

ANNUAL REPORT -2013



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.**



B. MEMBERS OF THE BOARD OF
NATIONAL INSURANCE TRUST FUND -
2013



Mr. D. Widanagamachchi

Chairman -2013



Mr. J. Dadellage

(Board Member-2013)



Dr. Lohitha Samarawickrama

(Board Member-2013)



Mr. W. H. Piyadasa

(Board Member-2013)



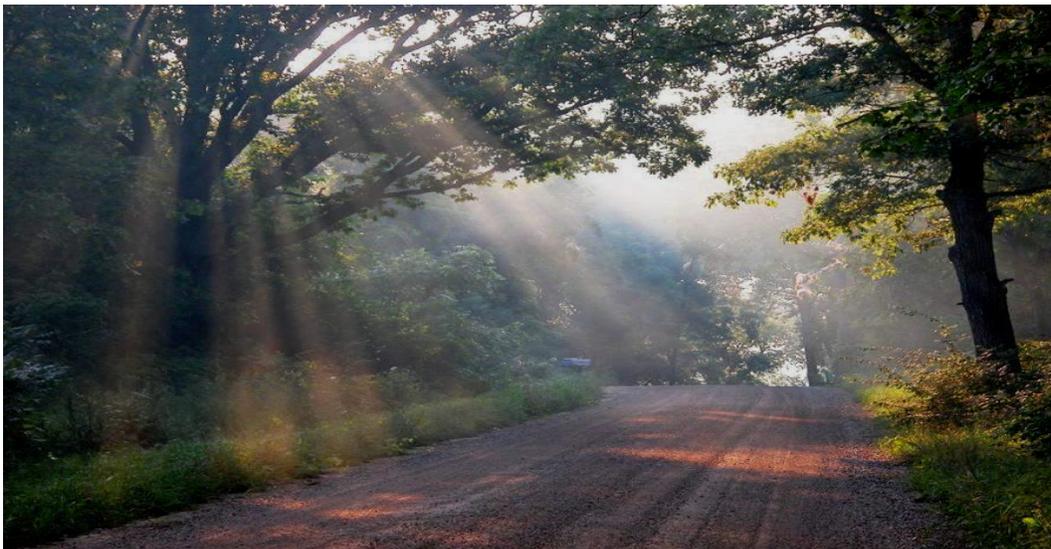
Mr. N. Kulasekera

(Board Member-2013)



Mr. A. K. Seneviratne

(Board Member-2013)



4. CHAIRMAN'S REVIEW

Presentation of Annual Report -2013

I am pleased to present the Annual Report - 2013 of National Insurance Trust Fund for the year ended 31st December 2013 which is its eighth year of operation.

Macro-Economic Environment

The economy grew by 7.2% as against 6.4% in 2012. The service sector grew by 6.4 % while the Banking, Insurance and the Real Estate sector recorded a growth of 5.9 %. It was disappointing to note a relatively low growth of 8 % in the insurance industry compared to a growth rate of 11% achieved in 2012. The slowdown was more significant in the non-life sector which saw its low growth rate decline from 15% to 7%. This was mainly attributable to the low growth in vehicle imports and private sector credit disbursements.

Performance and Contribution

Despite operating within an insurance market which was experiencing a slowdown in growth, NITF was able to increase its premium income by 33.5%, through regulatory action. The main contributors to increase in premium income were the growth in reinsurance premium income due to the increase in compulsory cession from 20% to 30%, the increase in contributions made by members of the Agrahara Scheme due to the revision of rates and the new inflow falling under the newly introduced crop insurance scheme.

The profit generated by NITF also increased correspondingly to Rs. 4.24 billion enabling it to transfer Rs. 3.2 billion to the Consolidated Fund.

Appreciation

I take this opportunity to convey my gratitude to the Hon. Prime Minister, as the Minister of Policy Planning, Economics Affairs, Child, Youth and Cultural Affairs under whom this institution operates, the Deputy Minister and the Secretary for their guidance and support. I also acknowledge the support received from the Secretary to the Treasury and all other officials of the Treasury with which NITF interacts closely on many of its functions. I also wish to express my appreciation to the Chairperson, Director General and other officials of Insurance Board of Sri Lanka which regulates the insurance industry.

Finally I thank my fellow members of the Board, our Chief Executive Officer and all other members of staff for their commitment and dedicated service.

Sgd

Manjula de Silva

Chairman

23rd June 2015



5. MANAGEMENT DISCUSSION AND ANALYSIS

5.1 GENERAL ENVIRONMENTAL REVIEW

Review of the Insurance Industry

In 2013, there were 21 players operating in insurance industry including National Insurance Trust Fund (NITF). Total gross written premium (GWP) generated by the insurance companies amounted to Rs. 94,483 million compared to the previous year's GWP of Rs. 87,171 million. As confirmed by the insurance companies, SRCC and T premium belonging to NITF amounted to Rs. 3,107 million and with same, the cumulative GWP amounted to Rs. 97,590 million in 2013 (2012: Rs. 89,410 million). The insurance industry has recorded a GWP growth rate of 8.39% in 2013 compared to 11.06% recorded in 2012. Long term insurance business recorded a premium income of Rs. 41,306 million and grew by 10.22% year on year. In 2013, premium growth of long term insurance business was mainly driven by different underwriting and product strategies, where companies focused on products coupled with investments, savings, and retirement benefits. As in the past years, general insurance business has led the market with a share of 56.28% of the total GWP. In 2013, general insurance business recorded premium income of Rs. 53,177 million compared to Rs. 49,694 million recorded in 2012. GWP of general insurance business has grown by 7.01% year on year. Insurance penetration which is expressed as insurance premium, as a percentage of GDP was 1.09 in year 2013. Penetration of long term insurance business was 0.48 in 2013 (2012:0.49) and recorded a slight decline compared to previous year. Although long term insurance business has grown in absolute terms over the last five years; long term insurance penetration was comparatively low due to various reasons such as attitudes of the general public towards insurance, lack of adequate awareness, inefficiencies in policy management etc. Penetration of general insurance business too has witnessed a reduction from 0.66 recorded in 2012 to 0.61 in 2013.

Role of the NITF

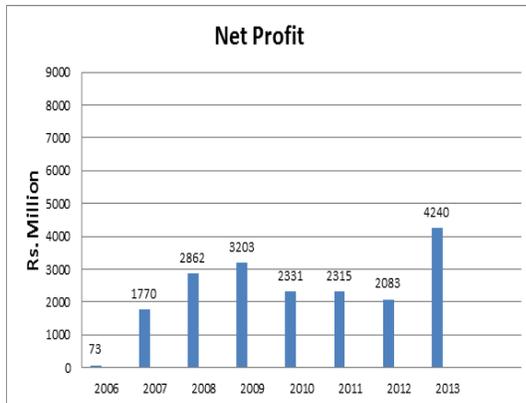
NITF contributed towards the economic development of the country by providing various insurance covers such as health insurance schemes, general insurance schemes and reinsurance. The health insurance scheme, which is designed for the Government sector work force responsible for the major development activities in Sri Lanka and the foreign employed work force who bring foreign exchange to the country, protects the health of a large portion of the country's work force. By implementing the Reinsurance programme NITF was able to save foreign exchange outflow towards overseas reinsurers as well as to absorb a portion of large claims of primary insurance companies. By the management of

Strike, Riot , Civil Commotion and Terrorism Fund, NITF was able to cushion the risks of Strike, Riot , Civil Commotion and Terrorism

As a part of the budget proposals presented for 2013, it was proposed to establish a crop insurance scheme to protect the farmers from damages to crops caused by natural perils such as drought and floods. Two sources of revenue were introduced for this purpose by a way of levy of Rs. 150 per bag of fertilizer issued under the fertilizer subsidy scheme and a crop insurance levy charged at the rate of 1% of profit after tax from all banks, finance companies and insurance companies. NITF was entrusted the task of administration of this scheme from mid 2013 onwards.

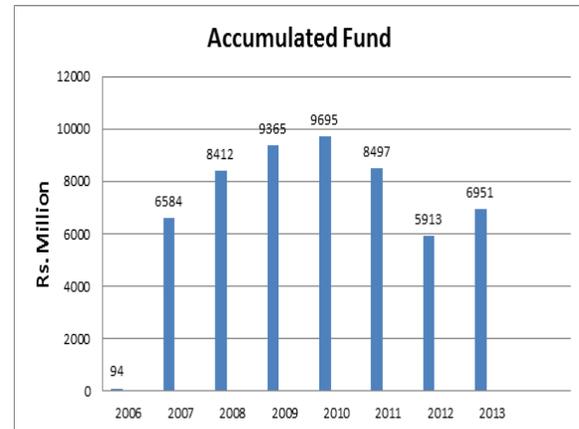
5.2.1 EIGHT YEAR FINANCIAL REVIEW

Chart- 5.01: 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 the reduction in demand for terrorism cover. In 2011 it has decreased slightly by 7% relative to 2010. During 2012 also, it decreased slightly. But during 2013 it achieved a sharp increase.

