

Sri Lanka Export Credit Insurance Corporation - 2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

1.4 Audit Scope

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

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per correspond ing Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Chas P Hayleys & Co. Ltd	599,718	1,075,783	(476,065)	The corporation is expected to carry out a complete system study and seek the possibility of introducing compatible system where both systems will capture datr from a single source.	Balances should be reconciled
CBL Natural Foods (Pvt) Ltd	(1,720,780)	(1,440,354)	(280,426)		
Royal Fernwood Porcelain	(258,072)	(112,354)	(145,718)		
Ultracarb (Pvt) Ltd	109,389	115,202	(5,813)		
HJS Condiments Ltd	1,360,505	1,609,843	<u>(249,338)</u>		
			<u>1,157,360</u>		

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) An amount of Rs.2,185,511 for VAT on financial services recoverable had been remained more than 03 years without recovering.	The Inland Revenue Department have intimated that this has to be refunded but the corporation has to wait until their audit and the internal process is completed to release the refund.	Should take action to recover the outstanding balances.
(b) Advances of export bill discounting facility amounting to Rs.34,958,636 had been remained more than 10 years and a provision was made for this entire amount.	The total amount of Rs.34,958,636/- has been provided as bad debts but the Corporation maintains this amount in the balance sheet without completely being written off for the reason that at least the outstanding recoverable amount remains in records for future reference to use in case some recovery opportunity triggers due to some other facility.	Action should be taken to recover outstanding balances.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
32 excesses and 05 shortfalls amounting to Rs.1,518,436 and Rs.82,310 respectively remained more than 03 years without taking necessary action for clearance.	Measures will be taken to clear the above balances after verification that there are no pending recoveries of dues from these customers.	Actions should be taken to settle the balances.

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

Reference to Laws, Rules Regulations	Non-compliance	Management Comment	Recommendation
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(a) Establishment Code of the Democratic Socialist Republic of Sri Lanka			
(i) Paragraph 13.3 of Chapter II	Although the temporary appointment should only be done until the permanent appointment, the post of Manager (Marketing) had been vacant for more than 10 years and paid an amount totalling to Rs.1,054,900 as an acting allowance up to 31 December 2020.	The regulation of the entire HR function of the Corporation with the assistance of a consultancy firm as planned, the corporation will take measures to fill the necessary vacancies.	Should comply with the Establishment Code
(ii) Paragraph 10 of Chapter VIII	The Corporation had paid holiday pay amounted to Rs. 789,247 and Rs.462,076 for year 2019 and 2020 respectively for working hours less than 8 hours as it is required to have minimum 8 hours of work to pay holiday pay for executive officers.	The Corporation follows the Administrative Circular no. 5 dated 12.08.1994 in regard to payment for working on holidays.	Should comply with the Establishment Code
(b) Public Administration Circular			
(i) No. 21/2015 dated on 17 August 2015	Although an advance of Rs.10,000 can be given for annual festival with	It was the practice and the custom of the Corporation for many long years to make this payment with the	Should comply with the Circulars issued on time to time.

recoverable basis for employees, the Corporation had paid Rs. 52,000 per employee for festive season without recovery basis as financial assistance to employees. The corporation had paid Rs. 879,750 as balance payment of year 2019 and Rs. 1,716,000 as payment for year 2020 even without the approval of the Treasury.

approval of the board which is empowered to approve such payments in terms of the provisions of the SLECIC act.

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| (ii) No.30/2008 dated on 31 December 2008 | Although the distress loan should be paid to the amount which is lower from maximum liability of Rs.250,000 or 10 month basic salary, the Corporation had paid loans to the employees exceeding the valid limits. | The Corporation has not adopted this circular because the purpose of this circular is not applicable to SLECIC as the Corporation does not depend on the National Budget for funds and loans are granted from its own funds. | Should comply to with the Circulars issued on time to time. |
| (iii) No. 02/2018 dated on 24 January 2018 | Human Resource Development Plan had not been prepared and further, the Board also stated that a Performance Evaluation Scheme should be implemented for employees by 02/2020 Board Meeting on 09/06/2020. | The Board with the view to streamline and regularize the HR function of the Corporation, which was defunct for a long time due to non-availability of required staff, conceptually approved deployment of the services of a suitable consultancy firm to handle and complete all the long pending HR matters including all | Should be prepared and implemented the Human Resource Development plan. |

the regulatory requirements, at its Meeting No. 04/2021 held on 03.05.2021. Accordingly, the Corporation intends to establish a comprehensive HR System which will address all the pending HR issues.

(c) Public Enterprises
Circular No. PED
12/2003 dated on 02nd
June 2003

(i) Chapter 3.7.5

Although senior management team should consist of an Internal Audit Manager to review systems and procedures to ensure that operations are carried in a true and fair manner, the post of internal auditor had not been in the approved cadre. However the Corporation had outsourced the internal audit function by incurring cost of Rs. 616,480 for the year 2020. An internal audit report for first quarter had only issued in the year under review.

