Expense	-	150,314,066	150,314,066	-
Income over expenditure	(217,669,420)	2,300,692,586	2,083,023,166	2,314,699,707
	1,078,401,750	4,834,516,767	5,912,918,517	8,497,449,707
12. UNEARNED PREMIUM				
Balance as at the beginning of the year	-	963,443,837	963,443,837	821,564,804
Provision for the year	-	95,954,471	95,954,471	141,879,032
Balance as at the end of the year	-	1,059,398,308	1,059,398,308	963,443,837
13. DIFFERED COMMISSION				
Balance as at the beginning of the year	-	161,486,715	161,486,715	139,745,300
Provision for the year	-	15,045,973	15,045,973	21,741,415
Balance as at the end of the year	-	176,532,688	176,532,688	161,486,715
14. PROFIT COMMISSION PAYABLE				
Profit Commission payable	-	12,287,375	12,287,375	12,287,375
	-	12,287,375	12,287,375	12,287,375
15. CLAIM PAYABLES				
Claims Payable Agrahara	85,932,811	-	85,932,811	150,971,896
Claims Payable SRCC & TR	-	79,783,010	79,783,010	231,968,907
Claims Payable- Reinsurance	113,798,695	-	113,798,695	-
Claims Payable - Motor Insurance	4,326,944		4,326,944	9,452,672
Claims Payable - General Insurance	2,236,590	-	2,236,590	17,297
	206,295,040	79,783,010	286,078,050	392,410,772
16. OTHER PAYABLES				
Accrued Expenses	11,020,220	1,413	11,021,633	7,683,966
Other Payables	1,031,527	242,955	1,274,482	1,117,051
Payable to SRCC & Tr	8,075,322	-	8,075,322	4,791,126
Gratuity Payable	2,897,037	-	2,897,037	1,003,705
Road Safety tax payable	527,485	-	527,485	534,523
Premium Refund Payable	-	11,844,581	11,844,581	11,810,290
Contribution payable to welfare society	39,847	-	39,847	54,477
Claim cheques/SLIP returned payable	2,801,352	-	2,801,352	2,733,700
Audit fee Payable	-	460,000	460,000	280,000
VAT & NBT Payable	15,625,852	20,158,993	35,784,845	60,367,618
Reinsurance Payable	-	-	-	150,314,066
	42,018,643	32,707,942	74,726,585	240,690,522



10. AUDITOR'S REPORT



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கணக்காய்வாளர் தலைமை அலுவலகம்
AUDITOR GENERAL'S DEPARTMENT



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 My No.

FB/INTF/FA/2012

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 My No.

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 Date

13 February 2015

The Chairman,
 National Insurance Trust Fund.

Report of the Auditor General on the Financial Statements of the National Insurance Trust Fund for the year ended 31 December 2012 in terms of Section 14(2)(c) of the Finance Act, No.38 of 1971

The audit of financial statements of the National Insurance Trust Fund for the year ended 31 December 2012 comprising the balance sheet as at 31 December 2012 and the statement of income and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No.38 of 1971 and Section 17 of the National Insurance Trust Fund Act, No.28 of 2006. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14(2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7)(a) of the Finance Act was furnished to the Chairman of the Fund on 22 August 2014.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

දුරක. 388772, හෙදිස්ස පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. : - : දුරක. 388772, බත්තරමුල්ල පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. : - : No. 388772, Pattara Road, Battaramulla, Sri Lanka

+94-11-2887028-34

+94-11-2887223

ag@agdf.gov.lk

www.auditorgeneral.gov.lk



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Auditor General's Department

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making these risks assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) The monthly rent payable for the year under review amounting to Rs.250,333 had not been brought to account.
- (b) Stocks valued at Rs.23,060 belonging to the Strikes, Riots, Civil Commotions and Terrorism Fund had been brought to account as an asset of the National Insurance Trust Fund.



