

Sri Lanka Export Credit Insurance Corporation – 2016

The audit of financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 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. 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 2016 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-compliance with Laws, Rules, Regulations and Management Decisions

The following instance of non-compliance were observed.

Reference to Laws, Rules, Regulations	Non-compliance
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka, Financial Regulation 571	Action in terms of financial regulations had not been taken in respect of balances of Rs.336,500 included in the refundable deposit balance remained since the year 2011 and 2012.
(b) Section 24 of Public Finance Circular No.PF/PE/6 dated 31 January 2000 and paragraph 2 of the Public Enterprises Circular No.03/2016 dated 29 April 2016.	Instead of remitting the PAYE Tax recovered from the employees of the Corporation and payable by them, a sum of Rs.879,809 had been paid out of the Corporation Fund for the year under review. Although this matter had been indicated by the Audit Reports in the previous years, no action had been taken in that respect.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial results for the year under review had been a surplus of Rs.141,111,575 as compared with the surplus of Rs.174,076,131 for the preceding year, thus observing a deterioration of Rs.32,964,556 in the financial results of the year under review as compared with the preceding year. Decrease of operating income, including the insurance premium revenue by Rs.31,958,052 had mainly attributed to this deterioration.

In analyzing the financial results for the year under review and 4 preceding years, the surplus of the year 2012 amounting to Rs.145,304,938 had increased to Rs.156,111,575 in the year under review with fluctuations. However, in re-adjusting the employee remuneration, taxes paid to the Government and depreciation on non-current assets to the financial results the contribution of the Corporation in the year 2013 had improved by 18 per cent as compared with the year 2012. Although a 20 per cent improvement in the year 2015 had indicated as compared with year 2014, it had become a deterioration of 12 per cent in the year 2016 as compared with the year 2015.

4. Operating Review

4.1 Performance

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 give financial assistance and to provide re-finance facilities for loan facilities granted by financial institutions to persons in connection with goods exported from Sri Lanka or for the due performance of any service to be rendered to such persons within or outside Sri Lanka.
- (c) To provide guarantees to exporters against losses that may be sustained in undertaking market survey, policies and any other promotional measures in foreign countries and to undertake market studies abroad for promotion of exports and to conduct seminars and courses on various aspects.
- (d) To act as agent of the Government on its own account to provide insurance and guarantees undertake such responsibilities and discharge such functions as are considered by Government as necessary in the National interest, to help exporters to diversity and expand exports, find new markets and sell their goods abroad and to discharge such other functions as the Corporation may consider necessary for the achievement of any of its objects.

The following observations are made in the achievement of the above objectives.

- (a) In comparing the number of insurance policies and guarantees expected to be issued according to the Action Plan and actuals during the year 2016, by the Corporation with the preceding year figures the issue of all insurance policies had decreased in the year 2015 ranging from 41 per cent to 68 per cent and it ranged from 53 per cent to 97 per cent in the year under review.
- (b) Although 29 years had elapsed after commencement of the Corporation, the preparation of a manual in respect of the payment of compensation for insurance policies and guarantees which is a main operating activity and more useful for the institutional capacity development had been failed even in the year under review.