Chart- 5.02: Past Trend in Accumulated Fund



The accumulated fund has grown till 2010 to Rs.9,695 million but reduced by 12% in 2011 compared to 2010. Further, the Fund has been reduced further to Rs.5,935 million as at end of 2012., But 2013 it has increased to Rs. 6,951 million, due to the increase in profit.

5.2.2 INVESTMENT AND SAVINGS REVIEW

The total investment income of National Insurance Trust fund grew by 12.29 % in 2013 compared with 2012. This Income is the second source of income of the NITF which represents 11.33% of the total Income.

The total investment of the fund increased to Rs.6.6Bn, a 24% increase against the corresponding period. A majority of the fund was invested in Government securities and the rest was invested in Repurchase agreements according to the guidelines issued by National Insurance Trust Fund Act no 28 of 2006. Total assets of the fund grew by 21.06% to post a total asset balance of Rs.8.7 Bn as at 31st December 2013. Financial investments make up 76.83 % of the total assets of the fund.

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. From the inception onwards the following welfare oriented insurance schemes were formulated and implemented by the NITF during the year 2013 to protect various segments of the Sri Lankan society.

i. Medical Insurance Scheme for Public Officers (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 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 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, the money was transferred to a special account 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 the following benefits for the Members of Parliament.

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 Covers to the Insurance Industry in Sri Lanka

NITF commenced accepting reinsurance risk in Sri Lanka in 2006. Pursuant to the provision of NITF Act, it is mandatory for General Insurance Companies in Sri Lanka to obtain 30% of the total sum of reinsurance business from NITF.

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

Motor vehicles owned by Government institutions and Semi-government institutions are insured against any risk of loss or damages. The NITF initially began to offer Motor Vehicle Insurance to the Government sector as well 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. Currently, NITF focuses primarily on serving the insurance needs of the Government sector.

vi “VIDESA REKIYA” Overseas Employment Insurance Scheme

From June 2008 onwards the “VIDESA REKIYA” overseas employment insurance policy for Sri Lankan overseas migrant workers covered the Sri Lankans who are in the age of 18 to 65 years leaving Sri Lanka for foreign employment after obtaining the insurance cover from the National Insurance Trust Fund. However, this has been discontinued since 2012.

vii 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.

viii Crop insurance Scheme

Crop insurance scheme was established in 2013 according to the budget proposal in 2012 for farmers who receive subsidized fertilizer under the “Kethata Aruna Pohora Diriya” programme. It is a compulsory Insurance scheme as a remedial measure to mitigate damages caused to cultivations due to droughts, flood and wild elephants and operated as per circular No.BD/EE/118/01/BP/2013,dated 21/06/2013 ,issued by the Ministry of Finance & Planning.

Agrahara Medical Insurance



Agrahara medical insurance scheme was implemented by the Ministry of Public Administration Circular No: 12/2005 and this scheme came under the purview of National Insurance Trust Fund from 1st of January 2006. It provides benefits to Married Employees of Members, Spouse and Children (only if they are unmarried, unemployed and below 21 years old) and Unmarried Employees – Member, Parents (only if the parents below are 70 Years old)

The “Agrahara” medical insurance scheme has been established in order to uplift the living standards of the public servants including provincial public servants and their families. Therefore NITF has taken steps to expedite all claims received by it 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. The Agrahara claims intimated which fulfilled all the necessary requirements have been paid within 3 working days after the introduction of the e-card system.

Rs.125 per eligible employee is deducted in terms of the circular from the monthly salary from Government officers towards the Scheme since 2013. Under this insurance scheme following categories of benefits have been offered

1. Medical benefits against hospital charges:

Under the benefits, hospital and nursing home charges, medical and surgical expenses, Fees for medical consulting services or for specialist physicians’ services 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 spectacles once in every 3 years.

3. Heart Surgery Expenses (Cardiac):

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

4. Accident death and Natural death cover:

Under this scheme members are eligible to claim a sum of Rs. 600, 000/-and Rs.100, 000 under Accidental death and Natural death cover.

5. "Naya Surakum" loan guarantee scheme:

A loan guarantee for a value of ten times the monthly salary will be provided and if 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- 5.01: PHYSICAL PERFORMANCE – 2013

CLASSIFICATION OF AGRAHARA CLAIMS – YEAR 2013 (IN NUMBERS)

CLAIM TYPE	TOTAL CLAIMS RECEIVED	CLAIMS PAID	OUTSTANDING CLAIMS	CLAIMS REJECTED
Death	2082	1978	59	45
Disability	702	618	42	42
Child birth	9460	8067	1117	276
Cancer	346	303	23	20
Cardiac	504	493	09	02
Spectacles	60624	52831	2808	4985
Other Government hospital charges for other illnesses	30462	27162	2311	989
Other Private hospital charges for other illnesses	15354	12262	1426	1666
Kidney	05	03	-	2
Paralysis	07	04	01	02
TOTAL	119,546	103,721	7,796	8,029

Table- 5.02: THE NATIONAL INSURANCE TRUST FUND

AGRAHARA MEDICAL SCHEME PAYMENTS (ANNUALLY)

CLAIM TYPE	YEAR 2013	YEAR 2012	YEAR 2011	YEAR 2010	YEAR 2009
Paralysis	19,500.00	85,045.00	811,842.00	346,734.00	396,208.00
Kidney	170,255.00	442,069.00	2,174,098.00	3,924,953.00	396,208.00
Other Private Hospital payments for Other Illnesses	450,004,691.00	519,433,054.00	465,241,819.00	395,382,317.00	325,327,942.00
Other Government Hospital payments for Other Illnesses	130,537,351.00	135,187,766.00	130,001,995.00	124,605,768.00	118,388,616.00
Spectacle	179,283,805.00	188,253,705.00	178,824,095.00	177,584,405.00	171,046,450.00
Cardiac	138,154,231.00	133,772,302.00	139,890,847.00	121,975,896.00	160,377,390.00
Cancer	6,971,447.00	9,809,079.00	13,432,312.00	25,034,123.00	18,743,792.00
Birth Child	33,731,317.00	70,449,064.00	103,922,760.00	91,679,848.00	83,787,896.00
Disability	18,046,862.00	19,904,080.00	19,588,568.00	29,358,660.00	33,806,187.00
Death	125,596,611.00	119,401,850.00	141,684,995.00	175,937,244.00	214,492,626.00
TOTAL	<u>1,082,516,070.00</u>	<u>1,196,843,195.00</u>	<u>1,198,363,331.00</u>	<u>1,145,706,581.00</u>	<u>1,089,933,966.00</u>

Strike, Riot, Civil Commotion & Terrorism Extension



As per the decision made in 1987 by the Cabinet of Ministers, the Strike, Riot, Civil Commotion and Terrorism fund (SRCC & TR) was formed and administrated by National Insurance Corporation, with the objective of providing additional Insurance cover on insurance policies, extended to cover against loss/damage to properties and or personal death/bodily injuries occurring due to Strike, Riot, Civil Commotion and Terrorism activities, issued by all members of the of the fund who are licensed insurance organizations in Sri Lanka.

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 under the 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.

The guidelines in respect of administration and management of it will be issued from time to time by the National Insurance Trust Fund.

The NITF continued to follow the procedures adopted previously prior to the absorption of Strike, Riot, Civil Commotion and Terrorism Fund into National Insurance Trust Fund until new guidelines are introduced.

Main Activities of SRCC & T Fund

- Collection of premium through Insurance Companies and remitting to the Fund and investing at higher rates to generate a return.
- Claims to be paid by Insurance Companies and reimbursed by the SRCC & T Fund on the approval of the NITF
- The management of the soft loans granted to the institutions damaged due to terrorist attacks which were administered by the Bank of Ceylon

Objectives of the SRCC & T Fund

- ❖ 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 types of general insurance risk which provides for an extension of the geographical limit.
- ❖ It could prevent valuable premium income going overseas by securing cover from our very own Sri Lankan Fund.

Financial Review of the SRCC & TR Unit

Year 2013 closed as a remarkable one for SRCC & TR unit, with increasing GWP by Rs. 262M against in 2012. Also investment income has increased by Rs. 13.9 M. Total Investment of the SRCC & TR unit as at 31.12.2013 was Rs. 5.1B and transfer to the Consolidated Fund was Rs. 2.4B in 2013.

Net claims have reduced to Rs. 2.3M in 2013 compared to Rs. 37M recorded in 2012. This was due to lack of Terrorism claims. Administrative and operating expenses also reduced against 2012.

Reinsurance



In accordance with Gazette Notification No. 1528/20 dated 19th December 2007 under the National Insurance Trust Fund Act No 28 of 2006, Reinsurance Department was established to undertake compulsory 20% as being the percentage payable by the insurer on the total liability arising out of every general reinsurance business in the year 2008. Further to the above the compulsory cession has been increased up to 30% from 20% in this year according to the amended gazette No. 1791/4 dated 31st December 2012.

The main objective of the establishment of this department is to retain the foreign currency in Sri Lanka and it has played a major and decisive role as the “National Reinsurer” in Sri Lanka.

All primary Insurance companies have to mandatorily cede 30% of Reinsured sum to NITF and NITF is responsible for settlement of any claims submitted by any primary insurance company to a sum equivalent to the accepted liability.