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संसदीय प्रणाली - २००८ संशोधन
Auditor General's Department

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- (c) Even though the direct expenses, indirect expenses and overhead expenses of the Strikes, Riots, Civil Commotions and Terrorism Fund and the Agrahara and the other Division (National Insurance Trust Fund) should be apportioned on a fair basis and included in the financial statements of the Fund, instances in which it had not been so done are given below.
- (i) Out of the annual rent on the office building amounting to Rs.19,627,418, a sum of Rs.18,000,000 or 91.7 per cent had been shown as the expenditure of the Strikes, Riots, Civil Commotions and Terrorism Fund. Nevertheless, space less than 10 per cent of the five storeyed office building had been used for the staff.
 - (ii) The entire expenditure on the Nation Building Tax amounting to Rs.12,923,461 had been shown in the consolidated financial statements as an expenditure of the Strikes, Riots, Civil Commotions and Terrorism Fund.
 - (iii) Even though expenditure on employees amounting to Rs.7,278,799 can be apportioned between Agrahara Division and the Strikes, Riots, Civil Commotions and Terrorism Fund, the total expenditure had been shown as expenditure of the Agrahara Division without doing so.
 - (iv) In addition, expenditure of Rs.28,598,307 incurred generally had been shown under the Agrahara Division instead of being apportioned between the above two divisions according to a suitable basis.
 - (v) Even though sum of Rs.1,977,405 and Rs.1,432,050 had been shown as expenditure of the Agrahara Division and the Strikes, Riots, Civil Commotions and Terrorism Fund respectively, the basis of apportionment of the expenditure between the two divisions had not been disclosed in the financial statements.

2.2.2 Unexplained Differences

Even though the cash book balance of Bank Account as at 31 December of the year under review amounted to Rs.7,215,904 the Bank Reconciliation Statement had been prepared by considering the cash book balance as Rs.1,251,008. As such the balances in the Bank Account and the Bank



Director General
National Insurance Trust Fund
Auditor General's Department

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Reconciliation Statement did not agree with each other. In response to the further enquiries made in this connection, the Chairman of the Fund informed the audit that the difference had arisen due to the errors in the computer systems in the year 2012 and the prior years and that the rectification of that in the year 2013 will be confirmed.

2.2.3 Lack of Evidence for Audit

The evidence indicated against each of the following items had not been furnished to audit.

Item		Value	Evidence not made available
		Rs. Millions	
(a)	Additional Loans granted to an Institution under Relief Loans	56.78	(i) Loan Agreement (ii) Approval
(b)	Bank Account Balances of the National Insurance Trust Fund	1.11	Confirmation of Balances
(c)	Depreciation Expenditure	7.53	Particulars of Computation of Depreciation
	- Agrahara Division	3.29	
	- Strikes, Riots, Civil Commotions and Terrorism Fund		

2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliances were observed during the course of audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance



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(a) Procurement Guidelines – 2006

(i) Sections 4.3.1 and 4.3.2

The cost estimates had not been prepared for the contract for Rs.6,645,584 for the partitioning of office rooms and attention had not been paid to the level of procurement action to be taken in accordance with the cost.

(ii) Section 5.2.1

The conditions for the acceptance of the validity and the response to a bid had not been clearly stated in the documents calling for bids.

(iii) Section 5.6

The specifications and bills of quantities had not been prepared for the contract.

(b) Public Enterprises Circular No. 95 of 14 June 1994

The annual bonus amounting to Rs.2,963,334 and other allowance amounting to Rs.3,234,449 had been paid in the year under review to the employees of the Fund without the Treasury approval.

(c) Paragraph 02 of the Public Administration Circular No. 30/2008 of 31 December 2008 and Paragraph 04 of the National Budget Circular No. 157 of 28 December 2012.

Even though the 10 month basic salary of an officer or Rs.250,000 whichever is less, can be paid as the maximum distress loan, contrary to that 07 officers had been paid distress loans exceeding that limit by Rs.635,000.

(d) Chapter 7 of the Public Enterprises Circular No. PEGN12 of 02 June 2003

The Manual on Administration had not been prepared and approval obtained even by 21 July 2014.

2.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Two officers deployed as Branch Managers of two Branches without obtaining approval of the posts or obtaining the approval of the Treasury had been paid Rs.720,000 in the year under review at Rs.30,000 per month.



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Auditor General's Department

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2.4 Transactions not Supported by Adequate Authority

The following observations are made.

