

## **Sri Lanka Export Credit Insurance Corporation - 2015**

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The audit of financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 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**

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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**

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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 Auditing 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 judgement, 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. Subsections (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**

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### **2.1 Opinion**

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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 2015 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**

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#### **2.2.1 Sri Lanka Accounting Standards**

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As the useful life of non-current assets had not been reviewed annually in accordance with the Sri Lanka Accounting Standard 08, motor vehicles costing Rs.3,217,783 and office equipment costing Rs.160,619 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimate.

#### **2.2.2 Lack of Evidence for Audit**

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According to the financial statements presented in the year under review, a detailed report in relation to refundable deposit of Rs.2,103,756 had not been made available to audit.

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

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In terms of Section 24 of the Public Finance Circular No. PF/PE/6 dated 31 January 2000, although the Pay As You Earn Tax should be recovered from the salaries of the relevant officers and remitted to the Department of Inland Revenue, contrary to that, Pay As You Earn Tax amounting to Rs.543,420 relevant to 38 officers had been paid from the funds of the Corporation.

## **3. Financial Review**

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### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Corporation for the year under review had resulted in a surplus of Rs.174,076,132 as compared with the corresponding surplus of Rs.161,692,641 for the preceding year, thus indicating an improvement of Rs.12,383,491 in the financial results of the year under review as compared with the preceding year. An income of Rs.42,026,970 received for a property of the Corporation acquired by the Government, increase in the export credit insurance income by Rs.37,039,904 and increase in expenditure for the indemnity and special tax by Rs.32,933,861 and Rs.25,000,000 respectively had mainly attributed for the above improvement.

In analyzing the financial results of the year under review and 04 preceding years, it had ceaselessly grown up from the year 2011 to the year 2013. Although a slight decrease in the surplus was observed in the year 2014 as compared with the year 2013, a growth of 7 per cent

had occurred in the year 2015 as compared with the preceding year. After the adjustments being made in respect of the employees' remuneration, depreciations for fixed assets and the tax paid to the Government, the contribution amounting to Rs.158,028,780 in the year 2011 had continuously increased and it had been Rs.237,420,722 and Rs.284,898,395 in the year 2014 and 2015 respectively.

#### **4. Operating Review**

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##### **4.1 Performance**

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In terms of Section 5 of the Sri Lanka Export Credit Insurance Corporation Act, No. 15 of 1978, the objectives of the Corporation are as follows.

- (a) To issue insurance policies to exporters of goods and services against non-receipt or delayed receipt of payments and to issue guarantees to the financial institutions to facilitate the granting of pre-shipment and post-shipment finance.
- (b) To issue guarantees to exporters for the due performance of any services to be rendered within or outside Sri Lanka in connection with exports carried out by a Sri Lankan, to provide financial assistance and provide refinancing facilities in respect of credit facilities granted by the financial institutions.
- (c) To provide guarantees against losses that may be sustained in undertaking promotional measures in foreign countries and to undertake market studies abroad for promotion of exports, conduct seminars and courses on various aspects and to collect and disseminate information relating to marketing possibilities.
- (d) To provide insurance and guarantees, undertake such responsibilities and discharge such functions as are considered by the Government as necessary in the national interest, to diversify exports, to help exporters to expand exports and find new markets and to discharge such other functions as the Corporation may consider as necessary for the achievement of its objectives.

The following observations are made in connections with the achievement of the objectives.

- (a) The compilation of a manual including guidelines relating to the payment of indemnity for the insurance policies and guarantees, which is immensely helpful for the enhancement of the capacity building of the Corporation, had not been carried out even in the year under review, despite the lapse of 28 years from the inception of the Corporation.
- (b) The following matters specified in the Action Plan under the topic "Product Modification and Development" and essential for the maintenance and improvement of the total income of the Corporation had not been carried out.

- Restructuring of No Claim Bonus scheme for the policy holders.
  - Provision of insurance and guaranty certificates for small and medium scale enterprises (SMEs) and coordination of the affairs of those enterprises.
  - Obtaining technical assistance from the commonwealth secretariat to train the staff on the issue of Export Credit Guarantee Certificates (ECGC credits).
- (c) Even though a provision of Rs.37,000,000 had been made for the information technology activities, it had not been implemented during the year 2015.
- (d) Out of the total insurance premium income of Rs.188,760,482 of the year 2015, 33 per cent had been received from an exporter and 72 per cent of the remaining balance had been received from 23 exporters. Accordingly, it was observed that the existence of the Corporation was depending upon several exporters and as such, it is appropriate to develop a proper plan for the recognition of new exporters for ensuring going concern of the Corporation and enhancing its productivity.
- (e) Although a provision amounting to Rs.6,850,000 had been made by the Budget under 07 titles during the year under review for the institutional capacity development, activities for which provision of Rs. 5,850,000 made had not been carried out during the year under review and only one programme (Commonwealth Capacity Building Programme) had been implemented.