During this year, NITF has accepted 103 treaties from 17 primary insurance companies and collected Rs.1042 million as premium. NITF has paid Rs.20 million as claim payments under the approval of the reinsurance claim panel which consisted of Insurance Professionals.

The Insurance companies who deal with NITF are given below.

1. Allianz Insurance Ltd.
2. Amana Takaful Insurance PLC

3. Asian Alliance Insurance PLC
4. AIA Insurance PLC
5. Ceylinco Insurance PLC
6. AIG Insurance Company
7. Continental Insurance Lanka Limited
8. Co-operative Insurance Company Limited
9. HNB Assurance PLC
10. Janashakthi Insurance PLC
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 PLC

Motor Insurance



After forming NITF, the Motor Insurance Scheme has been developed and in 2009 as per Circular No P/F 437 to insure the vehicles owned by Government institutions (Optional) and vehicles owned by semi Government institutions (Optional), NITF offers various types of motor insurance policies for various categories of vehicles such as Private Car Policies (for private cars, station wagons, jeeps, three wheelers etc.), Commercial Vehicle Policies (for goods carrying vehicles, dual purpose vehicles, used in carrying passengers for a fee or reward, buses (both hiring and private), Agricultural vehicles etc.), Motor Cycle Policies (for Motor Cycles, Scooters, Mopeds etc.).

Table 05.03: CLASIFICATION OF MOTOR CLAIMS PAID

CATEGORY	2012		2013	
	TOTAL		TOTAL	
	NO OF CLAIMS	AMOUNT (RS.Million)- 2012	NO OF CLAIMS	AMOUNT (RS.Million)- 2013
TRACTOR	6	0.00	2	0.06
PRIVATE CAR	685	45.99	497	43.05
MOTOR CYCLE	65	0.66	37	0.54
MOTOR COACH	142	6.58	101	8.13
LORRY/LAND VEHICLE	104	3.90	78	3.20
DUAL PURPOSE VEHICLE	531	30.95	372	23.98
TRAILOR	1	0.02	1	0.01
TOTAL	1,534	88.11	1,088	78.97

General Insurance



The NITF's General Insurance business is mainly sub divided into Fire Insurance, Marine Insurance, Miscellaneous Insurance and Medical Insurance. As per the gazette notification No. 1615/20 issued on 20.08.2009 the general insurance business was initiated and it grew steadily over the years.

Under General Insurance NITF provides Fire Insurance policies, Marine Insurance policies, Workers Compensation Insurance policies Personal Accident policies, Burglary policies etc.

**Table-5.04 CLASSIFICATION OF GENERAL INSURANCE
POLICIES**

POLICY CATEGORY	20 13	
		NO OF POLICY
FIRE		3
MARINE		110
PERSONAL ACCIDENT		3
WORKMAN COMPANSATION INSURANCE		2
BURGLARY		3
CASH IN TRANSIT		4
ELECTRICAL EQUIPMENTS		7
CONTRACTORS ALL RISK		17
PLANT AND MACHINERY		N/A
MEDICAL		15
TRAVELLING		9
TOTAL		173

Crop Insurance



Crop insurance scheme was established in 2013 according to the budget proposal in 2012 for farmers who receive subsidized fertilizer under the “Kethata Aruna Pohora Diriya” programme. It is a compulsory Insurance scheme as a remedial measure to mitigate damages caused to cultivations due to droughts, flood and wild elephants and operated as per circular No.BD/EE/118/01/BP/2013,dated 21/06/2013 ,issued by the Ministry of Finance & Planning.

Farmers contribute Rs. 150/= at the time of purchase of each chemical fertilizer bag of 50 kg as a premium (Rs.3/- per 1 kg of fertilizer) during each cultivation season. The insurance premium is charged at the time of purchasing fertilizer at the Agrarian Services Centres and Cooperative Societies which are selling subsidized fertilizer.

In addition, a crop insurance levy of 1% of the annual profit is also collected by NITF from all licenced banks, registered insurance companies and financed companies.

Insurance benefit is paid subject to a maximum limit of Rs.25,000/- per hectare(Rs.10,000/- per acre) in the event of a total loss. The Cultivation Loss Assessment Committee should assess the damages based on the stage of cultivation. After receipt of recommended claims from Agrarian Development Centers to NITF, claims are processed and payments are directly credited to the bank accounts of farmers.



6. SUSTAINABILITY REPORTING

People and companies refer to sustainability by different names—corporate citizenship, social responsibility, climate change initiatives, or “Green” movement. In essence, sustainability includes anything from environmental awareness and involvement in local community issues, to capturing, measuring, and reporting green house gas (GHG) emissions data, to modifying company business processes to reduce the operational use of natural resources and energy.

Stakeholders (investors, employees, customers, suppliers, and the community) and the capital markets are increasingly demanding better, more transparent communication of nonfinancial sustainability data. Sustainability reports—also called Corporate Social Responsibility (CSR), Environmental Social Governance (ESG) or Triple Bottom Line (TBL) reports— that convey information about an organization’s economic, environmental, and social impact are increasingly being issued in conjunction with financial reports—and stakeholders are using them more often in evaluating the long term viability of a company

As companies incorporate sustainability into their core business strategies, the importance of timely and accurate sustainability-related metrics increases.

Senior management need and expect the same level of control over these metrics as they have over financial data. Yet, in many cases such control is not there. Independent assurance—whether for internal or external use—of an organization’s processes, controls, and data helps ensure the company’s sustainability data are reliable and accurate; thereby supporting the credibility of information used in decision making, compensation, and external reporting.

STAKEHOLDER GROUP 1 – GOVERNMENT

NITF increased its annual contribution to the Consolidated Fund by giving the highest ever amount of Rs. 4.2 million in 2012 and in 2013 also it has made an annual contribution of Rs. 3.2 million. In the past, 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
2013	3,200

STAKEHOLDER GROUP 2 - CUSTOMERS

Under the Foreign Employment Insurance Scheme, the NITF has provided insurance covers for Sri Lankan housemaids who have been working in Middle Eastern countries during the initial months of 2012. Although NITF has rescinded issuing policies after the initial months of 2012, NITF has continued to pay foreign employment related insurance claims during the year 2013 also for the migrated employees of Sri Lanka who have been subjected to various catastrophies and accidents.

NITF has also been carrying out the Agrahara insurance scheme on a concessionary basis during 2013 and paid large amounts of claims for government employees.

STAKEHOLDER GROUP 3 – SOCIETY

During the Dayata Kirula Exhibition-2013, NITF has given the protection of personal accident covers for the Dayata Kirula exhibition -2013

STAKEHOLDER GROUP 4 – EMPLOYEES

The HR and Administration department provides needed support to strengthen the

National Insurance Trust Fund’s staffing, facilities, infrastructure and coordinating support to effectively meet the basic needs of the management. Emphasis is placed on the physical infrastructure and effective use of Human resources in the office.

We have worked toward achieving organizational goals in 2013 as well.

Employees are a main stakeholder in our Organization. National Insurance Trust Fund’s success depends on our employees' performance; poor performance is detrimental to NITF’s success. Creating a well-rounded approach to managing and coaching your work force requires the expertise and practicability of a good leadership and the immense support of HR department. We have identified potential of the educated staff as the competitive edge to thrive in the market .Hence we invested on staff through Training and Development programs, welfare programs etc.

Staff Welfare expenditure from 2010-2013 (Rs)

	2010	2011	2012	2013
	935,912	1,438,399	1,944,808	957,411

Also we held the “Annual Bak Maha Ulela” for 2013 at Buddhadasa grounds, Pelawatta with a view to improving the team spirit and unity of the work force .

Also, on January 01st as usual we started the New Year after listening to a sermon by a Buddhist Monk to invoke blessings on us and our organization as well.



We arranged a residential training program in 2013 at “Rantambe” .It was a 03 day out bound program at which the employees learned a lot on team spirit and attitude development.



7. GOVERNANCE REPORTING

-ENTERPRISE GOVERNANCE

➔ INTRODUCTION

Enterprise governance comprises two dimensions of corporate governance: conformance and performance. Conformance encompasses board structures and roles, and executive remuneration. Codes and/or guidelines can generally help in this area, with compliance subject to assurance and audit. Performance oversight, meanwhile, centres on strategy and value creation. A board needs to make strategic decisions while understanding its appetite for risk and the key drivers of performance. This does not fit easily with a regime of standards and audit. It is therefore desirable to develop a range of best practice tools and techniques that can be applied intelligently in different types of organisations. The enterprise governance became a prominent practice against the backdrop of the failures of Enron and WorldCom in the US and of Marconi in the UK. Most shareholder value in these firms was lost. The failures eroded confidence in the corporate world in the West and much effort went into understanding how such incidents could be averted in future.

The strategic apex of National Insurance Trust Fund has recognized the importance of strong corporate governance as the critical success

factor of a sound control environment which will ultimately improve operational effectiveness, efficiency and economy, enhance the brand image and maintain public confidence while adopting the salient corporate governance values such as discipline, transparency, independence, accountability, fairness and social responsibility.

