

Sri Lanka Export Credit Insurance Corporation - 2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Export Credit Insurance Corporation (“Corporation”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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

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

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

In preparing the financial statements, management is responsible for assessing the 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 sub 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 Responsibility of the Auditor for the audit of Financial Statements

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 Corporation'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 Corporation'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 Corporation 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 Non-Compliance with Sri Lanka Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Sri Lanka Accounting Standard No.07 on Statement of Cash Flows		
(i) Even though, only unrealized foreign currency exchange gains could be adjusted according to paragraph 20(b) under non-monetary adjustments in operating activities, the Corporation had shown an amount of Rs.1,086,536,807 as unrealized foreign exchange gain under non-monetary adjustments, which included an amount of Rs. 33,487,938 actually realized foreign exchange gain.	Agreed. The reason for this is the absence of a qualified accountant for the accounting affairs of the corporation. In order to avoid such deficiencies in the future, it is hoped to hire a qualified accountant in the future.	Action should be taken as per the Accounting Standards.
(ii) Although the value of tax paid in accordance with paragraph 35 should be shown separately in the statement of cash flows, in the year 2022, paid amount of Rs. 2,711,472 and without showing it separately in the cash flow statement, it had been shown the Rs. 217,313 under profit before tax and Rs.2,494,159 under working capital adjustments.	-Do-	-Do-

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| (iii) | Even though, the interest income of the Corporation should be shown separately in the statement of cash flows according to paragraph 31, the actual interest income of Rs.107, 183,878 received during the year under review which had been calculated by the auditors, had not shown in the statement of cash flows separately.
Out of that, Rs.52, 998,809 had shown under investment activities and the remaining amount had shown under working capital and under the profit before tax. | -Do- | -Do- |
| (b) | According to Paragraph 51 of Sri Lanka Accounting Standard 16, the residual value and the useful life of an asset should be reviewed at least at the end of each financial year, and if the expected conditions differ from the above estimates, the difference should be accounted for as a change in an accounting estimate according to Sri Lanka Accounting Standard 08. However, the residual value and the useful life of Computers, Printers and Office Equipment of the Corporation, which had a written down value of Rs.3,515,250 as of 31 December 2022 had not been reviewed. | Agree.
The reason for this is the absence of a qualified accountant for the accounting affairs of the corporation. In order to avoid such deficiencies in the future, it is hoped to hire a qualified accountant in the future | Action should be taken as per the Accounting Standards. |

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) Action had been taken to adjust a decrease of Rs.1,717,191 in trade and other debtors which had been shown under trade and other receivables under operating activities in the statement of cash flows. However, according to the statement of financial position, the cash	Agreed.	Cash flow statement should be prepared correctly.

flow had decreased by Rs.14,236,004 due to the increase in trade and other debtors by Rs.12,518,814. Furthermore, according to the statement of financial position, the net increase in trade and other payables was Rs. 3,001,993 thus, the net decrease under operating activities was Rs. 13,415,768, therefore the cash flow was understated by Rs.16,417,761.

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| (b) | It had been shown the compensation made as Rs.4,297,947 in the statement of cash flows, instead of showing the actual compensation paid Rs.4,531,000 in the year 2022. Therefore Rs. 233,053 in excess of net cash flow had been shown under operating activities in the statement of cash flows. | Agreed. | Cash flow statement should be prepared correctly. |
| (c) | A value added tax payment of Rs.217,313 relevant to the year 2019 which was considered as an expense for the year under review and had been deducted against the profit. | Agreed. | Expenditures related to the year under review should be correctly identified and accounted for. |
| (d) | Even though the Export Payment Insurance Policy (EPIP) premium income of Rs. 12,998,073 received from exporters, which had got confirmed according to the declarations received in 2021 and also the shipments had effected during the year 2021, had been accounted as the income for the year 2022, | Due to vacancies in the finance department, it was not possible to accurately identify the income related to the previous year shown as credit in the bank statements.
However, accounting is currently being done for the year under review and bank reconciliations up to April 2023 have also been prepared. | Incomes related to the year under review should be correctly identified and accounted for. |

thus the premium income for the year under review had been shown in excess by Rs. 12,998,073.

1.6 Accounts Receivable and Payable

1.6.1 Receivable

Audit Issue	Management Comment	Recommendation
No actions had been taken for more than 10 years, to recover Rs. 67,154,145 worth Treasury Deposit Interest Income Receivable which had been shown in the financial statements in the year 2022.	Hope to correct it in the future.	Action should be taken to collect interest income on treasury deposits receivable promptly.

1.6.2 Advances

Audit Issue	Management Comment	Recommendation
As of December 31, 2022, the advance payment balance on the export bills given to 08 exporters is Rs. 34,958,636 and more than 15 years had passed since the amount was not settled. Out of this, 65.4 percent of this advance amount of Rs.22,870,492 was given to one exporter only. Further, a bad debt allocation was made for the total advance amount of Rs.34,958,636.	Agreed. Looking forward to following up on whether the relevant documents are on file. The section which was set up for discounting these bills has been closed now.	Prompt actions should be taken to recover outstanding balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 11 of Finance act, No 38 of 1971 and Section 21(2) of the Sri Lanka Export Credit Insurance Act No: 15 of 1978.	The Corporation had not obtained concurrence from the Minister of Finance and approval from the relevant Minister for the investments made by the	Agreed. All the investments made by the corporation since its inception have been invested in government banks,	Action should be done according to the Finance Act and the Corporation Act.

