

## **Sri Lanka Export Credit Insurance Corporation - 2019**

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### **1.1 Opinion**

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The audit of the financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2019, 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**

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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**

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

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a)	National Audit Act No 19 of 2018 - Section 41 (1)	Though the Audit and Management Committees should be appointed by the Chief Accounting Officer or the respective governing body and the Committee should review the operations of the institution on a continuous basis and report to the respective governing body periodically, Corporation had not held audit committee meetings during the year 2019.	This is due to the occasional appointment of members of the Board of Directors who are not sufficient to maintain required quorum.	Actions should be taken in accordance with laws, rules and regulations.
(b)	Establishment Code of the Democratic Socialist Republic of Sri Lanka Paragraph 13.3 of Chapter II	It was observed that the both positions of Deputy General Manager (Marketing) and Manager (Marketing) had been vacant for 11 years, and acting arrangements had been made for those positions and paid acting	Answer had not been submitted.	Actions should be taken as per the provisions of the Establishment Code.

allowances of Rs.2,264,691 and Rs.945,700 respectively during the acting period.

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| <p>(c) Circular No. NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs</p> | <p>Even though every public institution should act in compliance with the circular and the United Nations Sustainable Development Agenda for the year 2030, with respect to the year under review, the Corporation had not been aware as to how to take measures relating to the activities under purview of their scope. Therefore, actions had not been taken to identify the sustainable development goals, targets and milestones in respect of achieving those targets and the indicators to measure the target achievement of such targets.</p> | <p>It was noted to identify the sustainable development goals relevant to the organization and allocate the necessary resources through a strategic action plan.</p>  | <p>The Corporation should comply with the relevant Circulars.</p> |
| <p>(d) Public Administration Circular No 02/2018 dated 24 January 2018</p>  | <p>The activities of signing the performance agreements with entire staff to enhance the performance of the staff as per the circular, developing a suitable methodology to identify the gap between the competencies already gained relevant to the responsibilities and the competencies required for the successful performance of duties, and preparation of a unique Human Resources Development Plan for the institute had not been done for the year 2019.</p>   | <p>This is due to the fact that there is no a permanent officer to carry out the human resource activities of the institution for a considerable period of time since the officer assigned by the corporation has left the corporation without completing the work assigned to him.</p> | <p>The Corporation should comply with the relevant Circular.</p>  |

(e) Public Enterprises  
Circular No.  
PED/12 dated 02  
June 2003

(i) Section 4.2.2	Although the Board of Directors should review the actual performance with Corporate Plan and Budget from time to time, and monthly performance statement, operating statement, cash flow statement, Liquidity status and borrowing statement, monthly procurement and staff statements should be reviewed at board meetings, actions had not been taken accordingly during the year 2019.	Board meetings regarding a few special issues were held on four occasions during the year 2019 with a minimum number of Board Members and monthly accounts could not be able to discuss in those occasions.	The Corporation should comply with the provisions of the circular.
(ii) Section 5.1	A corporate plan had not been prepared relevant to the year under review, and the last corporate plan had been prepared for the year 2010.	Noted. Actions will be taken to prepare the corporate plan during the year 2020.	The Corporation should comply with the provision of the circular.
(iii) Section 6.5.3	Even though Annual Reports should be tabled in Parliament within 150 days from the end of the financial year, Annual Reports for the years of 2017 and 2018 had not been tabled up to the date of 30 June 2020.	All copies of the Annual Report for the year 2017 have been submitted to the Ministry of Finance by November 2019 for the necessary actions and the Annual Report for the year 2018 is being prepared and action is being taken to submit it to the Ministry of Finance as soon as possible.	The Corporation should comply with the provision of the circular.
(iv) Section 9.3	Even though the recruitment procedure and a promotion scheme should be prepared and submitted to the	It is expected to establish all the requirements of the Human Resources	The Corporation should comply with the provisions of the circular.

Management Service after recruiting a Department for approval, it Human Recourse had not been done and manager. qualified officers with more than 15 years of service experience also lost the opportunity to apply for vacancies / promotions.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a profit of Rs. 242,250,845 and the corresponding profit in the preceding year was Rs. 309,088,327, thus observing a deterioration of Rs.66, 837,482 in financial result. Increase in the expenditure by Rs. 16,003,843 or 9.75 per cent of the year under review as compared to the preceding year, had mainly reasoned for the deterioration of the financial result, although the revenue had decreased by Rs. 125,677,891 or 21.57 per cent of the year under review as compared to the preceding year.

