

Sri Lanka Export Credit Insurance Corporation – 2023

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 2023 comprising the statement of financial positions at 31 December 2023 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 material accounting policy information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 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 at 31 December 2023, 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 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
	Sri Lanka Accounting Standards – LKAS 16 – Property, Plant and Equipment.		
(a)	According to the paragraph 79 (b) of the Standard, although the gross carrying value of property, plant and equipment that is fully depreciated but still in use should be disclosed in the financial statements, the gross carrying value of 01 furniture and fittings, 61 office equipment, 25 computers and printers and 11 software packages which were fully depreciated and still in use had not been disclosed in the financial statements.	Several Assets which were identified as fully depreciated at the Board of Survey are currently being used. However, those will be revalued and posted to the financial statements in year 2024.	Action should be taken as per the Accounting Standards.
(b)	According to the paragraph 55 of the Standard, depreciation of an asset begins when it is available for use and ceased at the earlier of the date that the asset is classified as held for sale or disposal. However, the Corporation had charged depreciation in full in the year of purchase while not charging in the year of disposal in connection with 21 items of computer and printers, 31 items of furniture and fittings and 10 items of office equipment purchased during the year under review. Accordingly, the depreciation of fixed assets had been overstated by Rs. 2,779,165 in the year under review.	Under the accounting policy 3.2, assets purchased year will be fully considered for depreciation irrespective of the month they purchased and the disposal year is not considered for depreciation. Accordingly, the same procedure was followed as per accounting policy 3.2 , for items.	- do -

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The interest income for the year under review had been understated by Rs.2,103,969 , the interest receivable had been understated by Rs.864,214 and the balance of treasury bills on gratuity fund account had been understated by Rs.1,239,755, as the interest for the year had not been calculated accurately.	The fixed deposit was from the year 2022 and at the time of accounting, the interest rate was not declared. Therefore, the same interest rate was considered for the calculation of interest. However, it will be rectified in the year 2024.	Interest income for the year should be calculated accurately.
(b)	An income relating to the financial year 2022 amounting to Rs. 987,422 had been included in the Gross Written Premium on Export Payment Insurance Policy in the year under review. Accordingly, the Gross Written Premium on Export Payment Insurance Policy in the year under review had been overstated by the same amount.	It will be rectified in the year 2024.	Income relating to the year under review should be correctly identified and account for.
(c)	The un-earned premium on Export Payment Insurance Policy as at 31 December 2023 had been understated by Rs.4,398,102 as the un-earned premium related to 09 exporters amounting to Rs. 13,116,062 had been accounted as Rs. 8,717,960.	It will be rectified in the year 2024.	Adjustments should be made accurately.
(d)	The net claims for the year under review had been overstated by Rs.2,465,005 as the net claims for the year 2023 amounting to Rs.60,366,742 had been accounted as Rs.62,831,747 in the financial statements.	It will be rectified in the year 2024.	Expenditure related to the year under review should be accounted accurately.

- (e) An amount which had not been claimed for and the claims which had been paid and rejected related to the previous years aggregating Rs.306,856,067 had been included in the balance of provision for future claims as at 31 December 2023. Hence, the Provision for future claims as at 31 December 2023 had been overstated by Rs. 306,856,067 and the retained earnings had been understated by the same. Provision will be finalized and updated in the year 2024. Provisions should be made accurately.
- (f) The income tax for the year under review had been understated in the financial statements by Rs. 2,468,303 as the taxable income had not been calculated accurately. It will be rectified in the year 2024. Income Tax for the year under review should be calculated accurately.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
(a) Claim Paid	40,574,275	40,902,576	328,301	Not replied	Amount as per corresponding record should be reconciled with the amount as per financial statements.
(b) Net claims	62,831,747	166,611,769	103,780,022	Net claims paid amount will be adjusted in accumulated profit.	-do-

1.5.4 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(a) Interest receivable from	67,154,145	A confirmation for receipt	This amount has been brought forward from	Evidence to confirm the balance should be

	treasury deposit			the year 2013 and Forensic Audit is being done. Awaiting their report.	presented to the audit.
(b)	The balance of HNB call deposit account as at 31 December 2023	13,428,928	A Document to confirm the existence of the balance	It will be rectified in the 2024.	-do-
(c)	Depreciation for the year under review	4,574,094	The date of purchase , the date of available for use or the date of revaluation of assets	Assets register had been updated up to the year 2021 and already started to update the balance years.	Documents to confirm the depreciation amount should be presented to the audit

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
VAT on financial services receivable amounting to Rs. 2,185,511 had been shown in the financial statement over a period of 6 years.	Since this VAT receivable amount is coming from past 6 years, we need time to compare our records with the IRD. Action will be taken during the year 2024.	Prompt actions should be taken to reconcile and recover the balance.

