Sri Lanka Export Credit Insurance Corporation - 2013

The audit of financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December 2013 and the Statement of Financial Performance, Statement of Changes in Equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 20(2) of Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards and such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's Judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Corporation`s preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub sections (3) and (4) of the section 13 of the Financial Act No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on financial Statements

2.2.1 Sri Lanka Accounting Standards

Action in terms of Sri Lanka Accounting Standard 16 had not been taken to revalue the furniture and fittings costing Rs.3,615,759, computers and printing machines costing Rs.998,752 and office equipment costing Rs.73,625 which were fully depreciated.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Section 11(b) of the Finance Act, No. 38 of 1971 and Section 6(d)of the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978	Approval of the Minister of Finance and Planning had not been obtained for the investment of US$ fixed deposit of Rs.466,163,237, Euro fixed deposit of Rs.29,110,000 and Sri Lanka Rupees fixed deposit of Rs.702,637,990 totalling Rs.1,197,911,227.
(b) Financial Regulation of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 756	A Board of Survey had not been appointed to Survey the inventory goods in the year 2013.
(ii) Financial Regulation 771	Without following the Financial Regulations, fixed assets such as computers and printing machines valued at Rs.442,940, furniture and fittings valued at Rs.703,052 and office equipment valued at Rs.319,710 totalling Rs.1,465,702 had been disposed of.
(iii) Financial Regulation 772	Action had not been taken in accordance with Financial Regulations in respect of fixed assets valued at Rs.300,632 which had been sent to the Auctioneer.

(c)	Section 24 of the Public Finance Circular No. PF/PE/6 dated 31 January 2000	Pay As You Earn Tax amounting to Rs.320.114 payable by the relevant employees had been paid out of Corporation`s Fund.
(d)	Public Finance Circular No. PED/PMD/Clari/19 dated 30 August 2011	Without considering the circular instructions and without calling for quotations, 37 computers valued at Rs.4,510,300 and 2 printing machines valued at Rs.112,200 had been purchased on 18 April 2013 and 17 June 2013 respectively from the State Trading (General) Corporation.

3. Financial Review

3.1 Financial Results

The operations of the Corporation for the year under review had resulted in a net surplus of Rs.139,368,314 as compared with the net surplus of Rs.100,768,277 for the preceding year, thus improving the net surplus by Rs.38,600,037 in the year under review. Increase of reinsurance commission profit by Rs.9,623,499 and investment income on fixed deposits by Rs.46,755,187 had been the main reason for this improvement.

3.2 Analytical Financial Review

The total assets in the previous year amounting to Rs.1,507,047,656 had increased to Rs.1,696,289,114 or 13 per cent in the year under review. The total capital in the previous year amounting to Rs.1,387,704,178 had increased to Rs.1,581,424,081 or 14 per cent in the year under review. The total Liabilities in the previous year amounting to Rs.119,343,478 had decreased to Rs.114,865,033 or 4 per cent in the year under review.

3.3 Legal cases initiated against by the Corporation

The following observations are made.

(a) Two external institutions had filed 2 cases in the Courts against the Corporation claiming for compensation totaling Rs.18,653,000 on the grounds that they had not got their Insurance indemnities.

(b) The Corporation had filed 4 cases in the Courts to recover the advances paid to 4 external parties claiming for compensation totaling Rs.27,556,624.

4. Operating Review

4.1 Performance

The overall income from the issue of insurance policies and guarantees in the year under review had decreased by 6 per cent as compared with the previous year. Income on pre-shipment guarantees, post shipment guarantees and export performance guarantees had decreased by 31 per cent 53 per cent and 13 per cent respectively. Income on issue of air travel guarantees had increased by 55 per cent as against the year 2012.

4.2 Transactions of Contentious Nature

The following observations are made.

(a) In determining the insurance premium, Rs.20,000 should be charged in offering the maximum Liability Limit for more than Rs. 50 million. Contrary to that, only Rs.15,000 had been recovered as the policy charges by issuing an insurance policy to an export company, the maximum liability limit of which was Rs.100 million.