- (c) The ascertainment of technical assistance from the international community to train the staff of the Corporation on the issue of Export Credit Guarantee Insurance Corporation Policies (ECGC) stated in the Action Plan as a most required function in order to improve the international relationship for the betterment of the Corporation had not been achieved even in the year under review.
- (d) A sum of Rs.157,447,332 had been received as the total insurance premium income in the year 2016 from 120 exporters out of which a sum of Rs.121,908,362 or 77 per cent thereof had been received from 21 Exporters. Of the total premiums, a sum of Rs.35,205,311 or 22 per cent had been received from one exporter. The income of Rs.62,984,389 received from that exporter in the previous year had decreased by Rs.27,779,078 or 11 per cent in the year under review. As such, it is observed that the propagation and regularization of the awareness of exporters in order to improve the productivity and the existence of the Corporation is topical.
- (e) A provision of Rs.225,000 at Rs.75,000 per year had been made only for the years from 2012 to 2014 for the printing of annual report issued by the Marketing Division. Even though this report, made available to stakeholders such as clients of the Corporation, financial institutions and local and foreign interested parties should be issued with updated information meaningfully and periodically for the users, reports up to the year 2016 had not been printed and no provision had also been made since the year 2015 therefor.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) Without paying attention on the matters stated in the quality reports of a foreign buyer, a credit limit of Rs.12.5 million had been approved for 2 exporters amounting to Rs.6 million and Rs.6.5 million with effect from 24 April 2015 and 24 June 2015 respectively for exports made to a sole trading entity, established recently with a capital of Euro 116,000 (Rs.17 million) and 2 employees. As that foreign buyer had evaded the payment for the first export of one exporter and the first and the second export of the next exporter, compensations totalling Rs.8,686,319, comprising a sums of Rs.3,704,335 and Rs.4,981,984 had been paid respectively.
- (b) The capital of a buyer of goods in a newly formed British business enterprise had been only £ 1000 sterling (about Rs.200,000) and the number of employees had been limited to 4 Disregarding the adverse position stated in the quality reports in respect of the buyer, a credit limit of Rs.15,000,000 had been granted. A compensation of Rs.9,504,000 had to be paid by the Corporation as the buyer had defaulted the payment for the first export of the Exporter.

- (c) On the decision of Board of Directors No.7/88 dated 19 September 1988, the existed medical benefit scheme available for the betterment of the Corporation had been revised and the approval of the Ministry had not been obtained therefor even up to now. Furthermore, information regarding the outset and under which approval this Scheme was initiated was not available in the relevant file. Only sums of Rs.30 to Rs.80 had been recovered monthly from the salaries of the employees and the recommendation and approval had been given by a committee consisting of three officers of the Corporation in the reimbursement of medical bills under this scheme. A sum of Rs.2,650,729 had been paid to 38 employees of the Corporation during the year under review under this Scheme.

4.3 Personnel Administration

The following observations are made.

- (a) As a Scheme of recruitments and promotion had not been introduced in terms of Public Enterprises Circular No.PED/12 OF 02 June 2003, there was no system of promoting the staff for the higher posts who had more than 15 years' service experience and qualifications.
- (b) Acting appointments had been given to two officers who held the post of Deputy General Manager (operations) and Executive (Marketing) to act in the 2 posts of Deputy General Manager (Marketing) and Manager (Marketing) during the period from 2009 to December 2016 and a sum of Rs.420,547 had been paid to them for the year 2016 as acting allowances in addition to the salaries of their substantive posts. Action had not been taken to fill those vacancies.
- (c) Although a salary revision had been implemented since 01 May 2014 by obtaining the Board Approval No.08 dated 06 June 2014, the approval of the National cadre Commission had not been obtained for the Institutional Restructure, in terms of the Management Services Circular No.02/2016 dated 25 April 2016. Further, disregarding the minimum salary scale in terms of Public Administration Circular No.06/2006 (ii) dated 10 November 2006 and the Management Services Circular No.30(1) dated 01 June 2009, salary scales had been determined and paid to the posts of Management Assistants and Posts of allied grades.

5. Accountability and Good Governance

5.1 Corporate Plan

In terms of Section 5 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a Corporate Plan had not been prepared by the Corporation.

5.2 Internal Audit

The Corporation had not got the Post of an Internal Auditor approved by the Department of Management Services up to 31 December 2016 and a private audit firm had been appointed to carry out the internal audit functions of the Corporation and a sum of Rs.281,194 had been paid during the year under review to this company.

5.3 Budgetary Control

Variations between the budgeted income and expenditure and the actuals ranging from 27 per cent to 152 per cent were observed and as such the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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.

Area of System and Control

Observations

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| (a) Evaluation process of the foreign buyers | A sufficient attention had not been paid in the evaluation of quality reports and the determination of credit limits. |
| (b) Personnel Administration | Non-regularization of recruitments and promotion of employees. |
| (c) Operations Control | Not reaching the targets set in the action plan. |