The Corporation is expected to operate as a commercially viable venture and also requires to build up its own "Fund" to meet the liabilities. In this context, the Management and the Board always evaluate any option in terms of costs and benefits to the Corporation. The Corporation has so far felt that it is economically beneficial to outsource the internal audit function in view of the costs, specialized service provided by a professional team, etc. Therefore, the option of having a separate internal audit division has not gained ground for favorable consideration as yet and the present arrangement has worked well for the institution.

Corporation should comply with the circular & instructions.

(ii) Chapter 5	<p>Although Annual Action Plan, Annual Budget, Annual Procurement Plan and Updated Corporate Plan should be approved 15 days before the commencement of the financial year, it had not been done so.</p>	<p>It may be noted that the Corporation did not have adequate Board Members to constitute the required quorum to hold Board Meetings from October 2019 until end February 2020. This is evident from the fact that the last meeting of 2019 was held on 16.09.2019 and the first meeting of 2020 was held on 27.02.2020. The referred documents were submitted to the first meeting of 2020 but due to certain amendments proposed by the Board to the action plan and the budget, the approvals were postponed, the Corporation was not in a position to get the said documents approved by the Board until September 2020.</p>	<p>Corporation should comply with the circular instructions.</p>
(iii) Chapter 6.5.3	<p>Although the Annual reports should be tabled in Parliament after obtaining the approval of Cabinet of Ministers within 150 days from the closing date of the financial year, the Corporation had not tabled the Annual Reports of 2017, 2018 and 2019 within aforesaid period.</p>	<p>There was a delay on the part of the Corporation to some extend but the total delay was not caused by the Corporation.</p>	<p>Corporation should comply with the circular instructions.</p>
(iv) Chapter 9.3	<p>The Scheme of Recruitment and</p>	<p>All these schemes will be put in place with the</p>	<p>Corporation should comply with the</p>

	Promotion had not been prepared and approved. Accordingly, employees who have work experience of more than 15 years have missed the opportunity for promotions.	completion of the total HR system.	circular instructions.the circular.
(d) National Policies and Economic Affairs Circular No. NP/SP/SDG/17 dated on 14 August 2017	Actions had not been taken to identify indicators for the sustainable goals and targets.	The Corporation has firmly established its sustainable goals by means of operating its Cost of Passage Guarantee (APARA), whereby it provides assistance to the migrant workers to secure the pre departure finance needs from banks, and thereby engages directly in the country's poverty alleviation process which is considered as one of the main Sustainable Development Goals.	Corporation should identify indicators to measure the performance of implementation of sustainable development goals.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.223,348,932 and the corresponding profit in the preceding year amounted to Rs.242,250,845 Therefore an deterioration amounting to Rs.18,901,913 of the financial result was observed. The reasons for the deterioration are decrease in the gross written premium income and increase in net claims due to COVID 19 by limiting exports.

3. Operational Review

3.1 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The accounting system and the operating system of the corporation was not interconnected. The customers outstanding as per the two systems are difference from each other.	The Corporation will take measures to improve the system gradually so that finally the two systems will be linked to generate common information on a compatible platform.	Should take action to establish IT system
(b) It was observed that income from operations has been deteriorated over the last 4 years from 59 per cent to 50 per cent and the income from investments of the Corporation was in the range of 40 per cent to 50 per cent from total income by showing growth over the period.	The drop in operational income in 2018 compared to 2017 was mainly due to significant drop in repayment of claims paid of Rs.13.79 Million. The generation of this income does not fall within the control of the Corporation. The drop in operational income in 2020 compared to 2019 was mainly due to general drop in all the operational income due to the adverse impact of COVID 19 where in certain months there was hardly any export transactions in the country.	Should take action to increase the income from operations.
(c) There were 06 outstanding claim applications amounting to Rs.241,807,798 as at 31 December 2020 and out of that, 02 applications with claimed amount of Rs.1,9487,887 which were received in year 2019 had not been settled yet.	The two claims of 2019 details of settlements were not submitted by the exporter until recently. Therefore, this claim was in abeyance. However, since information has been received, the claim is scheduled to be submitted to the next Board Meeting. In regard to other claims lodged in 2020, will be submitted to the next Board Meeting. The other three claims are still being processed.	Should speed up the existing process of claim payment.

3.2 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(a) The Corporation had paid Rs. 1,245,556 and Rs. 1,520,509 as leave encashment for year 2019 and 2020 respectively for employees. However, at the same time, the Corporation had paid Rs. 208,969 & Rs. 121,984 as attendance incentive for year 2019 and 2020 respectively. Accordingly, the Corporation had paid two benefits for the same purpose.	Leave encashment is paid for the unutilized leave and the attendance incentive is paid for punctuality where the employees are required to report to work on time for at least 15 days to qualify for the minimum amount. Therefore these two payments are made for two different purposes.	Should be pay only one benefits for the same purpose.
(b) It was observed that an employee was interdicted and paid half month salary amounting to Rs.19,480 since May 2012 and so far it was paid Rs.2,006,440 to that employee as at 31/12/2020. Actions had not taken to expedite the disciplinary action process by the end of the year under review.	The inquiry in regard to this employee is yet to be completed. This was discussed at the last Board Meeting held on 03.05.2021.	Should speed up the disciplinary action procedure.