Ever since the National Insurance Trust Fund was established in 2006 under the National Insurance Trust Fund Act No. 28 of 2006, its Corporate Governance practices have been carried out giving due consideration to the relevant areas of Corporate Governance Code of Best Practices issued by Institute of Chartered Accountants of Sri Lanka and the Public enterprises Guidelines for Good Governance and Corporate Governance practices.

NITF's governance practices ensure that;

- The business is taken in the right strategic direction,
- The staff officers lead and manage the respective units effectively and are accountable,
- NITF has appropriate controls in place and risks are regularly monitored and managed, and
- Employees "do the right thing" at all times for the benefit of all stakeholders.

➔ ADMINISTRATION MANUAL

During the year 2013, initiatives were taken to develop an administrative manual for NITF taking due consideration of the circulars issued by Department of Management Services and Department of Public Enterprises of Ministry of Finance and Planning.

➔ BUSINESS CONDUCT

Code of Business Conduct and Ethics for senior management is adopted by NITF.

The code addresses areas such as

- avoiding conflict of interests
- protection and proper use of assets of NITF
- communication with regulators and auditors
- ethical business standards and fraudulent conduct
- non-discrimination

➔ FINANCIAL AND INSURANCE ACUMEN

Financial and insurance competence of National Insurance Trust Fund was strengthened by the Board of Directors and Chairman, during the year 2013.

➔ THE BOARD OF NITF

As per the National Insurance Trust Fund Act of 2006, NITF is directed and managed by a Board 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 on page 10.

➔ SUPPLY OF INFORMATION

The senior management ensures that a set of information which is timely, accurate, relevant and comprehensive is provided to the Directors of the Board before the Board meetings. All

financial and non financial information for the period is included in these analyses. The Chairman and the Board meets on a monthly basis in order to make Board decisions. During the year 2013 the Board had 15 Board meetings. During the year 2013, the Audit Committee had 9 meetings.

➔ 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 provides a detailed and transparent analysis of performance and future strategies to stakeholders to make prudent decisions.

➔ THE ANNUAL REPORT 2013

The Annual Report 2013 of National Insurance Trust Fund has been prepared to project an overall view of NITF's affairs during the year 2013 as a key element of its accountability process

➔ PROCUREMENT

NITF carries out its procurements based on NPA Guidelines. In Small scale procurements, tender guidelines are followed. In large scale procurements such as the procurement of reinsurance services it is done by the CAPC

(Cabinet appointed Procurement Committee) and MPC (Ministry Appointed Procurement Committee).

➔ THE INTERNAL CONTROL

The Audit Committee closely monitors the financial and non financial control systems through various mechanisms such as review and agreeing on Internal Audit and External Audit Plans and the scope, Review of the Internal Audit Reports and discussion 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, Maintaining an effective relationship with Internal/ External Auditors at all times, Meeting separately with Internal and External Auditors to discuss matters relating to NITF where necessary etc.

During the year 2013, external audit was done by the Auditor General's department. During the year 2013, 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

During the year 2013 and 2012, the Audit Committee established and continued to follow the undermentioned 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 on 9 occasions during the year 2013. 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..

CORPORATE GOVERNANCE COMPLIANCE DURING 2013

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	<p>The Chairman was responsible for leadership of the Board. In particular, he was expected to :</p> <ul style="list-style-type: none"> • 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, • 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 implement 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 accordance 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.

<p>Audit Committee</p>	<p>The Audit Committee comprises 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.</p> <ul style="list-style-type: none"> • THE AUDIT COMMITTEE <p>During the year 2013, the Audit Committee established the following scope of the Audit.</p> <ol style="list-style-type: none"> 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 <p>The Audit Committee met on 9 occasions during the year 2013. 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.</p>
<p>Board Meetings</p>	<p>During the year 2013, there were 15 Board Meetings and Members of the Board</p>

have maintained an excellent record of attendance at the meeting. The attendance of the members of the Board at the Board Meetings is detailed as follows;

	Date of Appointment	No. of Meetings attended
Mr D Widanagamachchi Chairman	09.10.2012	15
Dr. L. Samarawickrama Board Member	11.06.2010	15
Mr. A K Seneviratne Board Member	08.07.2011	15
Mr. N Kulasekara Board Member	18.07.2011	13
Mr. J. Dadallage Board Member	23.06.2010	13
Mr. W.H. Piyadasa Board Member	10.07.2010	13

Great attention was paid by 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 efficient monitoring systems are considered as ingredients of good corporate governance system.

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	<p>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.</p> <ul style="list-style-type: none">• THE ANNUAL REPORT 2013 <p>The Annual Report 2013 of National Insurance Trust Fund has been prepared with the objective of providing an overall assessment of NITF's affairs during the year 2013 in order to make informed decisions.</p> <ul style="list-style-type: none">• FINANCIAL STATEMENTS <p>The National Insurance Trust Fund presented its Financial Statements in compliance with the Sri Lanka Accounting Standards and other applicable laws and regulations.</p>
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8. GOVERNANCE REPORTING

-ENTERPRISE RISK MANAGEMENT

Introduction

Risk has traditionally been defined in terms of the possibility of danger, loss, injury or other adverse consequences. In accounting and finance risk is considered in terms of decision trees, probability distributions, cost-volume-profit analysis, discounted cash flow, capital assets pricing models and hedging techniques, etc. Risk management is the process by which organisations methodically address the risks attaching to their activities in pursuit of organisational objectives and across the portfolio of all their activities. Effective risk management involves: risk assessment; risk evaluation; risk treatment; and risk reporting. The focus of good risk management is the identification and treatment of those risks in accordance with the organisation's risk appetite. The enterprise risk management approach is intended to align risk management with business strategy and embed a risk management culture into business operations.

Risk was seen on an individual level as much about achieving positive consequences as avoiding negative ones. However, organisational risk management was reported to be more about avoiding negative consequences.

Enterprise Risk Management (ERM) can be defined as the “ process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.

The key underlying principles of ERM adopted by National Insurance Trust Fund include:

- consideration in the context of business strategy
- it is everyone's responsibility, with the tone set from the top
- a focused strategy, led by the board
- active risk management

- creation of a risk aware culture
- a comprehensive and holistic approach to risk management
- consideration of a broad range of risks (strategic, financial, operational and compliance)
- implementation through a risk management framework or system.

01.STRATEGIC RISK

Strategic Risk refers to the possibility of failure to achieve strategic objectives. In order to facilitate the achievement of National Insurance Trust Fund's strategic objectives, the management of the National Insurance Trust Fund has been vigilantly monitoring the political, technological, socio- cultural, economic developments in the general environment and competitor and customer dynamics in the task environment of Sri Lanka related to insurance sector which may impact the strategic intent of the National Insurance Trust Fund.

02. RISK EXPOSURE

Risk exposure may arise when an underwriter accepts a risk for a price which is insufficient to meet the cost of claims.NITF reviews the profitability, pricing and terms and conditions it offers to customers on a regular basis. Risk assessments are done by Premium Determination Committee on large to moderate risks to ensure that such risks are accurately rated and respective recommendations are made on risk prevention strategies. Underwriting staff are expected to scrutinise all relevant information including proposal forms, before granting cover. In addition to training and development opportunities provided to the underwriting staff, procedure manuals are available and updated as required. The NITF ensures adequate segregation of duties.

03.INTERNATIONAL RISK

International Risk refers to the possibility of adversely affecting National Insurance Trust Fund's businesses due the fluctuation of political, economical, socio-cultural, technical factors in the international environment. International political and socio-economic dynamics have been monitored

by the National Insurance Trust Fund which has a direct impact on the business of the NITF. These include specifically the monitoring of trends in the the international business trends related to the reinsurance sector of NITF.

04.LIQUIDITY RISK

Liquidity risk is the unavailability of cash or lack of access to assets that can be converted to cash in a short period of time, to meet financial obligations. Liquidity risk has a better tendency to compound on other risks such as legal and reputational, and the proper management of liquidity risk is vital. Liquidity risk or the inability to meet the contractual obligations such as claims payments, reinsurance payments and fund transfers to the Treasury has been mitigated through diversification of investments with different maturities such as Repos, Treasury Bills with different maturities, Treasury Bonds with different maturities and debentures.

05.MARKET /BUSINESS RISK

Business risk occurs when it is concentrated only in a few businesses. This has been minimized by taking initiatives to develop the existing businesses such as turning the Agrahara Insurance Scheme into a profitable venture and increasing the mandatory reinsurance percentage from 20% to 30% and also diversifying into various insurance businesses such as Strike, Riot, Civil Commotion and Terrorism insurance, Motor insurance, Foreign Employment insurance, General Insurance etc.

06.HUMAN RESOURCE RISK

The main risk in the area of human resources is the inadequacy of professionally qualified personnel in the industry, which has resulted in relatively high staff turnover ratios. The NITF HR policy is aimed at supporting continuous education and development of employees at all levels.

07. CLAIM SETTLEMENT RISK

Risk of potential disputes arising due to fraudulent, legal and technical factors is controlled by taking initiatives to impose stringent regulations but customer friendly in approving claims and segregation of duties in processing of claims.