- (a) Two officers deployed as Branch Managers of two Branches without obtaining approval of the posts or obtaining the approval of the Treasury had been paid Rs.720,000 in the year under review at Rs.30,000 per month.
- (b) Even though the commercial institutions damaged by the terrorist bomb blast in the Colombo Fort area in the years 1996 and 1997 which should be granted loans on concessionary terms for their upliftment and the amount of loans to be granted are stated in the Cabinet Paper loans amounting to Rs.355.1 million had been granted to 05 institutions not included therein. The approval of the Cabinet of Ministers or the Treasury had not been obtained for those loans.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results of the Fund for the year ended 31 December 2012 amounted to a surplus of Rs.2,083,023,167 as compared with the corresponding surplus of Rs.2,314,699,707 for the preceding year. The decrease of the financial results by a sum of Rs.231,676,540 as compared with the preceding year had been mainly due to the decrease in the investment income and the loan interest income and the increase in the payment insurance indemnities and benefits.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

- (a) Even though the old library building of the Hambanthota Urban Council had been taken on rent in the year under review for the establishment of the Regional Office, Hambanthota, an agreement in this connection had not been entered into between the Urban Council and the Fund. Even though the Fund had spent a sum of Rs.1,489,269 for modernizing the building, it had not been beneficial as the building had been vacated within a short period of 08 months.



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Public Service Commission
Akkara Gumbura, Colombo 10

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- (b) Even though it was stated that accommodation of 500 square feet was adequate for this Regional Office, the Office had been shifted to a more spacious location of 1,472 square feet in the Ruhuna Administration Complex by the end of the year 2011. As such an overpayment of Rs.991,440 had been made for 972 square feet of accommodation.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) Quotations had been called for a building for the Branch at Amuradhapura and without considering the lowest quotation of Rs.16,000 received, a sum of Rs.11,540 had been spent for the valuation of a building, of a rent higher than that. Without considering the building of the lowest rent or the building valued, another building had been taken on rent for a monthly rental of Rs.25,000.
- (b) Fixed assets of which the cost and net value amounting to Rs.5,063,700 and Rs.2,201,761 respectively had been sold for Rs.500,000 without being compared with the current market value or carrying out a valuation.

4.3 Identified Losses

A surcharge of Rs.5,689 had been paid for the failure to pay the contributions to the Employees' Trust Fund for November 2011 amounting to Rs.113,774 on the specified date.

4.4 Uneconomic Transactions

The advertisement for the recruitment of officers for 8 vacancies of the Fund had been published in January 2012 only in the Ceylon Daily News without paying attention to the trilingual policy. As the officers had not been recruited under that advertisement, the payment of Rs.70,200 for the publication of the advertisement had become an uneconomic transaction.



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Audit Control's Department

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- (i) Even though 9 approved posts of Manager and 14 posts of Assistant Manager existed, recruitment had not been made for 7 posts of Manager and 3 posts of Assistant Manager.
- (ii) Nine officers had been recruited for 6 posts without approval.
- (iii) Action had not been taken in the year under review for making recruitments for the approved posts of Technology Assistant, Telephone Operator, Receptionist and 3 posts of labourers.
- (iv) Forty two officers had been recruited on contract basis for the posts of Management Assistant, Driver and Office Aide for which appointment on permanent basis had been approved by the Department of Management Services.

5. Accountability and Good Governance

5.1 Internal Audit

Action had not been taken for the appointment of a Manager for the Internal Audit Division.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Fund from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting
- (b) Debtors Control
- (c) Procurement
- (d) Human Resources Management