(b) In the recovery of insurance premium income in respect of Insurance policies, the exporter should forward the specific form duly filled by indicating the invoice value of goods and the amount of installment within 14 days after goods are shipped and if the premium is paid within 7 days, as specified, 5 per cent discount is given. However, in cases where insurance premiums were not paid, premiums receivable had been calculated by deducting 5 per cent discount. Similarly 10 per cent discount had been given in one instance though the normal discount rate of 5 per cent is the normal policy of the Corporation in making regular payments.

4.3 Personnel Administration

The following observations are made.

(a) Particulars of the approved cadre, actual cadre and the number of vacancies of the Corporation as at 31 December 2013 are given below.

Posts	Approved Cadre	Actual Cadre	Number of Vacancies
Executive	25	09	16
Non-executive	18	10	08
Junior	13	07	06
Total	56	26	30

Action had not been taken to fill the 30 vacancies that existed as at 31 December 2013.

(b) According to the Circular No. 30 dated 22 September 2006 of the Department of Management Services, staff should be re-categorized by the Corporation and the salaries should be revised accordingly. However action had not been taken accordingly by the Corporation.

(c) Files relating to 11 Management (Trainees) Posts recruited in the year 2013, Scheme of Recruitment of the Corporation and the Lists of Duties were not made available for audit.

(d) Posts such as, Deputy General Manager (Human Resources and Administration), Deputy General Manager (Marketing), Assistant General Manager (Compensation and Recoveries) had remained vacant since 2009 to 31 December 2013.

(e) Three acting appointments had been made since 2009 to act in the posts of Deputy General Manager (Marketing) Manager (Marketing) and the Private Secretary to the General Manager and an acting allowance of Rs.295,376 had been paid to them during the year 2013.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though a Corporate Plan had been prepared in terms of section 5 of the Treasury Circular No. PED/12 of 02 June 2003, the activities stated therein had not been shown in a manner that such activities were distributed within the target period and such targets were not agreed with the Annual Action Plan. Further, action had not been taken to update the Corporate Plan by reviewing the achievement of expected targets periodically.

5.2 Internal Audit

The Corporation had not obtained the approval of the Department of Management Services for the post of the Internal Auditor up to the date of audit and a private audit firm had been appointed to carry out the internal audit functions since 10 February 2012 on a monthly payment of Rs.36,450 without taxes. This appointment had been extended since February 2013 on the quarterly payment basis of Rs.65,500. A sum of Rs.293,227 had been paid to this firm during the year under review.

5.3 Budgetary Control

Variations ranging from 18 per cent to 100 per cent between the budgeted income and expenditure and the actual income and expenditure were observed, thus indicating that the budget had not been made use of as an effective instrument of management control.

5.4 Tabling the Annual Reports

In terms of section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the Annual Reports and Accounts should be tabled in Parliament within 150 days after the end of a financial year. Nevertheless, the Annual Reports and Accounts had not been tabled in Parliament since 2011.

5.5 Unresolved Audit Paragraphs

The following observations are made.

(a) The advance balance on payments made on export bills as at 31 December 2013 amounted to Rs.34,958,636 and these advance balances remained outstanding for periods ranging from 07 to 11 years.

(b) Income receivable on the properties of the Corporation stated in the financial statements amounting to Rs.208,973,030 and the interest receivable on Treasury deposits amounting to Rs.67,154,144 had remained unrecovered since 2010 and 2003 respectively.

(c) A provision of Rs.4,457,177, equivalent to US$ 35,082 had been made in the accounts for the year under review under special allocations as compensation payable to a foreign company. This provision had been carried forward since 2006 and the compensation had not been settled even by 31 December 2013.

6. Systems and Control

Weaknesses in systems and controls observed in audit were brought to the attention of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

(a) Evaluation of Insurance Policies and Payment Procedure on Compensation.
(b) Issue of Insurance policies and Guarantee Certificates and collection of Income