1.6.2 Advances

Audit Issue	Management Comment	Recommendation
An advance amounting to Rs. 34,958,636 given to 08 exporters on export bill discounting facility had been shown in the financial statements over a period of 15 years without settlement and out of which Rs.22,870,492 had been given to one exporter.	I have given to find out this amount to the forensic auditors.	Prompt actions should be taken to reconcile and recover the outstanding balance.

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 appropriate Minister for the investments made by the Corporation for Rs. 4,907,943,668.	As per the PED Guide lines, less than 30 Billion investments need not to obtain concurrence from the Ministry of Finance.	Approval should be obtained as per the finance act and corporation act.
(b)	Paragraph 4.3 of the Guidelines on Corporate Governance issued under the Public Enterprises Circular No. 01/2021 dated 16 November 2021	The risk committee had not been appointed to calculate the impact of financial and non-financial risks on the Corporation's business operations and to take appropriate actions to mitigate the adverse impact.	Even though there is no formal Risk Management Committee, the board of directors asses all risks at the monthly board meetings.	Action should be taken as per the provisions of the circular.
(c)	Operational Manual issued under the Public Enterprises Circular No. 01/2021 of 16 November 2021			
(i)	Paragraph 3.3	Human resources plan had not been prepared by the Corporation .	We have prepared SOR and all career advancements were recognized therein.	-do-
(ii)	Paragraph 3.4	The Corporation had not prepared a succession plan.	-do-	-do-
(d)	Payment of gratuity Act No. 12 of 1983	The allowances amounting to Rs. 15,000 and Rs. 7,500 which	Gratuity payments are done accordance with	Gratuity should be calculated in terms of the provisions

cannot be taken as a cost of living allowance, special cost of living allowance or a similar allowance had been added to the basic salary in case of calculating gratuity. Accordingly a sum of Rs. 1,023,750 had been paid additionally for four employees as gratuity during the year under review.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 774,047,188 and the corresponding profit in the preceding year amounted to Rs. 528,910,150. Therefore an improvement amounting to Rs. 245,137,038 of the financial result was observed. The main reasons for this improvement are increase of investment income by Rs. 257,710,032 and decrease of VAT on financial services by Rs.85,864,474 against the increase of income tax expenses by Rs. 99,236,757.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
<p>The Corporation had published news paper advertisements in order to fill 05 vacancies at a cost of Rs.815,810. However, it had been subsequently revealed that the newspaper advertisements had not been prepared in accordance with the new scheme of recruitment. Accordingly, Corporation had to publish advertisements again at a cost of Rs. 793,500 for the purpose. Accordingly, the amount of Rs.815,810 previously incurred is observed as an uneconomic expenditure.</p>	<p>By 2023 April, Corporation did not have a functioning Accounts Department or HR and Administration Departments. After the new CMD was appointed in April 2023 SOR was approved by the MSD. Recruitments started only in the month of October once the absorption was done. During this confusion this has happened.</p>	<p>Expenses should be incurred economically.</p>

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>The Committee on Public Enterprises (COPE) held on 04 July 2023 had directed to fill all the vacancies in permanent basis paying attention to the malpractices of the Corporation that had happened previously. However, 21 posts of the approved cadre of the Corporation had not been filled even as at 31 December 2023.</p>	<p>Out of the approved Cadre of 56, by April 2023, only 19 employees were present. Out of that 6 were minor employees. There was no one in the Finance Department and in the HR & Admin Department. After April only we expedited the SOR matter and recruitments in the Corporation. After having obtained the SOR, we managed to do the absorption recommendations from the MSD only in September 2023. We had to wait till the absorption is done to recruit the staff.</p>	<p>Actions should be taken as per COPE directions.</p>

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>The Corporation had planned to conduct 06 meetings with gem and jewellery exporters and 20 awareness programs for migrant workers at Sri Lanka Bureau of Foreign Employment physically or via tele/webinar and awareness programs for potential and existing exporters to enhance existing SLECIC products in 04 provinces in the year under review. However, only one program in each activity had been conducted.</p>	<p>For many years the Corporation had not advertised or conducted any awareness programmes for potential and existing exporters in Sri Lanka. We have commenced effective advertising targeting the exporters of Sri Lanka. We are hoping to continue this with Tea Traders Association (CTTA) and Rubber Traders Association (CRTA) as well.</p> <p>During 2023, SLECIC has achieved the highest total net revenue of Rs. 1.2 Bln for its History. This we managed to achieve due to the above marketing initiatives.</p>	<p>Activities of the action plan should be implemented as scheduled.</p>