Corporation for Rs. 4,669,014,588. treasury bills and bonds. And the Board of Directors has continued to do so.

(b) The Establishment Code of the Democratic Socialist Republic of Sri Lanka

(i) Section 8.1 of the Chapter VII

In case of re-engagement of an officer whose service had been terminated due to resignation, his salary should be determined in the same manner as the salary of the newly appointed employee. However, two officers who have resigned from the Corporation had been reinstated with the same salary scale which they had been drawing at the time of their resignation.

Agreed. The service of those officers has been terminated now.

Even now, one of these officers is working, and action should be taken accordance with the Establishment Code

(ii) Section 9.1 of the Chapter XXVIII

Even though, the head of the Institution or the responsible officer should be responsible for the custody, security, control and preservation of all the details and documents within his authority limits in a Government office, no sufficient actions taken or procedures had been implemented and no proper attention made to secure those documents in this regard. However, during the physical verification conducted by the

This is expected to be resolved in the near future and will be observed into by the Finance Officer.

Action should be taken accordance with the Establishment Code

Corporation regarding the files in the accounts department, it was observed that 62 files with adjacent serial numbers were not available according to the given list.

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| (c) | Section 2 of Public Enterprises Circular 02/2018, dated 14 November 2018 | Contrary to the provisions of the Circular, the Corporation had invested 30 deposits aggregating to Rs. 27,601,615 in the year 2020 and 2022, in the Hatton National Bank. | Agreed | Action should be taken as per the circular |
| (d) | Operational Manual issued together with the Public Enterprises Circular No. 01/2021 of 16 November 2021 | | | |
| (i) | Paragraph 3.2 (i) | The Corporation had paid a total sum of Rs.2, 130,000 during the year under review as festival allowance of Rs.55,000 and as anniversary allowance of Rs.25,000 to each officer per year, without obtaining the approval of the Treasury. | Agreed.
Pursuant to the powers conferred by the Corporations Act, the Board of Directors has approved the payment of the allowances. | Action should be taken as per the circular. |
| (ii) | Paragraph 4.3 of the Code of Guidelines on Good Governance issued together with the Circular. | A Risk Committee had not been appointed to evaluate and mitigate the risks of the Corporation. | Agreed.
A risk committee has not been appointed at present and is expected to be appointed in the future. | -Do- |

1.8 Non-compliance with Tax Regulations

Audit Observation	Management Comment	Recommendation
Even though, the Corporation does not include under "Specified entities", under the subject on the value added tax on financial services as set out in Section 01 of Gazette No. 1868/10 dated 23rd June,2014 Rs.85,864,474 had been disclosed as the value added tax on financial services, based on the investment and other interest income received during the year under review.	Agreed. As per the decision of the Board of Directors, the assistance of a tax consultant will be taken and necessary steps will be taken for settlement.	Action should be taken to properly for identify the form of investment income.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 1,615,448,956 and the corresponding profit in the preceding year amounted to Rs. 248,667,973. Therefore an improvement amounting to Rs.1,366,780,983 of the financial result was observed. The main reason for this improvements are increase in exchange gains by Rs. 1,000,648,650 and the increase of investment interest income by Rs. 318,701,196.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) In various debtors, deposits and prepayments, Rs. 2,185,511 as VAT on FS Recoverable was shown in the financial statements continuously from the year 2017. And no recovery was made during the year under review.	Agreed. Actions will be taken to offset future VAT/income tax liability.	Arrangements should be made to offset the tax payable by excess tax paid
(b) Even though the Corporation had paid a total of Rs.146,508,434 as compensation to the exporters during the 05 years from 2018 to 2022, thus a follow-up	The Corporation has informed the Department of Commerce and the embassies established in various countries regarding the recovery of the above debts.	Follow-up process for recovery of compensation paid to exporters should be promptly.

process had not been followed on the exporters to ascertain from whom the ability to recover the above compensation.

- (c) The proposal approved by the Treasury regarding the payment of incentives in the Corporation had not submitted to audit to the letter No: 5-3/SLEICIC/12 dated 16 December 1991 of the Senior Assistant Secretary of the Ministry of Trade and Commerce, it was stated that, the consolidated monthly salary without allowances should be considered for the calculation of incentives. However, Rs. 1,986,612 had been paid in excess for the year 2021 by the Corporation, due to the calculation of incentives based on the salary including allowances.
- Correction action will be made on payment of incentives in 2022.
- Incentives should be calculated in accordance with the approved proposal.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
Even though a budgeted provision of Rs.29.38 million had been made for 12 activities under IT Infrastructure and Digital Capability Enhancement for Administrative Sector, out of that 08 activities with a budgeted provision of Rs.25.23 million equivalent to 67 percent had not been implemented by the end of the year under review.	Although the Corporation had allocated Rs.25.23 million, these activities were neglected due to the absence of a Chief Executive Officer/Chairman of the Corporation.	Planned tasks should be done as much as possible.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>The approved cadre of the Corporation was given as 50, by the Department of Management Services according to the letter No. DMS/1655 dated 02 May 2023. But 05 (senior) management level positions, 11 (middle) management level positions and 03 (junior) management level positions were vacant. Further, in addition to the above approved cadre, 03 posts had been recruited, such as one Systems Administrator post and 02 Assistant Manager posts which were not included in the approved cadre.</p>	<p>Agreed</p>	<p>Vacancies should be filled promptly.</p>