

## **Sri Lanka Export Credit Insurance Corporation - 2018**

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### **1.1 Opinion**

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The audit of the financial statements of the Sri Lanka Export Credit Insurance Corporation for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Opinion**

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I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

#### **1.4 Audit Scope**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation ;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

### 1.5 Non-Compliance with Laws, Rules, Regulations and Management Decisions etc.

	<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Sri Lanka Export Credit Insurance Corporation Act No 15 of 1978 - Section 3 (1)	Board Meetings had not been held for nearly 5 months during the year 2018.	This situation was due to delaying appointments of the chairman and the board members after ending of their terms of offices. Hence the Corporation has no relevant authority, such situations are beyond the control of the Corporation.	Relevant responsible authorities should take immediate actions in this regard.
(b)	Establishment Code Paragraph 13.2 and 13.3 of Chapter II	Since the both positions of Deputy General Manager Marketing and Manager Marketing had been vacant from the year 2009 to 2018, acting arrangements had been made for 2 positions on long term basis.	According to the MSD Circular No 03/2018 dated 18 July 2018, the recruitments are not permitted to make without prior approval of the Department of Management Services and it is unable to make recruitments, since the approval requested by the letter dated 21 September 2018 has not yet received.	Actions should be taken as per the provisions of the Establishment Code and relevant Circulars.

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| (c) | Public Enterprises<br>Circular No. PED/55<br>dated 14 December<br>2010 | According to the<br>Circular, 04 Audit<br>Committee Meetings<br>should be held during the<br>year 2018, and only 02<br>meetings had been held.<br>For the year 2019, no<br>meetings had been held<br>up to the date of 30 June<br>2019.   | Even though 04 meetings<br>were planned to be held<br>during the year, it was<br>unable to hold meetings<br>due to the absence of the<br>Board.   | Authorities should<br>take actions in<br>accordance with<br>relevant provisions<br>of the Circular. |
| (d) | Public Administration<br>Circular No 02/2018<br>dated 24 January 2018  | Annual Performance<br>Agreements for<br>improving performance of<br>the staff had not been<br>signed with the whole<br>staff of the institute<br>according to the circular<br>and a suitable<br>methodology to identify<br>the gap between the<br>competencies already<br>gained relevant to the<br>assigned responsibilities<br>and the competencies to<br>be gained for the<br>performance of duties had<br>not been prepared.<br>Further, a Human<br>Resources Development<br>Plan had not been<br>prepared as unique to the<br>institute in order to<br>minimize the competency<br>gap. | Once the approval of<br>Department of<br>Management Services is<br>received, actions will be<br>taken to recruit for<br>relevant vacant<br>positions and complied<br>with the circular.       | The Corporation<br>should comply with<br>the relevant<br>Circular.                                  |
| (e) | Public Enterprises<br>Circular No. PED/12<br>dated 02 June 2003        |   |   |   |
|     | (i) Section 9.3  | A recruitment<br>procedure and a<br>promotions scheme had<br>not been prepared.   | The Human Resources<br>Manager, who had been<br>assigned the task, left the<br>Corporation and necessary<br>actions will be taken to<br>perform this task once a<br>new officer is recruited. | The Corporation<br>should comply with<br>the provisions of the<br>circular.                         |

(ii) Paragraph 6.5.3	Even though Annual Reports should be tabled in Parliament within 150 days from the end of the financial year, Annual Reports for the years of 2016 and 2017 had not been tabled up to the date of 30 June 2019.	Annual Report of the year 2016 has been submitted to the Ministry on 08 August 2018, and required documents have not been received from the Ministry up to now. Report for the year 2017 is being prepared in three languages.	The Corporation should comply with the provisions of the circular.
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## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a profit of Rs. 309,088,327 and the corresponding deficit in the preceding year amounted to Rs. 179,486,659. Therefore an improvement amounting to Rs. 488,574,986 of the financial result was observed. The reason for the improvement is reducing the expenditure by 74 per cent as compared with the preceding year.

### 2.2 Trend Analysis of major Income and Expenditure items

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As compared with the preceding year, other income had increased by Rs. 139,677,455 and it was 68 per cent. Increase of the foreign exchange gain had mainly attributed to this increase of revenue. Even though the financial expenditure had increased by Rs. 5, 454,874 or 546 per cent during the year 2018 as compared with the year 2017, the net claim expenditure had decreased by Rs.472, 182,189 or 87 per cent.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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Audit Issue -----	Management Comment -----	Recommendation -----
Although an internal system study for establishing a new Information Technology System had been planned to be completed by the end of the year 2017 as per a board decision, it had not been completed by the date of 30 June 2019.	The corporation sought the assistance from SLIIT in this regard, and since the SLLIT informed that they did not undertake such assignments, the actions were being taken to select a suitable institution following procurement guidelines as instructed by the Director Board.	Methods for assuring the accuracy of comparing the data of finance division and operational division should be established.

### 3.2 Operational Inefficiencies

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Revenue from issuing Export Payment Insurance policies was around 87 per cent of the total income of the Corporation. A contribution to total premium income provided by an exporter, who made a contribution of Rs. 58,988,550 or 28 per cent of the total premium income in the year 2017, had decreased during the year 2018. Furthermore, 19 exporters had made a contribution of Rs. 142,666,310 or 69 percent to the total premium income. However, the Corporation had not implemented a regular programme required for propagation and regularization of the awareness of such exporters in order to improve the productivity and the existence of the Corporation.	The reasons for dropping the income from the above mentioned exporter in 2018 compared to 2017 are completely beyond the control of the Corporation. A general decrease in tea exports during the year 2018 and revision of the terms of payment by the exporter had caused for this.	Suitable steps required to solve the reasons affected to drop the income should be taken.

