

## **Sri Lanka Export Credit Insurance Corporation-2010**

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### **1. Financial Statements**

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#### **1:1 Opinion**

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So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Export Credit Insurance Corporation had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to the paragraph 2:2 of this report, the financial statements have been prepared in accordance with the Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Sri Lanka Export Credit Insurance Corporation as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

#### **1:2 Comments on Financial Statements**

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##### **1:2:1 Accounts Receivable**

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The following observations are made.

- (a) According to the accounts as at 31 December 2010, the balance of the advances granted on the export bills amounted to Rs.34,958,636. Out of that sum of Rs.774,445, Rs.3,475,434, Rs.28,758,928 and Rs.1,949,829 remained without being recovered over periods ranging from 04 to 05 years, 05 to 06 years, 06 to 07 years and 07 to 08 years respectively. The confirmation of these balances had also not been obtained. The Chairman informed that provision for doubtful debts had been made for the entire amount.

- (b) The “Vilasistha Niwasa” purchased by the Corporation for Rs.208,973,030 in the year 2007 had been made available for the Department of Police on a monthly rental of Rs.800,000. It had been vested in the Government on 15 June 2010 and handed over its possession to the Department of Police on 11 August 2010. Even though the Divisional Secretary had, by his letter dated 10 August 2010, informed that compensation for the Vilasitha Niwasa will be paid, it had not been received. The cost of the Vilasitha Niwasa amounting to Rs.208,973,030 had been shown in the accounts as an investment on land receivable.

### **1:2:2 Non-compliance with Laws, Rules, Regulations and Management Decisions**

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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	The concurrence of the Minister of Finance and Planning had not been obtained for the investments of Rs.1,254,444,675 in Treasury Bonds in fixed deposits in U.S. Dollars valued at Rs.878,000 in the People’s Bank, and Rs.1,650,895 in U.S. Dollars and Rs.145,151 in EUROS in the Bank of Ceylon.
(b) Public Enterprises Circular No. PED/25 of 29 July 2004.	Contrary to the provisions of the circular a sum of Rs.25,500,000 had been invested in private Banks.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003 Section 9.12	Contrary to the provision of the circular, a contribution of Rs.980,000 had been made to the Welfare Fund of the Corporation in the year under review as in the preceding year.

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| (d) Public Finance Circular No. PF/PE/16 of 31 January 2000<br>Section 24  | Contrary to the provisions of the Act, the Pay As You Earn Tax amounting to Rs.1,166,498 payable by the employees had been paid in the year under review out of the funds of the Corporation as in the preceding year. |
| (e) Department of Management Services Circular No. 30 of 22 September 2006 | The salaries had not been revised after a regrouping of the cadre in terms of the Circular.  |
| (f) Procurement Guidelines<br>Section 5.4.4                                | Advances ranging from 50 per cent to 100 per cent had been granted on 05 instances contrary to the provisions.   |
| (g) Financial Regulation 1645(a)   | Servicing of motor vehicles and the supply of spare parts at a cost of Rs.89,759 in 18 instances had not been recorded in the Log Books.   |
| (h) Financial Regulation 110   | A Register of Losses and Damage had not been maintained.   |

## **2. Financial and Operating Review**

### **2:1 Financial Results**

The operations of the Corporation during the year under review had resulted in a net profit of Rs.54,439,370 as compared with the corresponding net profit of Rs.79,648,411 for the preceding year, thus indicating a decrease of Rs.25,209,041 in the net profit. The decrease of income from investments by a sum of Rs.21,055,894 and the decrease of rent income by a sum of Rs.5,200,000 had mainly affected the decrease

#### **2:1:1 Analytical Financial Review**

Even though the overall net profit before income tax amounted to Rs.108,187,543, the net profit from operating activities amounted to Rs.30,252,223. Therefore the total net profit of Rs.108,187,543 represented investment income of 76 per cent, operating profit of 28 per cent and other income of 4 per cent. The exchange loss amounted to 8 per cent. Accordingly the operating net profit for the year under review as compared with the preceding year had increased by 93 per cent and the total net profit had decreased by 17 per cent.

## 2:2 Performance

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(a) Achievement of Targets of the Action Plan for the year 2010.

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The targets of the following Insurance Policies and Guarantees had not been achieved.

Category of Policies and Guarantees	Number according to the Action Plan	Actual Number	Actual Number as a Percentage of estimated Number
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(i) Export Payment Insurance Policies	40	21	% 53
(ii) Pre shipment Guarantee Certificates	12	10	83
(iii) Post-shipment Guarantee Certificates	12	06	50

Except the Export Performance Guarantee Certificate System and the Air Travel Expenses Guarantee Certificate System, the achievement of the number of other policies and guarantees targeted for issue ranged between 50 per cent and 83 per cent.

- (b) Issue of a lesser number of Insurance Policies and Guarantees in a year  
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under review than in the preceding year.  
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Details appear below.

	<u>2010</u> Number	<u>2009</u> Number	Comparative <u>(Decrease)/ Increase</u> As a Percentage of the Number
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(i) Export Payment Insurance Policies	21	25	(16)
(ii) Pre shipment Guarantee Certificates	10	13	(23)

Except the Export Performance Guarantee Certificate, and the Air Travel Expenses Guarantee Certificate System and the Post shipment Guarantee Certificate System of decreases ranging from 16 per cent to 23 per cent were observed in relation to the issue of other policies and certificates in the year under review.

### **2:3 Cost of Staff**

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The approved staff of the Corporation had been 56 while the actual staff had been 42 thus indicating 14 vacancies in the staff as at 31 December 2006.

### **2:4 Budgetary Control**

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Even though the estimated capital expenditure amounted to Rs.6,472,750 whereas only a sum of Rs.159,819 or 2.5 per cent had been utilized in the year under review. Out of the estimated recurrent expenditure 92 per cent had been utilized. Thus the budget had not been made use of as an effective instrument of management control.

### 3. **Systems and Controls**

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Deficiencies in systems and controls 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) Issue of Policies and Guarantees and Payments on Claims
- (c) Achievement of Targets according to the Action Plan
- (d) Investment of Surplus Cash