Sri Lanka Export Credit Insurance Corporation - 2014

The audit of financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of comprehensive income, 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 the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance 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 2014 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 Non - Adhering with Sri Lanka Accounting Standards (LKAS)

The following observations are made in this connection.

(a) **LKAS 16 - Property, Plant and Equipment**. The depreciation of an asset begins when it is availability for use. However, two vehicles purchased and registered by the Corporation during the month of December 2014 had not been depreciated. Therefore, depreciation for the year under review had been understated by Rs. 38,612.

(b) **LKAS 37 - Provision, Contingent Liabilities and Contingent Assets**. A provision should be made in the financial statements when an entity has a present obligation as a result of past event and it is probable that an outflow of resources embodying economic benefits may be required to settle the obligation. Nevertheless, without completing those condition a provision of Rs. 6,644,192 had been made in the financial statements by the Corporation as Technical Replacement Reserve.

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

The following non - compliance were observed during the course of audit.

	Reference to laws, Rules, Regulations and Management Decisions	Non - compliance
(a)	Section 3 of the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978	In terms of provisions in the Act, the Head Office of the Corporation shall be in Colombo and the Branches may be established with the prior approval of the relevant Minister to facilitate the exporters outside the country. Nevertheless, the Corporation had not established any Branch outside the country during the past 27 years.
(b)	Section 8.1 of the Finance Act, No. 38 of 1971	Even though a draft Annual Budget should be prepared and submitted for the approval of the Minister of Finance three months before commencing the financial year by every Public Enterprises, the Corporation had prepared the said Budget only on 22 January 2014.

(c)	Section 3.1(a) of the Payment of Gratuity Act, No.12 of 1983	Fourteen days wage or salary of an employee for who completed 5 year service period, should be provided as Gratuity. However, the Corporation had provided a sum of Rs. 113,020 for 13 employees in excess of that requirement.
(d)	Public Enterprises Circular No. 95 of 14 June 1994	Approved allowances by the Cabinet, Ministry of Public Administration or the General Treasury only should be paid by the Corporation to its staff. However, festival allowances and gift vouchers amounting to Rs. 760,000 and Rs. 764,780 respectively had been paid on the approval of the Board of Directors.
(e)	Section 5.2.2 of Chapter 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003	The approval of the appropriate Ministry, and the concurrence of the Department of Public Enterprises, General Treasury should be obtained before incurring expenditure for the purchase of motor vehicles. In contrary to this provision, the Corporation had purchased 2 vehicles valued at Rs.8,808,552 after obtaining the approval of the Board of Directors.
(f)	Section 24 of the Public Finance Circular No PF/PE/6 of 31 January 2000	Even though the Pay As You Earn Tax should be borne by the relevant employees, the Pay As You Earn Tax amounting to Rs. 640,017 for the year under review had been paid by the Corporation in contrary to this requirement.

3. Financial Review

3.1 Financial Results.

According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a pre-tax net surplus of Rs.190,480,849 as compared with the corresponding a pre-tax net surplus of Rs.206,499,156 for the preceding year, thus indicating a deterioration of Rs. 16,018,307 in the financial results of the year under review. The decrease of other comprehensive income by Rs. 32,457,955 or 24 per cent as compared with the previous year was the main reason attributed for this deterioration.

3.2 Legal Action Instituted Against and by the Corporation
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The following observations are made

(a) An external party had filed a case in a Commercial High Court against the Corporation claiming compensation amounting to Rs.17,020,611 for the non – payment of insurance indemnity payable to a private company.

(b) The Corporation had filed four cases against 04 external institutions claiming compensation amounting to Rs.27,556,624 for the recovery of advances granted by the Corporation

4. Accountability and Good Governance

4.1 Internal Audit

The approval for the post of Internal Auditor had not been obtained from the Department of Public Enterprises in terms of Chapter 9.2 of the Public Enterprises Circular No PED/12 dated 02 June 2003 and Financial Regulation 133. Instated a private audit firm had been carried out the internal audit activities of the Corporation and an amount of Rs.239,904 had been paid as internal audit fees during the year under review.

4.2 Budgetary Control

Significant variances were observed between the budgeted and actual expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

4.3 Unresolved Audit Matters

The receivable income of Rs. 208,973,030 which had been disclosed in the financial statements as compensation for acquisition of an asset in the year 2010 and interest amounting to Rs.67,154,144 receivable from the Treasury Deposits for the year 2003 had not been collected or taken any appropriate action up to the end of the year under review.

4.5 Tabling of Annual Report

The final audited accounts together with the Auditor General's Report, in all three languages, should be tabled in Parliament within 150 days after the close of the financial year in terms of Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003 However, the Corporation had not tabled the report of the year 2013 in Parliament even up to end of the year under review.

4.6 Human Resources Management

Even though there were 15 vacancies in executive level and 05 vacancies in non-executive level, no action had been taken to fill these vacancies even by 31 December 2014.

5. Systems and Controls

Weaknesses 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) Budgetary control
b) Internal Audit