11. SEVEN YEARS AT A GLANCE

SEVEN YEAR SUMMARY - FINANCIAL PERFORMANCE

<i>(All Figures in Sri Lankan Rupees)</i>							
<i>for the year ended December 31,</i>	2012	2011	2010	2009	2008	2007	2006
Revenue							
Net Earned Premium Income	3,886,183,342	3,606,365,031	3,926,469,856	4,019,486,220	3,427,950,662	2,654,902,681	318,902,642
Benefits, Losses and Expenses							
Insurance claims and benefits	(2,281,470,751)	(1,879,486,696)	(2,292,072,983)	(2,075,936,806)	(1,736,355,732)	(1,423,044,038)	(242,465,993)
	1,604,712,590	1,726,878,335	1,634,396,873	1,943,549,415	1,691,594,930	1,231,858,643	76,436,649
Other Revenue							
Investment Income	615,813,544	723,412,241	798,117,037	1,364,459,074	1,205,463,441	528,264,787	
Interest on Soft Loans	7,278,316	10,163,846	16,982,331	15,125,027	19,424,829	38,713,576	
Other Income	18,886,182	743,614	1,006,353	471,787	917,841		
	641,978,043	734,319,701	816,105,721	1,380,055,889	1,225,806,111	1,798,837,006	76,436,649
Expenditure							
Staff Related Costs	72,006,709	56,000,854	42,326,032	33,124,615	21,470,147	11,500,953	1,333,806
Administration Expenses	74,402,484	68,915,550	45,136,006	49,246,381	28,264,346	14,142,950	1,508,940
Finance & Other Expenses	17,258,273	21,581,925	32,425,697	38,401,103	5,380,035	3,385,205	138,170
Total Expenditure	163,667,466	146,498,329	119,887,735	120,772,099	55,114,528	29,029,109	2,980,916
Taxation		108,349,446					
Income Over Expenditure	2,083,023,166	2,206,350,261	2,330,614,859	3,202,833,203	2,862,286,514	1,769,807,897	73,455,733

Note: Net Earned Premium Income values has been calculated by incorporating Agrahara contribution into it.

SEVEN YEAR SUMMARY - FINANCIAL POSITION

(All Figures in Sri Lankan Rupees)							
for the year ended December 31,							
	2012	2011	2010	2009	2008	2007	2006
Assets							
Non - Current Assets							
Property , plant and equipment	24,739,202	29,606,877	36,096,011	43,603,504	44,659,781	25,240,465	1,461,388
Investments	5,375,914,672	4,444,546,262	5,574,107,464	8,550,206,721	7,749,178,616	5,449,343,240	
	5,400,653,874	4,474,153,140	5,610,203,475	8,593,810,225	7,793,838,397	5,474,583,705	1,461,388
Current Assets							
Receivables	1,664,647,836	1,927,814,565	1,945,815,895	2,079,570,419	1,988,501,988	2,221,955,826	511,844,970
Cash and cash equivalents	103,641,397	3,542,969,945	3,594,104,553	110,173,003	239,795,258	560,259,122	13,357,202
	1,768,289,233	5,470,784,510	5,539,920,448	2,189,743,421	2,228,297,246	2,782,214,948	525,202,172
Total Assets	7,168,943,107	9,944,937,649	11,150,123,923	10,783,553,646	10,022,135,643	8,256,798,653	526,663,560
Equity and liability Equity							
Accumulated fund	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929	94,102,009
Technical Reserves							
Unearned Premium	1,059,398,308	963,443,837	821,564,804	1,046,825,276	1,063,317,772	877,695,727	
Deferred Commission	(176,532,688)	(161,486,715)	(139,745,300)	(200,139,536)	(206,999,340)	(161,317,228)	
	882,865,620	801,957,122	681,819,505	846,685,740	856,318,432	716,378,499	
Liability							
Non-current Liabilities							
Government grant	66,960	142,150	284,330	719,190	719,190	719,190	719,190
Profit Commission payable	12,287,375	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067	
	12,354,336	12,429,525	12,571,705	64,481,340	114,354,664	84,441,257	719,190
Current Liabilities							
Claim Payable	286,078,050	392,410,772	518,000,207	329,499,921	333,321,632	602,777,397	
Other Payables	74,726,585	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571	431,842,361
	360,804,635	633,101,294	760,265,557	507,533,784	639,442,967	872,469,968	431,842,361
Total equity and liability	7,168,943,108	9,944,937,649	11,150,123,923	10,783,553,647	10,022,135,643	8,256,798,653	526,663,560



12. CORPORATE INFORMATION

❖ ***Name of the Institution:***

National Insurance Trust Fund

❖ ***Legal Form***

*Statutory Body established under the National Insurance Trust Fund Act
No. 28 of 2006*

❖ ***Office Address***

National Insurance Trust Fund

No. 97, Maradana Road,

Colombo 10

❖ ***Auditors:***

The Auditor General

❖ ***Bankers:***

Peoples Bank, Bank of Ceylon, National Savings Bank

