

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 2024 comprising the statement of financial position as at 31 December 2024 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 reported 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 2024, 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 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 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 reference to particular Standard	Comments of the Management	Recommendation
(a) According to the paragraph 42 and 49 of the Sri Lanka Accounting Standard 08, the comparative information of prior year errors amounting to Rs.645,775,452 had not been restated and disclosed in the financial statements when correcting errors which occurred in previous year.	According to the section 38 & 51 institution had disclosed all the estimation under the notes and made the necessary restatement in the retained earnings. However, corresponding corrections were not made in the individual ledger accounts. This discrepancy will be addressed and fully rectified during the financial year 2025.	Action should be taken to correct prior period errors by restating the balances and disclose as per Accounting Standards.
(b) As per the paragraph 34 of the Sri Lanka Accounting Standard 16, property, plant and equipment should be revalued every three or five years. But the buildings had not been revalued over 6 years and computers and printers, furniture and fittings and office equipment had not been revalued over 8 years. According to the paragraph 51 and 79 although the residual value and the useful life of an asset shall be reviewed and	A committee has been appointed for the year 2025 to carry out the revaluation of these assets, ensuring their current value is accurately assessed and will be ported to the 2025 accounts.	Assets which were not revalued over long period of time should be revalued and assets which were fully depreciated but still in use should be annually reviewed and accounted as per Accounting Standards.

accounted annually, 101 nos. of property, plant and equipment items which were fully depreciated and still in use had not been assessed and accounted.

1.5.2 Accounting Deficiencies

Audit Issue	Comments of the Management	Recommendation
(a) As per the ledger balance of the specific provision for the claims as at 01 January 2024 was Rs. 452,510,346 and as per the financial statements it was Rs.454,601,351. Hence a difference of Rs. 2,091,005 was observed between two balances. Further, as per the schedule the balance was Rs.457,547,276.	As of 01 January 2024, the CPA claim provision should be increased by Rs.2,945,925 and the export payment insurance policy should be decreased by Rs.554,920. These adjustments are necessary to reflect the correct financial position and will be rectified in the 2025 financial year.	Balances as per financial statements, schedules and ledger accounts should be accurately reconciled.
(b) As per the documents relating to the policy no. SR/1312/2023, the provision for the claim was Rs.30,000,000. However, the provision made by the Corporation was Rs.41,191,174 and the over provision was Rs.11,191,174.	In this case, that the total defaulted amount stands at Rs.54, 307,091. While there may be discrepancies in the actual amounts received, the claim provision has been calculated as a percentage of the total defaulted amount. These differences will be corrected in the year 2025.	Provisions for claims should be accurately made in the financial statements.
(c) According to the audit calculation of gratuity expenses for the year under review was Rs.4,116,504. However, as per the financial statements it was Rs.2,239,037. Hence, a difference of Rs.1,877,467 was observed.	No reply.	Gratuity expenses should be accurately shown in the financial statements.
(d) The incentive for the year 2021 and 2022 aggregating to Rs.7,633,019 had been paid in the year under review. However, the payment had been debited to the retained earnings account instead	Will be rectified in the year 2025.	Retained earnings and current liabilities should be accurately presented in the financial statements.

of being debit to payable account. As a result, the retained earnings had been understated and liabilities had been overstated by similar amount.

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| <p>(e) Twenty two (22) unidentified direct credits totaling Rs.1,257,883 in two bank accounts had not been identified and adjusted to the relevant accounts during the year under review.</p> | <p>At the resubmission we have been identified and as per our records it shows Rs.1,257,882.97.</p> | <p>Unidentified direct credits should be identified and accounted under relevant accounts.</p> |
| <p>(f) Although the Corporation was not liable for VAT on financial services, a provision of VAT on financial services amounting to Rs.48,193,771 had been made in the financial statements over a period of two years. Therefore, liabilities had been overstated and retained earning had been understated by similar amount. Further VAT receivable amounting to Rs.2,185,511 had been remained over a period of 07 years in the financial statements without being recovered.</p> | <p>Provision of VAT on financial service amount of Rs.48.19Mn will be rectified in the year 2025. The amount of Rs.2.18Mn already been addressed to the Department of Inland Revenue to set off against the tax liability.</p> | <p>Due to not liable for VAT on financial services, the provision should be accurately adjusted to the financial statements. Prompt action should be taken to recover the VAT receivable balance.</p> |

1.5.3 Documentary Evidences not made available for Audit

Audit Issue	Comments of the Management	Recommendation
<p>The balance confirmations for the trade debtors and over paid by exporters amounting to Rs.24,239,798 and Rs.13,499,810 respectively had not been presented to the audit.</p>	<p>As per the discussions in the Audit and Management Committee, the balance confirmation letters have been sent.</p>	<p>Balance confirmations for debtors and creditors should be presented to the audit.</p>