### 3.3 Human Resources Management

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#### 4. Accountability and Good Governance

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##### 4.1 Submission of Financial Statements

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###### Audit Issue

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Even though the financial statements should be submitted to the Auditor General within 60 days from the end of the financial year in terms of Paragraph 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, financial statements had been submitted to the audit on 10 May 2019.

###### Management Comment

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Due to the absences of the Board the financial statements signed by the Chairman and Managing Director were submitted on 28 February 2019.

After the appointment of the Board of Directors, the financial statements approved by the Board have been submitted with all the necessary schedules and other documents on 10 May 2019.

###### Recommendation

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Actions should be taken according to the Circular.

##### 4.2 Corporate Plan

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###### Audit Issue

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In terms of Section 5.1 of the Public Enterprises circular No. PED/12 dated 02 June 2003, a corporate plan had not been prepared relevant to the year under review, and the last corporate plan had been prepared for the year 2010.

###### Management Comment

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The provisions have been made for preparation of the corporate plan for 3 years commencing from 2019 to 2021 in the budget 2019 which was approved in May 2019. Accordingly, actions will be taken to prepare the corporate plan during the year 2019.

###### Recommendation

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Action should be taken according to the Circular.

##### 4.3 Annual Action Plan

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###### Audit Issue

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- (i) The functions of the Corporation as per the Section 5 of the Sri Lanka Export Credit Insurance Corporation Act No. 15 of 1978 had not been done.

###### Management Comment

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Hence the Sri Lanka Export Development Board has been established to perform those functions efficiently as a specialized and resourced

###### Recommendation

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Attention should be made for achieving the establishing objectives of the Corporation.

export development body, the involvement of the Sri Lanka Export Credit Insurance Corporation in same activities will lead to uneconomical use of resources.

(ii) Ten activities planned in the action plan for the year under review, had not been implemented.

- Product development and modification - This is practiced on a daily basis as the Corporation strived to meet the ever changing needs of the exporters.
- Development of the Organizational structure and job descriptions - This will be commenced immediately upon the recruitments for the vacant positions.
- Focus group meetings - Meetings were unable to be held due to the difficulty in gathering the exporters.
- Awareness programmes - It was unable to hold due to coordination problems.
- CPA Hoardings - Due to the cost escalations, it led to the abandonment of the Project.
- Preparation of the Claims Manual - Completed and the Board approval is yet to be received.
- Product Manuals for Pre/Post shipments - Not undertaken as yet.
- Reinsurance - Due to the absence of a Chairman and a Board, the

The Management should take actions to achieve the targets set in the annual action plan in their best.



approval process was not taken place during the year 2018.

(iii) Even though 12 meetings for gem and jewelers, and 48 awareness programmes for migrant workers registered in Foreign Employment Bureau had been scheduled to be held during the year 2018, only one and five programmes had been held during the year 2018 respectively.

Due to the absence and change of the Chairman during the year 2018 and the coordination issues, it was unable to attend the meetings as scheduled. However, the Corporation has attended several meetings in 2019.

The Management should take actions to achieve the targets set in the annual action plan in their best.

#### 4.4 Internal Audit

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##### Audit Issue

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Actions had not been taken to obtain the approval for a post of Internal Auditor within the approved carder, and the internal audit had been done by a private audit firm. However, the internal audit reports for the period from October 2018 to December 2018 had not been submitted up to the date of 30 June 2019.

##### Management Comment

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As the Corporation concerns about the cost and benefits, the internal audit function has been outsourced for a professionally qualified Company at a low cost and a separate internal audit unit has not been established. Internal Audit reports up to September 2018 have been submitted.

##### Recommendation

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According to the Audit Act, an Internal Audit unit should be established and internal audit reports should be submitted without any delay.

#### 4.5 Budgetary Control

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##### Audit Issue

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Variations between the budgeted income and expenditure and the actuals of 34 items ranging from 30 per cent to 100 per cent were observed and as such the budget had not been made use of as an effective instrument of Management control.

##### Management Comment

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The international trade was severely affected by the world economic crisis particularly in 2018. This situation affected the Corporation, and was compelled to take stern decisions than the decisions taken under general situation. As the Corporation does not depend on the General Treasury for funds,

##### Recommendation

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Budget should be prepared accurately as much as possible.

certain marketing expenses have not been incurred due to the non-suitability of prevailed market conditions.

#### 4.6 Sustainable Development Goals

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##### Audit Issue

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Every public institution should act in compliance with the letter No. NP/SP/SDG/17 dated 14 August 2017 issued by the Secretary to the Ministry of National Policies and Economic Affairs and the United Nations Sustainable Development Agenda for the year 2030. With respect to the year under review, the Sri Lanka Export Credit Insurance Corporation had not been aware as to how to take measures relating to the activities under purview of their scope. Therefore, actions had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets and the indicators for evaluating the achievement of such targets.

##### Management Comment

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The overall objectives of the Corporation are in line with the sustainable economic development of the country. However, actions will be taken to recognize the specific sustainable development goals relevant to the Corporation, and to plan targets along with the milestones.

##### Recommendation

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Every public institution should comply with the United Nations Sustainable Development Agenda for the year 2030.