

Sri Lanka Export Credit Insurance Corporation – 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Export Credit Insurance Corporation as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) Instances of action not taken in compliance with Sri Lanka Accounting Standard No. 18.
 - (i) Action had not been taken for the revaluation of furniture and fittings costing Rs.4,198,331 , computer accessories costing Rs.1,236,497 and office equipment costing Rs.28,513.
 - (ii) Office equipment costing Rs.73,625 had been depreciated by exceeding the cost by a sum of Rs.12,269.

- (b) Even though Sri Lanka Accounting Standard No. 3 requires the disclosure of contingencies under the Notes to the financial statements, the interest on Treasury deposits amounting to Rs.67,154,145 receivable over a long period had not been disclosed with an financial statements by the Corporation.

1.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) According to the accounts, the balance of the advances paid on export bills as at 31 December 2011 amounted to Rs.34,958,636 and those represented advances not settled over periods ranging from 05 years to 09 years. Nevertheless, provision for bad debts had not been made for that amount.
- (b) Even though the Divisional Secretary, Thimbirigasyaya had informed on 10 August 2010 that compensation for the Vilasitha Niwasa will be paid, that had not been received up to the date of audit. As such the cost of the Vilasitha Niwasa amounting to Rs.208,973,030 had been shown in the accounts as an investment in lands receivable.

1.2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
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(a) Section 11(b) of the Finance Act, No. 38 of 1971	Even though the approval of the Minister of Finance and Planning should be obtained for the investment of monies of the Corporation in external institutions, a sum of Rs.805,824,872 had been invested in the year 2011 without obtaining such approval.

- (b) Public Enterprises Circular No. PED / 33 of 19 December 2005
- Even though surplus cash should be invested in State Banks, contrary to such instructions a sum of Rs.9,000,000 had been invested in a Private Bank.
- (c) Section 24 of the Public Finance Circular No. PF/PE/6 of 31 January 2000
- Even though Pay As You Earn Tax should be paid by the employees, a sum of Rs.560,432 had been paid out of the Corporation funds.
- (d) Procurement Guidelines - 2006
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- (i) Section 3.5 and the Revision No. 16 of 11 April 2008 relating to Section 2.14.1 of the Procurement Manual
- Contrary to the Sections, goods had been purchased by following the direct contract basis.
- (ii) Section 5.4.4
- Contrary to the Section, advances ranging from 30 per cent to 100 per cent had been paid in 10 instances.
- (iii) Section 4.3
- Even though the Board of Directors had approved a sum of Rs.2.5 million for carrying out repairs to the office premises, the procurement entity had not prepared a total cost estimate.

1.2.4 Apparent Irregularities / Irregular Transactions

The following observation is made.

According to the Report of the Board of Survey conducted as at 31 December 2011, the value of fixed assets not physically available amounted to Rs.398,438. The Chairman informed that a larger part of those assets were available but not in the original form.

2. Financial Review

2.1 Financial Results

The operations of the Corporation during the year amounted to a net profit of Rs.89,190,543 as compared with the corresponding profit of Rs.54,439,370 and as such the net profit for the year had increased by a sum of Rs.34,751,173. The increase of the gross operating income by a sum of Rs.16,861,103 and the decrease of expenditure on income tax by a sum of Rs.6,342,116 had been the main reason for increase.

2.2 Analytical Financial Review

The following observation is made.

Even though the pre-tax net surplus for the year under review amounted to Rs.113,249,397 the operating result amounted to Rs.46,983,084 and the other income amounted to Rs.66,266,313. The corresponding pre-tax net surplus for the preceding year amounted to Rs.108,187,543 and the operating result amounted to Rs.30,252,223 while the other income amounted to Rs.77,935,320. As such the operating net surplus for the year under review, as compared with the preceding year, had increased by 55 per cent and the total net surplus had increased by 64 per cent.

3. Operating Review

3.1 Performance

(a) Achievement of Targets of the Action Plan for the year 2011

The following targets of the Insurance policies and Bonds had not been achieved.

Category of Policies and Bonds	According to Action Plan		Actual Number	Actual Number as a percentage of Estimated Number	Value
	Number	Value			
		Rs. Millions		%	Rs. Millions
Export Payment Insurance Policies	42	1,104	32	76	1,213
Post Shipment Bonds	18	650	10	56	354.9
Air Travel Costs Bonds	2150	357	1452	68	180.9

Other than the Pre-shipment Bonds Scheme and Export Performance Bond Scheme, the achievements from the targets for the issue of policies and bonds had ranged between 56 per cent to 76 per cent.

(b) Shortfall in the issue of Insurance Policies and Bonds issues in the year under review as Compared with the Preceding year

Category of Policies and Bonds	2011		2010		As a percentage
	Number	Value	Number	Value	
Air Travel	1452	180,906	2120	275,371	68
Costs Bonds					

Other than the Air Travel Costs Bonds Scheme for the year under review an increase in the issue of policies and bonds was indicated.

3.2 Staff Administration

The Corporation had not re-grouped the staff and the salaries had not been revised accordingly in terms of the Management Services Circular No. 30 of 22 September 2006.

4. Accountability and Good Governance

4.1 Internal Audit

An Internal Audit Unit had not been established in the year under review. Internal audit had been done through the sub-contract basis.

4.2 Audit Committee

Even though the Audit Committee should meet at least once in 03 months in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the Corporation had not held meetings accordingly.

4.3 Procurement Plan

A Procurement Plan for the year under review had not been prepared.

4.4 Budgetary Control

Variiances ranging from 20 per cent to 150 per cent were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

Deficiencies observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Recovery of Advances on Export Bills
- (b) Achievement of Targets according to the Action Plan
- (c) Investment of Surplus Cash