### 2.2 Trend Analysis of major Income and Expenditure items

As compared with the preceding year, other income had decreased by Rs. 131,835,787 and as a percentage, it was 38.35 per cent. Since the foreign exchange gain of preceding year amounting to Rs. 156,248,742 had become a loss of Rs. 5,963,729 in the year under review, the difference of that as a percentage was 104 per cent. Furthermore, net claims paid in the year 2019 had increased by Rs. 15,763,257 or 22 per cent as compared to the year 2018.

## 3. Operational Review

### 3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Although 115 exporters and 98 exporters had paid premiums for export payment insurance policies in the year 2017 and 2018, number of exporters paying premiums had decreased to 87 in the year 2019.	Noted. This is due to the facts which are beyond the control of the Corporation, such as, making no regular shipments by exporters, downturn the global economy, the decline in tea exports, the increase in the risk of buyers in international trade, and obtaining the service of Corporation by, only a very limited portion of the export market.	Promoting exporter awareness activities is favorable to the existence of the Corporation.

(b) A proper system for recovery of money from buyers in respect of compensated exports and ascertaining whether the buyer had paid money to the exporter after paying compensation to the exporters had not been implemented within the Corporation. Although Rs. 33.7 million was recovered during the period of 2015-2017, no refund was reported from compensation payments in 2018 and 2019.	Noted. It is expected to introduce an effective debt recovery system in the future.	A methodology for identifying recoveries should be introduced.
(c) According to the Action Plan of the year under review, Activities of conducting product awareness programmes on Cost of Passenger Airfare Guarantees facilitating foreign workers and its changes to Banks, implementing a Risk Management Process in the Corporation, preparing a new corporate plan for the period 2019-2021, product diversification and development and monitoring the paid claims which were scheduled to be implemented during the year 2019 had not been completed in the year under review.	Although the bank awareness programs were not aimed solely at Cost of Passenger Airfare Guarantees for foreign workers, it was done with other services such as pre and post shipment guarantees. Actions have been made to prepare the corporate plan of the Corporation from the year 2020.	Attention must be paid to perform the function of Acton Plan.
(d) Although 34 export payment insurance policies were planned to be issued during the year under review, only 13 policies were issued during the year.	International trade has been severely hampered as most of the world's economies have been in crisis since 2018. Under this unfavorable situation, based	Attention must be paid to perform the function of Acton Plan.

That is 38 per cent of the expected target. Furthermore, it was planned to issue 10 pre-shipment credit guarantees, 08 post-shipment credit guarantees, and 455 'Apara' guarantees under the issuing of bank guarantees and only 04, 01 and 136 of those guarantees were issued during the year under review respectively. The target achieved was 40 per cent, 12.5 per cent and 30 per cent, respectively.

on the steps taken by the Corporation regarding the buyers in risk countries and their credit limits, issuing new export insurance policies had decreased as targeted.

- (e) Even though the 192 potential customer meetings were planned, it was limited to 76 meetings during the year under review. Furthermore, 40 meetings with existing policyholders of the Corporation had been scheduled to be held, only 19 such meetings were held during the year under review. In addition, 40 discussions with bank officials on credit enhancement products and 12 ICC meetings were scheduled to be held during the year under review, only 12 discussions and 06 meetings were held in 2019 respectively.

Before meeting the potential customers, the Corporation makes enquiries regarding their requirements, out of the large amount of such enquiries made, only 76 had expressed their interest in the service of the Corporation. Marketing officers are individually well aware of existing customers and visits are made only when necessary. Under the prevailing risk situation, the Corporation has restricted the Credit Guarantee Promotion activities. Only six ICC meetings has been held due to the limited number of exhibitions in China.

Attention must be paid to perform the function of Acton Plan.

- (f) Though the internal audit had been performed by a private audit firm as there was no a post of Internal Auditor within the approved cadre, the internal audit reports for the period from October to December

Outsourcing the internal audit function is economically more beneficial to the Corporation than maintaining a separate internal audit unit within the organization. The

Approved staff should be revised and reporting should be expedited.



2019 had not been submitted even up to 10 August 2020.

internal audit reports for the third quarter of 2020 are being finalized and the audit for the last quarter is completed and hope to submit the relevant reports to you as soon as possible.

- (g) According to the letter No. DMS/E4/30/4/201/1 of Department of Management Services dated 24 September 2008, the approved cadre of the Corporation was 56, and since the actual cadre as at the date of the audit of 30 June 2020 was 33, the number of vacancies was 23.

Noted.

The Corporation has requested permission for new recruitments by letters addressed to the Director General of the Department of Management Services dated 21.09.2018 and 20.02.2019 and expects to fill the vacancies once the relevant approvals are received.

Actions should be taken to amend the approved cadre or to recruit.