08.FOREIGN EXCHANGE RISK

In order to eliminate the Foreign Exchange Transaction Risk, Reinsurance Agreements have been contracted in the home currency values for the payment of the reinsurance premium.

09.OPERATIONAL RISK

Operational Risk is mitigated by computerization of operations. Internal Audit function of Strike, Riot, Civil Commotion and Terrorism Fund has being done by the internal audit department in order to minimize the errors and discrepancies of premium collection and claims payments Furthermore the office operations have been computerized in order to minimize errors and discrepancies.

10.IT RISK

IT risks have also been countered by various precautionary measures. In order to prevent virus attacks Sophos anti-virus package has been installed in computers in NITF. The losses due to systems failures have been mitigated by back up storage systems and uninterrupted power systems.

RISK ASSESSMENT MATRIX

Based on the Consequence –Frequency Analysis of the National Insurance Trust Fund’s prominent risks have been prioritized depending on the severity and frequency of the risks in the under mentioned Risk Assessment Matrix

		Frequency				
		1	2	3	4	5
Consequence	1					R09
	2				R04 R06	
	3		R07 R05	R03	R02 R08	
	4			R10	R01	
	5	R06				

R01.STRATEGIC RISK

R02.RISK EXPOSURE

R03.INTERNATIONAL RISK

R04.LIQUIDITY RISK

R05.MARKET /BUSINESS RISK

R06.HUMAN RESOURCE RISK

R07. CLAIM SETTLEMENT RISK

R08.FOREIGN EXCHANGE RISK

R09.OPERATIONAL RISK

R10.IT RISK



9. FINANCIAL STATEMENTS-2013

INCOME STATEMENT

For the year ended 31st December

(in Sri Lankan Rupees)

	Notes	2013	2012
Gross Written Premium	01	4,168,033,208	3,120,006,892
Contribution Received for Agrahara	02	1,406,706,842	863,435,521
Crop Insurance Levy Collected		440,836,600	-
Net Change in Reserve for Unearned Premium		(563,257,987)	(95,954,471)
Gross Earned Premium		5,452,318,662	3,887,487,941
Premium Ceded to Reinsurance		-	(1,304,600)
Net change in Reserve for unearned Reinsurance Premium		-	-
Net Earned Premium		5,452,318,662	3,886,183,341
Other Revenue			
Finance Income	03	697,407,976	615,813,544
Net Realised Gain		3,303,729	-
Other Operating Income		861,272	26,164,498
		701,572,977	641,978,043
Total Net Revenue		6,153,891,639	4,528,161,384
Benefits Claims and Expenses			
Net Insurance Benefit and Claims	04	(1,381,299,662)	(1,933,681,262)
Underwriting and Acquisition Cost	05	(382,177,026)	(347,789,490)
Other Operating & Administration Expenses	06	(141,108,634)	(148,828,347)
Finance Cost		(8,459,075)	(14,839,119)
Total Benefits Claims and Expenses		(1,913,044,397)	(2,445,138,218)
Income over Expenditure		4,240,847,242	2,083,023,166

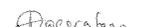
BALANCE SHEET

National Insurance Trust Fund Board
Statement of Financial Position
 As at 31 December

(in Sri Lankan Rupees)

<u>Assets</u>	Notes	2013	2012
Property Plant and Equipment	07	19,317,968	24,739,202
Financial Investments	08	6,667,518,021	5,375,914,672
Premium Receivable	09	814,910,533	491,727,358
Cash and Cash Equivalents	10	305,495,813	103,641,397
Other Receivable	11	871,139,458	1,172,920,478
Total Assets		8,678,381,792	7,168,943,107
Equity			
Technical Reserve			
Other Reserves	12	1,622,656,295	1,059,398,308
Deferred Commission	13	(199,173,169)	(176,532,688)
Revenue Reserve			
Accumulated Fund	14	6,950,664,274	5,912,918,517
Total Equity & Reserves		8,374,147,400	6,795,784,137
Current Liabilities			
Claim payable	15	273,060,335	286,078,049
Other payable	16	31,174,057	87,080,920
Total Liabilities		304,234,392	373,158,970
Total Equity and Liabilities		8,678,381,792	7,168,943,107

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

	2013	2012
Balance as at Opening of the Year	5,912,918,517	8,497,449,708
Less: Prior year adjustments Motor	(5,964,896)	(467,554,357)
Add: Prior year adjustments SRCC	2,863,411	
Levy paid to consolidated fund	(3,200,000,000)	(4,200,000,000)
Retained Profit/(loss) for the year	4,240,847,242	2,083,023,166
Balance as at end of the Year	6,950,664,274	5,912,918,517

CASHFLOW STATEMENT

(All figures in Sri Lankan Rupees)

For the year ended December 31,

	2013	2012
<u>Cash flow from operating activities</u>		
Net profit for the period	4,240,847,242	2,083,023,166
Less: Contribution to Consolidated Fund	(3,200,000,000)	(4,200,000,000)
Less: Prior year adjustments	(3,101,485)	(467,554,357)
	1,037,745,757	(2,584,531,191)
<u>Adjustments for:</u>		
Depreciation	9,604,450	10,820,514
Loss on sale of PPE	-	1,731,806
Investment income	(691,472,899)	(615,813,544)
Unearned Premium Income	563,257,987	95,954,471
Deferred Commission	(22,640,481)	(15,045,973)
Operating profit before working capital changes	896,494,813	(3,106,883,918)
Decrease /(Increase) in receivables	(21,402,155)	263,166,729
Increase in Claim payable	(13,017,714)	(106,332,722)
Increase in Other payables	(55,906,863)	(166,039,128)
Net cash from operating activities	806,168,081	(3,116,089,038)
<u>Cash flows from investing activities</u>		
Purchases of property, plant and equipment	(4,183,215)	(8,154,600)
Proceeds from disposal of Assets	-	469,956
Withdrawal of (Investment in) Government Securities	(1,291,603,348)	(931,368,410)
Investment income	691,472,898	615,813,544
Net cash used in investing activities	(604,313,665)	(323,239,510)
Net increase/ (decrease) in cash and cash equivalents	201,854,416	(3,439,328,548)
Cash and cash equivalents at beginning of the period	103,641,397	3,542,969,945
Cash and cash equivalents at end of the period	305,495,813	103,641,397
Cash and cash equivalents as at 31st December	305,495,813	103,641,397

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 NITF 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 Accountants 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

2.3 Capital 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 Equipment	Over 06 Years
Motor Vehicles	Over 05 years

ACCOUNTING POLICIES

2.7.2 Investments

Investment are shown at Cost

2.7.3 Receivables

Collectability of premiums, interest and other receivables is reviewed on an ongoing basis. Debtors and 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 and deposits in bank net of outstanding bank overdraft.

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 consists 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 & Equipment 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 a significant impact on the reported financial results or future operation of the Fund

NOTES TO FINANCIAL STATEMENTS

For the year ended 31st December

(all figures in Sri Lankan Rupees)

01 Gross Written Premiums

The Premium Income for the year by major classes of Business is as follows

	2013	2012
Reinsurance	1,042,220,495	463,610,216
SRCC & Tr Premium	2,543,782,803	2,281,176,063
General Insurance - Motor	174,785,654	206,595,378
General Insurance - Medical & Other	17,915,562	158,625,235
Crop Insurance -Premium from farmers	379,328,695	-
Medical scheme for Parliamentary members	10,000,000	10,000,000
Total Gross Written Premium	4,168,033,208	3,120,006,892

02 Contribution collected for Agrahara medical Insurance Scheme

	2013	2012
Contribution from Members	996,706,842	588,435,521
Contribution from the Treasury	410,000,000	275,000,000
Total Contribution Collected for Agrahara	1,406,706,842	863,435,521

03 Finance Income

	2013	2012
Income from Financial Assets Classified as Held to Maturity		
Treasury Bond	237,289,715	118,010,121
Debenture	115,350,967	114,720,633
	352,640,682	232,730,755
Income from Financial Assets Classified as available for sale		
Treasury Bill	52,770,580	53,317,809
Repurchase Agreements	286,061,637	329,764,980
	338,832,218	383,082,790
Total Finance Income	691,472,899	615,813,544

04 Net Insurance Benefit and Claims

	2013	2012
Reinsurance	20,730,824	308,239,012
SRCC & Tr	2,331,835	37,076,159
General Insurance - Motor	116,636,252	115,629,748
General Insurance - Medical & Other	85,707,270	404,869,568
Crop Insurance	10,436,648	-
Medical scheme for Parliamentary members	15,333,763	12,564,947
Agrahara medical Insurance Scheme	1,130,123,071	1,055,301,828
Total Net Insurance Benefit and Claims	1,381,299,662	1,933,681,262

05 Underwriting and Acquisition Cost

	2013	2012
Underwriting and policy Acquisition cost - SRCC & Tr	404,817,508	347,789,490
Net change in Reserve for Deferred Acquisition cost	(22,640,481)	
Total Underwriting and Acquisition Cost	382,177,026	347,789,490