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Comments of the Management	Recommendation
(a) Interest receivable from General Treasury amounting to Rs.67,615,246 for a deposit which had made by the Corporation in 1996, had been shown in the financial statements over a period of 20 years without being recovered.	The Corporation deposited Rs.150 million in the General Treasury on 23 July 1996, of which Rs.30 million was repaid on 30 April 2001. Although the Treasury initially informed that Rs.58.8 million would be settled in 2003, later a letter dated 19 June 2003 stated that repayment could not be made under Section 11 of the Finance Act No. 30 of 1971, as such deposits were considered as temporary surpluses refundable only on demand. Subsequently, on 10 October 2024, the Treasury informed that no records existed regarding the overdue interest of Rs.67.15 million on this deposit.	Prompt action should be taken to recover the receivable from the General Treasury.
(b) An advance amounting to Rs.34,958,636 given to the 08 exporters on export bill discounting facility had been shown in the financial statements over a period of 16 years without settlement and that total value had been made provision as doubtful debts.	The Corporation lost a legal case against one party regarding non-payment under a bill discounting arrangement and was unable to recover the outstanding amount. The Board is now considering further legal and administrative action against other defaulting customers to mitigate losses and protect financial integrity.	Immediate actions should be taken to recover the advances through legal actions.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 12.1 of Public Enterprise Circular No.01/2024 dated 28 February 2024	Although all kind of donations had been suspended by the circular, contrary to that provision, the Corporation had paid Rs.900,000 as donations.	As a sales oriented organization always need to improve the awareness among the public to increase the sales. However, all payments processed based on the approaches and will be duly submitted to the Department of Public Enterprises for their approval.	Actions should be taken to suspend all kind of donations as per the provision of the circular. Necessary CSR expenses or marketing related expenses should be incurred after obtaining the treasury approval.
(b) Section 3.1 of the Public Enterprise Circular No.01/2024 dated 28 February 2024	Without obtaining the prior approval of General Treasury, for the amendment of internal circular no. 01/97 as per the provision of the Public Enterprise Circular, the Corporation had paid Rs.5,622,753 of medical expenses reimbursement.	As per the provisions of the Corporation Act, the Board of Directors granted approval via an internal circular. Following this, the Corporation will notify the current Board to gather any further information or input. Once this process is complete, will be submitted to the Department of Public Enterprises for their consideration.	The approvals should be obtained from the General Treasury for the scheme of medical expenses reimbursement.
(c) Financial Regulation 371(2)(a) of Financial Regulations of Democratic Socialist Republic of Sri Lanka revised by the Public Finance Circular No. 03/2015 dated 14 July 2015	Although the petty cash imprest had limited to Rs. 25,000, the corporation had maintained petty cash imprest of Rs.100,000.	The amount of Rs. 50,000 for petty cash and IOU was increased on 2017 by the board of directors.	The petty cash imprest should be maintained as per the provisions of the Financial Regulations. If it is needed to increase the imprest amount should be obtained the approval of General Treasury.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.559,654,097 and the corresponding profit in the preceding year amounted to Rs.1,055,623,029. Therefore a deterioration amounting to Rs. 495,968,932 of the financial result was observed. Although there is an increase in net revenue from operations by Rs.127,144,293, the decrease of investment income by Rs.294,255,922 and increase of net claims and operating expenses by Rs.377,051,075 Were the main reasons for the deterioration.

3. Operational Review

3.1 Transactions of Contentious Nature

Description of unauthorized transaction	Comments of the Management	Recommendation
(a) According to the internal memo dated 14 October 2011, all employees are paid an attendance incentive of Rs. 140 per day for presenting in the office on due time. This allowance has been increased up to Rs.250 per day from the month of November 2023 and the amount paid by the Corporation without proper approval was Rs.1,295,417.	Over recent years, there has been a consistent rise in the costs, including expenses related to transportation. The current allowance structure no longer aligns with these increased costs, making it financially challenging for employees to manage within the existing limits. Therefore increased the allowance except the terms and conditions.	The approval for the attendance incentive should be taken from the Department of Public Enterprises.
(b) An allowance of Rs.20,000 is paid per employee for the Sinhala and Tamil New Year Festival season without obtaining treasury approval and this allowance had been increased up to Rs. 27,500 in the year 2023. Thus, the corporation had been paid a sum of Rs.1,911,250 as festival allowance for 39 employees during the year under review without obtaining the approval from the Department of Public Enterprises.	As per the provisions of the Corporation Act, the Board of Directors granted approval via an internal circular. Following this, the Corporation will notify the current Board to gather any further information or input. Once this process is complete, the matter will be submitted to the Department of Public Enterprises for their consideration.	The approval from the Department of Public Enterprises for the festival allowance should be taken.

(c) As per the provisions of the Shops and Office Employees Act No. 19 of 1954, even though 21 days leave encashment is entitled to an employee annually, the Corporation had paid a leave encashment allowance considering 42 days of leave annually. Accordingly, the Corporation had paid Rs.1,763,298 as leave encashment during the year under review.

Based on the internal memorandum the leave encashment payment was proceed.

Leave encashment should be granted after considering the leave provisions of the Shops and Office Employees Act.

3.2 Human Resources Management

Audit Issue	Comments of the Management	Recommendation
<p>The meeting of Committee on Public Enterprises (COPE) held on 04 July 2023 had been directed to fill all the vacancies in permanent basis paying attention to the malpractices of the Corporation that had happened previously. However, six (06) posts of the approved cadre of the Corporation had not been filled even as at 31 December 2024.</p>	<p>Due to election and changes in management, the recruitment process for staff could not be carried out as initially planned. However, after obtaining the necessary approval from the Election Commission, the corporation proceeded to call applications to fill the relevant positions.</p>	<p>Immediate actions should be taken to expedite the recruitment process and fill the existing cadre vacancies in accordance with the directives of the Committee on Public Enterprises (COPE).</p>