## 4.2 Management Activities

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The following observations are made

- (a) In the recovery of premium relating to the insurance policies, if the exporter pays the insurance premiums within 07 days, he is entitled to a 5 per cent discount. Nevertheless, two exporters who had not paid their premium as indicated above had been deducted a sum of Rs.345,756 as discounts.
- (b) While a sum of Rs.2,878,127 had been paid to an exporter as a claim on 14 August 2015, premiums in respect of the exports carried out subsequently by the same exporter had been recovered by deducting a sum of Rs.93,227 as “No Claim Bonus”.
- (c) When insuring risks of the exporters who export goods on credit basis, it was the practice of the institution to obtain and evaluate a status assurance report of the foreign buyers. Nevertheless, as a result of lapses occurred in the evaluation, payment of claims had increased by 87 per cent in the year 2015 as compared with the year 2014.

It was observed in audit test check that due to the errors occurred in the evaluation, claims had to be paid in the following instances.

- I. In respect of a foreign buyer who had commenced business activities in the year 2014 with an authorized capital of Rs.4,000,000, a credit limit of Rs.13,000,000 had been granted to two exporters. As the buyer had not paid money for the exports carried out by the above two exporters in the year 2014, the Corporation had to pay a claim of Rs.5,040,920 in the year 2015.
  - II. While the financial viability, liquidity, fixed assets and rate of depreciation of a foreign buyer remained unfavourable level, those had not been subjected to evaluation and as a result, provision for claim amounting to Rs.867,462 had been made in the year 2015.
  - III. Despite an unfavourable financial position regarding a foreign buyer being stated in the Status Assurance Report, the credit limit had been determined regardless of that matter. As such, a claim of Rs.1,267,563 had to be paid.
  - IV. Although there was an increase in the long term credits by 147 per cent within a short period of three years as reported in the Status Assurance Report relating to the foreign buyers, the Corporation had not paid attention on that matter and thereafter, the buyer had become insolvent and as such claim of Rs.10,079,299 had been provided to an exporter.
- (d) The insurance premium income of the Corporation is computed based on a table approved up on the invoice value of the goods. According to that table, although the rates of the premium had been set out so as to enable the payments to be made within a period from 01 day to 180 days, credit period up to 360 days had been granted to six foreign buyers of one exporter.

#### **4.3 Identified Losses**

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Notwithstanding the submission of an acceptable medical certificate for special sick leave in accordance with Section 9 of Chapter XII of the Establishments Code, it had not been accepted. As a result, the Labour Tribunal had given order to pay an indemnity of Rs.507,603 to an officer of the Corporation.

#### **4.4 Personnel Administration**

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The following observations are made.

- (a) Without a formal approval, 11 officers had been recruited to the post of Assistant Manager, which was not included in the approved cadre and a sum of Rs.6,346,451 had been paid as salaries and allowances during the year under review.
- (b) Since the scheme of recruitment and procedures of promotions had not been formulated as required by Section 9.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, there was no procedure to grant promotions to the officers who had the service experience of 15 years to 25 years.

- (c) As the post of Deputy General Manager (Human Resources and Administration) had fallen vacant since 18 March 2012, it had been an impediment to carry out personnel management of the Corporation at an optimum level.
- (d) Without making permanent recruitments for 3 vacant posts since the year 2009, acting appointments had been granted in that respect and acting allowances of Rs.378,817 had been paid from January to October 2015.
- (e) In terms of the Management Services Circular No.30 dated 22 September 2006, although the approval of the Department of Management Services should be obtained for the institutional restructuring, contrary to that, employees' salary had been revised with effect from 01 May 2014.
- (f) Without being considered a minimum salary scale specified in the Public Administration Circular No.06/2006 and Management Services Circular No.30 (1) dated 01 June 2009, a salary scale had been determined and payments had been made for the posts equal to the level of the post of Management Assistant of the Corporation.

## **5. Accountability and Good Governance**

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### **5.1 Corporate Plan**

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An updated Corporate Plan approved by the Board of Directors had not been prepared in terms of Section 5.1.3 of the Public Enterprises Circular No.PED/12 dated 02 June 2003.

### **5.2 Action Plan**

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When comparing the expected number and the actual number in relation to the issuance of insurance policies and guarantees by the Corporation in the year 2015 with that of the preceding year, the issuance of entire insurance policies had declined by a range from 12 per cent to 46 per cent and it had declined by a range from 41 per cent to 68 per cent in the current year.

### **5.3 Internal Audit**

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A post of Internal Auditor had not been got approved from the Department of Management Services up to 31 December 2015 and a private audit firm had been appointed for the internal audit activities of the Corporation on 10 February 2012.

### **5.4 Procurement Plan**

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Although a provision amounting to Rs.42,800,000 had been made for the purchase of fixed assets for the year under review, a Procurement Plan had not been prepared therefor.

## 5.5 Budgetary Control

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Significant variances ranging from 16 per cent to 100 per cent were observed between the budgeted and actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

## 6. Systems and Controls

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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.

### Area of System and Control

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### Observations

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| (a) Evaluation process of the foreign buyers | Failure to pay an adequate attention on the evaluation of Status Assurance Reports |
| (b) Personnel Management                     | Improper recruitment and promotion of employees.                                   |
| (c) Control of Operations                    | Failure to reach the targets in the Action Plan                                    |