06 Other Operating & Administration Expenses

	2013	2012
Auditors Remuneration	337,500	338,160
Employee Benefit Expenses	76,487,490	72,006,709
Administration and establishment Expenses	52,770,118	63,125,974
Selling Expenses	808,660	1,186,145
Depreciation of Property Plant and Equipment	9,604,450	10,820,514
Legal Fees	521,386	902,115
Donations	579,030	448,730
	141,108,634	148,828,347

NOTES TO FINANCIAL STATEMENTS

(in Sri Lankan Rupees)

07 PROPERTY PLANT AND EQUIPMENT

	Motor Vehicles	Office Equipment	Furniture & Fittings	Software	Misc. Assets	Total
Cost:						
Balance as at 01/01/2013	34,470,255	30,928,294	6,438,328	6,542,073	71,988	78,450,938
Additions	-	3,531,635	651,580	-	-	4,183,215
Disposals	-	-	-	-	-	-
Balance as at 31/12/2013	34,470,255	34,459,929	7,089,908	6,542,073	71,988	82,634,153
Depreciation:						
Balance as at 01/01/2013	28,767,528	15,400,576	3,069,217	6,448,518	25,897	53,711,736
Charge for the year	4,294,991	4,421,737	811,355	76,367	-	9,604,450
Disposals for the year	-	-	-	-	-	-
Balance as at 31/12/2013	33,062,519	19,822,313	3,880,571	6,524,886	25,897	63,316,185
Written Down Value as at 31/12/2013	1,407,736	14,637,617	3,209,337	17,188	46,091	19,317,968

08 FINANCIAL INVESTMENT

	2013	2012
Treasury Bills	1,933,202,150	628,369,600
Treasury Bills- REPO	1,477,410,933	2,031,982,426
Treasury Bonds	2,400,627,345	1,694,634,700
Debentures	1,045,780,000	1,045,780,000
Less		
Unamortized Discount	(189,502,408)	(26,380,841)
Add		
Unamortized Premium	-	1,528,787
Total Financial Investment	6,667,518,021	5,375,914,672

09 PREMIUM RECEIVABLE

	2013	2012
Reinsurance	462,968,508	180,811,195
SRCC & Tr Premium	349,986,352	308,960,490
General Insurance - Medical & Other	1,955,673	1,955,673
Total Premium Receivable	814,910,533	491,727,358

10 CASH AND CASH EQUIVALENT

	2013	2012
Cash at Bank		
PEOPLES BANK-CURRENT A GRAHARA-033100142467951	(645,717)	(648,259)
PEOPLES BANK-SAVINGS A GRAHARA-033200122467951	20,404,203	18,301,965
PEOPLES BANK-CURRENT MOTOR-033100160000058	721,004	7,215,905
PEOPLES BANK-CURRENT RE INSURANCE-033100100000061	1,815,444	6,702,652
PEOPLES BANK-CURRENT CROP INSURANCE-0331005024679	22,913,768	-
PEOPLES BANK-CURRENT ACCOUNT-FOREIGN-033100150000	598,614	(1,820,075)
PEOPLES BANK RFC EURO ACCOUNT-033407132467951	10,517,416	9,655,662
PEOPLES BANK RFC USD ACCOUNT-033402142467951	163,459,183	89,322,297
PEOPLES BANK SAVINGS CROP LEVY-033200302467951	313,452	-
PEOPLES BANK CURRENT ACCOUNT-NEW-033100322467951	(54,516,844)	(37,644,867)
PEOPLES BANK CURRENT ACCOUNT- GENERAL-03310041246	303,339	841,653
PABC SAVINGS ACCOUNT- GENERAL-312948280215	1,191,137	1,116,214
PEOPLES BANK SAVINGS ACCOUNT- GENERAL-03320021246	297,240	1,782,590
PEOPLES BANK CURRENT ACCOUNT No - 0006573953	137,478,867	8,176,291
BANK OF CEYLON CURRENT ACCOUNT No - 0006573953	501,122	500,000
Cash in Hand	143,584	139,369
Total Cash and Cash Equivalent	305,495,813	103,641,397

NOTES TO FINANCIAL STATEMENTS

(in Sri Lankan Rupees)

11 OTHER RECEIVABLE	2013	2012
Interest Receivable	160,516,011	149,310,648
Economic Service Charge	12,092,199	11,078,483
Receivable from Reinsurance Dept	0	5,349,749
Receivable from SRCC	8,844,083	-
Receivable from Motor Dept	973,009	-
Advances receivable	1,056,376	481,841
Soft Loans	622,760,214	958,456,782
WHT receivable	34,618,240	23,114,660
Refundable Deposit	9,415,854	9,800,688
Staff loans	19,074,595	13,553,748
Prepaid Expenses	7,819	5,092
Cheque return Receivable from members	1,781,057	1,768,785
	871,139,458	1,172,920,478
12 OTHER RESERVES	2013	2012
UNEARNED PREMIUM		
Balance as at Opening of the Year	1,059,398,308	963,443,837
Provision for the Year		
SRCC & Tr	137,305,835	95,954,471
General Insurance Motor	61,174,979	
Reinsurance	364,777,173	563,257,987
Balance as at end of the Year	1,622,656,295	1,059,398,308
13 DEFERRED COMMISSION	2013	2012
Balance as at Opening of the Year	176,532,688	161,486,715
Provision for the Year	22,640,481	15,045,973
Balance as at end of the Year	199,173,169	176,532,688
14 ACCUMULATED FUND	2013	2012
Balance as at Opening of the Year	5,912,918,517	8,497,449,708
Less: Prior year adjustments Motor	(5,964,896)	(467,554,357)
Add: Prior year adjustments SRCC	2,863,411	
Levy paid to consolidated fund	(3,200,000,000)	(4,200,000,000)
Retained Profit/(loss) for the year	4,240,847,242	2,083,023,166
Balance as at end of the Year	6,950,664,274	5,912,918,517
15 CLAIMS PAYABLE	2013	2012
Reinsurance	86,530,984	113,798,695
SRCC & Tr	66,665,233	79,783,010
General Insurance - Motor	13,505,808	4,326,944
General Insurance - Medical & Other	2,236,590	2,236,590
Crop Insurance	4,738,899	-
Agrahara medical Insurance Scheme	99,382,821	85,932,811
	273,060,335	286,078,050
16 OTHER PAYABLE	2013	2012
Accrued Expenses	2,980,920	11,021,633
Other Payables	5,189,573	1,381,289
Payable to SRCC & Tr	-	8,075,322
Provision for Gratuity Payments	7,799,474	2,897,037
Road Safety tax payable	446,907	527,485
Premium Refund Payable	11,928,872	11,844,581
Profit Commission payable	12,287,375	12,287,375
Claim cheques/SLIP returned payable	4,254,343	2,801,352
Audit fee Payable	640,000	460,000
VAT & NBT Payable	(14,353,408)	35,784,845
	31,174,057	87,080,920

NOTES TO FINANCIAL STATEMENTS

Statement of Income -Segment Review

For the year ended 31st December 2013

(in Sri Lankan Rupees)

	General		Reinsurance	SRCC & TC	Health Scheme Agrahara/ MP	Crop Insurance Scheme	Total
	Motor	Medical & Other					
Gross Written Premium	174,785,654	17,915,562	1,042,220,495	2,543,782,803	10,000,000	379,328,695	4,168,033,208
Contribution Received for Agrahara					1,406,706,842		1,406,706,842
Crop Insurance Levy Collected						440,836,600	440,836,600
Net Change in Reserve for Unearned Premium	(61,174,979)		(364,777,173)	(137,305,835)			(563,257,987)
Gross Earned Premium	113,610,675	17,915,562	677,443,322	2,406,476,968	1,416,706,842	820,165,295	5,452,318,662
Premium Ceded to Reinsurance	-	-	-	-	-	-	-
Net change in Reserve for unearned Reinsurance Premium	-	-	-	-	-	-	-
Net Earned Premium	113,610,675	17,915,562	677,443,322	2,406,476,968	1,416,706,842	820,165,295	5,452,318,662
Other Revenue							
Finance Income	49,189,560	26,659,065	54,875,913	553,939,123	2,388,510	10,355,805	697,407,976
Net Realised Gain			3,303,729	-			3,303,729
Other Operating Income	722,996	136,776		1,500			861,272
	49,912,556	26,795,840	58,179,642	553,940,623	2,388,510	10,355,805	701,572,977
Total Net Revenue	163,523,231	44,711,402	735,622,964	2,960,417,591	1,419,095,352	830,521,100	6,153,891,639
Benefits Claims and Expenses							
Net Insurance Benefit and Claims	(116,636,252)	(85,707,270)	(20,730,824)	(2,331,835)	(1,145,456,834)	(10,436,648)	(1,381,299,662)
Underwriting and Acquisition Cost	-	-	-	(382,177,026)	-	-	(382,177,026)
Other Operating & Administration Expe	(23,453,028)	(5,863,257)	(11,726,514)	(23,843,495)	(70,359,083)	(5,863,257)	(141,108,634)
Finance Cost	(11,343)	(15,251)	(16,640)	(8,402,225)	(13,616)	-	(8,459,075)
Total Benefits Claims and Expenses	(140,100,623)	(91,585,777)	(32,473,977)	(416,754,582)	(1,215,829,533)	(16,299,905)	(1,913,044,397)
Profit/(Loss) Before Taxation	23,422,608	(46,874,376)	703,148,986	2,543,663,009	203,265,819	814,221,195	4,240,847,242
Income Tax Expenses	-	-	-	-	-	-	-
Levy paid to Consolidation Fund				(2,490,000,000)		(710,000,000)	(3,200,000,000)
Profit/(Loss) for the year	23,422,608	(46,874,376)	703,148,986	53,663,009	203,265,819	104,221,195	1,040,847,242



10. AUDITOR'S REPORT



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கணக்காய்வாளர் தலைமை அறிவுநி நிறுவனம்
AUDITOR GENERAL'S DEPARTMENT



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My No. } FR(2)/I/NITF/1/13/25

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Your No. }

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Date }

20 May 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 2013 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 2013 comprising the balance sheet as at 31 December 2013 and the income statement, 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 issued to the Chairman of the Fund on 12 December 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 and 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 consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). 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.



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Auditor General's Department

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 those risk 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 the Finance Act, No. 38 of 1971 give discretionary power to the Auditor General to determine the scope and the 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 Adverse Opinion

Had the matters described in paragraphs 2.2.3 (a),(b) and 2.2.5 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair view of the financial position of the National Insurance Trust Fund as at 31 December 2013 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) Although the financial statements for the year 2013 should be prepared in compliance with the new Sri Lanka Accounting Standards in terms of the Sri Lanka Accounting and Auditing standards Act No. 15 of 1995, financial statements had not been prepared in accordance with such requirements. As a transition to Sri Lanka Accounting Standards had not taken place, financial assets or financial liabilities had neither been classified under fair value, nor disclosed in the financial statements based on carrying value.
- (b) In terms of Sri Lanka Accounting Standards No.1, an entity should not set off assets against liabilities, unless it is required or permitted by a standard. Nevertheless, Bank balances totalling Rs.360,514,789 in 13 Bank Current Accounts had been set off against Bank overdrafts in 02 Bank Current Accounts totalling Rs.55,162,561.
- (c) Even though property, plant and Equipment owned by the Fund should be revalued in terms of Sri Lanka Accounting Standard No.16, two motor vehicles, costing Rs.9,578,750 of which useful life has expired, but lapsed, had been used at present, had not been revalued and shown in the financial statements at revalued amount.

2.2.2 Accounting Policies

Even though Gratuity provision had been made in the year 2012 only for officers who had completed 05 years of continuous service, gratuity provision had been made in the year 2013 for officers with a service of 01 year. Owing to this, an increase of Rs.5,072,504 in the gratuity provision was observed in the year 2013 as compared with the year 2012. None of the information that should be disclosed on the provisions for gratuity in terms of Paragraph 28 of Sri Lanka Accounting Standard No. 08, had been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) Even though the insurance scheme introduced by the Fund for those employed in employment abroad had been terminated with effect from 28 April 2012 compensation totalling Rs.219,928,591 claimed under the said insurance scheme from May 2012 to August 2014 had been paid by utilizing the income received as premiums for other insurance schemes.



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Auditor General's Department

(b) A difference of Rs. 5,964,896 between the balance appearing in the cash book as the Bank Account balance amounting to Rs.7,215,904 as at 31 December 2012, and the balance appear cash book mentioned in the bank reconciliation statement amounting to Rs.1,251,008 as at that date. As the difference had been adjusted with the accumulated fund in the year under review, the accumulated fund had been understated by a sum of Rs.5,964,896.

2.2.4 Unreconciled Control Accounts

There were differences of creditor and debtor balances amounting Rs. 38,500,000 and Rs.26,288,162 respectively between bank balances stated in the trial balance / financial statements and the balances in Bank Reconciliation Statements of 04 Bank Current Accounts.

2.2.5 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to the non-submission of evidence indication against each item.

Subject	Value Rs.	Evidence not made available
(i) Other receivable cash	871,139,458	Letters of Confirmation of Balances
(ii) Other payable cash	31,174,057	Detailed Schedules
(iii) Insurance indemnity Payable	273,060,335	Age Analysis
(iv) <u>Savings Accounts</u>		
People's Bank	20,404,203	Account Passbook
Pan Asia Bank	1,191,137	Account Passbook and Letters of confirmation of Balances
(v) <u>Current Accounts</u>		
People's Bank	22,913,768	Bank Reconciliation Statements
People's Bank	(54,516,844)	
People's Bank	137,478,867	Letters of confirmation of Balances and Bank Reconciliation Statements



2.3 Accounts Receivable and Payable

Commission on profit amounting to Rs. 12,287,375 payable to Sri Lanka Insurance Corporation for the year 2008 by the Strike , Riot , Civil Commotion, and Terrorism Fund implemented under the Fund remained without being settled since the year 2010 up to the dated of audit , 31 October 2014.

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

The following non-compliances were observed in audit.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliance</u>
(a) Section 6(1) of National Insurance Trust Fund Act, No. 28 of 2006	An officer from the Ministry of the Minister, in charge of the health subject required to be appointed had not been appointed up to 15 January 2015.
(b) Paragraph 9.14 of Public Enterprises Circular No. PED/12 of 02 June 2003	The Fund had not prepared and obtained approval for a Handbook on Administration.
(c) Public Finance Circular No. 441 dated 09 December 2009 as amended by the letter No. PF/Board of Survey /01 dated 17 December 2010 of Director General of Public Finance.	Although the Annual Board of Survey for the year should be conducted and the reports should be submitted to the Auditor General prior to 15 March of the ensuing year, the report had been submitted only on 29 December 2014.
(d) Section 3.1 of Public Enterprises Circular No. 58(2) dated 15 September 2011	Even though such a deduction had not been made from the allowance paid to a member of the Board of Directors withholding Tax of 10 per cent should be deducted from the allowances are paid to the members of the Board of Directors.



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Auditor General's Department

(e) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

(i) Financial Regulations 102 and 104

Action had not been taken in terms of Financial Regulations on shortages of 69 items revealed in the Board of Survey conducted on 15 July 2013.

(ii) Financial Regulation 371 (2) (b)

Even though sub imprest granted should be settled as immediately after the completion of the purpose, settlement of advances totalling Rs.23,000 granted in 04 instances, had been delayed for a period of about 30 days.

(iii) Financial Regulation 371(5)

Even though the settlement of sub-imprest balance should not be delayed beyond 31 December of the financial year in which the imprest was granted sub imprest balances totalling Rs.86,000 granted in 07 instances had not been settled even by 31 December 2013.

(iv) Financial Regulation 396 (d)

Action had not been taken in terms of Financial Regulations on 20 cheques valued at Rs. 44,541,842 not presented for more than 06 months since the date of issue as at 31 December of the year under review



Director General of Accounts
Inspector General of Accounts
Auditor General's Department

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review amounted to a surplus of Rs.4,240,847,242 as compared with the corresponding surplus of Rs.2,083,023,166 for the preceding year. An improvement of Rs.2,157,824,076 in the financial result as compared with the preceding year had been indicated. The improvement had been mainly contributed by the increase of the net income through insurance premiums, receipts of "Agrahara" contributions, and crop insurance income by sums of Rs. 1,048,026,316, Rs. 543,271,321, and Rs. 440,836,000.

3.2 Analytical Financial Review

The income generated by the Strike , Riot , Civil Commotion, and Terrorism Fund being functioned under the Fund, is the main source of income of the Fund. With the war ended, premium income received by the Fund amounting to Rs. 3,926,469,856 in the year 2010 had decreased to Rs.2,543,930,179 in the year 2013 due to the decline in the demand for insurance cover on terrorist acts and the revision of percentage charged relating to terrorist acts.

As the Fund had functioned without Share Capital, the balance of the Accumulated Fund had decreased owing to the contribution of the Fund to the Consolidated Fund. It had been decided at the 58th meeting of the Board of Directors held on 11 March 2011 to separately maintain a reserve of Rs. 10 billion as remedy for the decrease of the balance of the Accumulated Fund. However, the Fund had failed to maintain either the reserve, or the minimum balance of the Accumulated Fund in the preceding years. The balance of the Accumulated Fund in the year 2010 amounting to Rs.9,695,467,155 had decreased to Rs.6,942,528,728 by the year under review.

3.3 Transactions of Contentious Nature

A person over 68 years of age had been appointed as an Assistant Manager (Discipline and Investigations on Compensation) on contract basis for a period of 06 months on 27 July 2010. The said person had been appointed as an Investigation Officer on the recommendation of the Board of Interview made on 22 June 2010 in such a manner that he would not be entitled to any leave, and allowances would be paid based on assignments. However, this person had been appointed to a post of Administrative and Human Resources Instructor without formal approval by providing him with a monthly salary of Rs. 27,500 and fringe benefits. His contract period had been extended by periods of 06 months from the date of appointment to 31 December 2014 on his request.



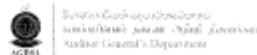
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Public Service Commission

4. Operating Review

4.1 Performance

The progress of activities carried out by each Division of the Fund is as follows.

- (a) The Fund had introduced an insurance scheme for the Sri Lankans who proceed abroad by registering under Sri Lanka Bureau of Foreign Employment. The insurance scheme had been maintained by the Fund from 01 June 2008 to 28 April 2012 in accordance with a Memorandum of Understanding entered into between the Fund and the Sri Lanka Bureau of Foreign Employment by earning a total net income of Rs.247,378,731. The insurance scheme had been ceased by then on the ground that the Fund had been informed by Sri Lanka Bureau of Foreign Employment, being a party involved in the agreement, on 30 March 2012 that the agreement would be terminated. However, the Fund had not taken any step to implement a methodology by conducting discussions with the relevant parties in order to proceed with the insurance scheme that had functioned in a manner beneficial to the Fund.
- (b) A group insurance scheme had been introduced by the Fund for members of Parliament. Even though the Fund decided on the annual insurance premiums a proper methodology in that regard had not been devised. According to the information presented to audit, benefits totalling Rs.7,898,710 exceeding the annual insurance premiums of the years 2012 and 2013 had been paid.
- (c) The Fund had introduced the Crop Insurance scheme in accordance with a budget proposal in the year 2013 in order to protect the cultivations of paddy farmers from drought, floods, and wild elephants. The Budget Circular No. BD/EF/118/01/BP/2013 dated 21 June 2013 necessitated that it was compulsory for all the paddy farmers to be insured. The premiums of the scheme are to be recovered at the time of fertilizer purchased by farmers by Agrarian Services Centers, and Cooperative Societies, and the cash collected should be remitted weekly to an account of the National Insurance Trust Fund. However, the Fund had not introduced a proper methodology in order to ascertain whether all of the cash collected from the farmers were banked weekly. Furthermore, out of 68,359 applications for indemnity received by the Fund as at 16 September 2014 due to damage caused to crops by the drought in Maha season, payments for 15,240 applications only had been finalized. As payments were yet to be made for 53,119 more applications, it was observed that the Crop Insurance scheme was losing its goodwill, and hence, the expected goals could not be achieved.

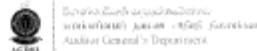


- (d) A methodology to ascertain the accuracy of premiums collected and remitted by various institutions in connection with Agrahara Insurance scheme operated by the Fund had not been introduced, and action required for collecting the premiums promptly had not been taken. Also, action had not been taken to check whether all employer institutions had been insured under this scheme.
- (e) The Fund had commenced a motor vehicles insurance scheme for all motor vehicles owned by Government institutions since the year 2008, and a motor vehicles insurance scheme for privately owned motor vehicles with effect from 01 September 2009. Despite the Public Finance Circular No. PF 437 dated 18 September 2009 informing the Government and Semi Government Institutions that insurance cover for their motor vehicles should be obtained either from National Insurance Trust Fund or Sri Lanka Insurance Corporation, it had been decided at the meeting of Board of Directors held on 18 February 2013 to restrict the insurance scheme to other institutions except the Public Enterprises. Comparison of the number of motor vehicles owned by Government Institutions and privately owned and the premium collected thereon during the year 2009 to 2013 revealed that the number of motor vehicles owned by Government Institutions insured in the year 2013 and the premium collected thereon as compared with the year 2009 had decreased by 7,321 motor vehicles or 45 per cent and the annual income had decreased by Rs.158 million while the number of privately owned motor vehicles insured in the year 2013 as compared with the year 2011 had decreased by 2,736 motor vehicles and the annual income had decreased by Rs.9 million.

4.2 Staff Administration

The approved staff, actual number, and number of vacancies of the Fund as at 31 December 2013 had been as follows.

Category	Approved Number	Actual Number	Number of Vacancies
Senior Level	12	02	10
Tertiary Level	16	16	0
Secondary Level	144	126	18
Primary Level	24	18	06
Total	196	162	34



The following observations are made.

- (a) The number of vacancies of the Fund as at 31 December 2013 had been 34 , or 17 per cent of the approved posts. This included 10 posts of the senior level management including the Chief Executive Officer of the Fund.
- (b) Even though the Department of Management Services had approved the cadre of the Fund by the letter No.DMS/C2/2/44 dated 07 September 2012 for the implementation of the provisions in the Management Services Circular No.30, the Fund had not been taken action to fill the above vacancies despite the elapse of 02 years since that date.
- (c) Nine posts including Regional Branch Manager had been filled with temporary appointments without proper approval.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Although the draft annual report and the financial statements should be presented to audit within 60 days after the close of financial year in terms of Section 6.5.1 of Public Enterprises Circular No. PED 12 dated 02 June 2003, the financial statements for the year 2013 had been presented only on 30 June 2014.

5.2 Budgetary Control

As a variation ranging from 29 percent to 2557 per cent between budgeted and actual expenses were observed, the budget had not been made use as an effective instrument of management control.

5.3 Internal Audit

The post of Manager (Internal Audit) had remained vacant since the inception of the Fund. The officers attached to the Unit had been covering the operations of a single field such as, checking on the accuracy of payment of benefits in the Agrahara Insurance Division. Hence, the Internal Audit of the Fund had further remained weak.



11. EIGHT YEARS AT A GLANCE

EIGHT YEAR SUMMARY - FINANCIAL PERFORMANCE

<i>(All Figures in Sri Lankan Rupees)</i>								
<i>for the year ended December 31,</i>	2013	2012	2011	2010	2009	2008	2007	2006
Revenue								
Net Earned Premium Income	5,452,318,662	3,886,183,341	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	(1,763,476,689)	(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)
	3,688,841,974	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	691,492,020	615,813,544	723,412,241	798,117,037	1,364,459,074	1,205,463,441	528,264,787	
Interest on Soft Loans	5,915,955	7,278,316	10,163,846	16,982,331	15,125,027	19,424,829	38,713,576	
Other Income	4,165,001	18,886,182	743,614	1,006,353	471,787	917,841		
	701,572,977	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	76,487,490	72,006,709	52,769,174	42,326,032	33,124,615	21,470,147	11,500,953	1,333,806
Administration Expenses	64,621,143	74,402,484	72,147,229	45,136,006	49,246,381	28,264,346	14,142,950	1,508,940
Finance & Other Expenses	8,459,075	17,258,273	21,581,925	32,425,697	38,401,103	5,380,035	3,385,205	138,170
Total Expenditure	149,567,708	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	4,240,847,242	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

EIGHT YEAR SUMMARY - FINANCIAL POSITION

(All Figures in Sri Lankan Rupees)							
for the year ended December 31,	2013	2012	2011	2010	2009	2008	2007
Assets							
Non - Current Assets							
Property , plant and equipment	19,317,968	24,739,202	29,606,877	36,096,011	43,603,504	44,659,781	25,240,465
Investments	6,667,518,021	5,375,914,672	4,444,546,262	5,574,107,464	8,550,206,721	7,749,178,616	5,449,343,240
	6,686,855,988	5,400,653,874	4,474,153,140	5,610,203,475	8,593,810,225	7,793,838,397	5,474,583,705
Current Assets							
Receivables	1,686,049,990	1,664,647,836	1,927,814,565	1,945,815,895	2,079,570,419	1,988,501,988	2,221,955,826
Cash and cash equivalents	305,495,813	103,641,397	3,542,969,945	3,594,104,553	110,173,003	239,795,258	560,259,122
		1,768,289,233	5,470,784,510	5,539,920,448	2,189,743,421	2,228,297,246	2,782,214,948
Total Assets	8,678,381,792	7,168,943,107	9,944,937,649	11,150,123,923	10,783,553,646	10,022,135,643	8,256,798,653
Equity and liability Equity							
Accumulated fund	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929
	6,950,664,274	5,912,918,517	8,497,449,707	9,695,467,155	9,364,852,783	8,412,019,580	6,583,508,929
Technical Reserves							
Unearned Premium	1,622,656,295	1,059,398,308	963,443,837	821,564,804	1,046,825,276	1,063,317,772	877,695,727
Deferred Commission	(199,173,169)	(176,532,688)	(161,486,715)	(139,745,300)	(200,139,536)	(206,999,340)	(161,317,228)
	1,423,483,136	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	66,960	142,150	284,330	719,190	719,190	719,190
Profit Commission payable	12,287,375	12,287,375	12,287,375	12,287,375	63,762,150	113,635,474	83,722,067
	12,354,336	12,354,336	12,429,525	12,571,705	64,481,340	114,354,664	84,441,257
Current Liabilities							
Claim Payable	273,060,335	286,078,050	392,410,772	518,000,207	329,499,921	333,321,632	602,777,397
Other Payables	1,881,972	747,265,85	240,690,522	242,265,350	178,033,863	306,121,335	269,692,571
	291,880,056	360,804,635	633,101,294	760,265,557	507,533,784	639,442,967	872,469,968
Total equity and liability	8,678,381,792	7,168,943,108	9,944,937,649	11,150,123,923	10,783,553,647	10,022,135,643	8,256,798,653



12. CORPORATE INFORMATION

❖ ***Name of the Institution:***

National Insurance Trust Fund Board

❖ ***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

