

## **Sri Lanka Export Credit Insurance Corporation - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified 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 2021 comprising the statement of financial position as at 31 December 2021 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, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2021, 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 Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified 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**

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 Corporation'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 Corporation'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 Corporation 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 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements.**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-Compliance with Sri Lanka Accounting Standards**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) According to paragraph 33 of Sri Lanka Accounting Standard on Statement of Cash Flows, (LKAS 07) the Corporation had not accounted the Interest Income of Rs.208, 974,660 and the Interest Received Balance -of Rs.205,958,376 in the cash flow statement.	Measures will be taken to rectify the presentation error.	Financial Statements should be prepared in accordance with Sri Lanka Accounting Standards.
(b) Contrary to paragraph 41 of Sri Lanka Accounting Standard on Accounting Policies, Changes in Accounting Estimates and Errors, (LKAS 08) a Value Added Tax amounting to Rs. 5,032,450 related to the year 2017 had been identified as an expense for the year under review.	The VAT for 2017 arose due to a genuine error in the recognition of liable income and was not intentional.	Financial Statements should be prepared in accordance with Sri Lanka Accounting Standards.
(c) According to paragraph 39 of Sri Lanka Accounting Standard on Property, Plant and Equipment, (LKAS 16) the Corporation had not recognized the re-valued surplus of Rs.21, 660,000 on Motor Vehicles.	However all other accounting treatments regarding the Revaluation have been complied with keeping in line with the standard.	Financial Statements should be prepared in accordance with Sri Lanka Accounting Standards.

(d) According to the paragraph 4.1.2 of Sri Lanka Financial Reporting Standard on Financial Instruments (SLFRS 09), two financial assets amounting to Rs. 18,207,464 had not been measured at amortized cost. The Treasury bills & bonds for 2021 were shown at their actual values in the financial statements but will be adjusted in future to keep in line with the reporting standard. Standards. Financial Statements should be prepared in accordance with Sri Lanka Accounting Standards.

### 1.5.3 Documentary Evidences not made available for Audit

Item	Amount	Evidence not made available	Management Comment	Recommendation
	<b>Rs</b>			
Gratuity Provision	14,328,995	Accurate actuarial assumptions to the actuary to calculate correct value of the Gratuity Provision.	The Corporation hopes to carry out annual actuarial valuation for Gratuity in the future.	The Corporation should submit the accurate actuarial assumptions.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

Audit Issue	Management Comment	Recommendation
An excess amount of Rs. 2,053,944 had remained in premium advance for more than one year without settling. Out of this balance; Rs. 1,020,003 had remained for more than 5 years.	These balances are not cleared from our books due to the fact that although the customer is not active in our records they are in operation and have not requested for the payments, if they request for any policies, these balances could be utilized against their premium payments and regularized.	Prompt actions should be taken to settle the balances.

### 1.6.2 Advances

Audit Issue	Management Comment	Recommendation
Advances of export bill discounting facility amounted to Rs.34, 958,636 had	The total amount of Rs. 34,958,636 has been provided as a provision for bad debts but the Corporation maintains this amount in the	Prompt actions should be taken to recover outstanding

remained for more than 10 years. balance sheet without completely being written off for the reason that at least the outstanding recoverable amount remains in records for future reference to use in case some recovery opportunity triggers from these defaulted accounts. However provision has been made in full in this regard. balances.

**1.7 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) Section 9.3.1 (vi), (vii) & (viii) of the Public Enterprises Circular No. PED 12/2003 of 02 June 2003.	Even though the vacant posts should not be filled with acting posts for indefinite periods, the Corporation had given acting position for Marketing Manager from 2009 to date, and Rs. 1,164,100 had been paid as an acting allowance up to 31 December 2021.	The Corporation has made this acting arrangement with the approval of the Board to ensure an uninterrupted customer service to those clients who had been serviced by the vacant position. However with the regularization of the entire HR function of the Corporation with the assistance of a consultant as planned, the Corporation will take measures to fill all the necessary vacancies in 2022.	The Corporation should comply with the Circular.
(b) Paragraph No. 4.2 .1 (a) & (b) of the Government Procurement Guideline 2006.	Every procurement entity should have to prepare a Master Procurement Plan which including at least three years expected procurement activities shall be listed in. However the Corporation had not prepared a Master Procurement Plan	The Corporation hopes to comply with this requirement in the future.	The Corporation should comply with the Procurement guideline.
(c) Section10 of the Chapter VIII of the	The minimum 08 hours of work is compulsory	The Corporation’s general administration is carried out	Corporation Should comply with the

<p>Establishment Code of the Democratic Socialist Republic of Sri Lanka</p>	<p>for the entitlement of the holiday pay for executive officers. However, the Corporation had paid Rs.233, 849 to 07 officers, who had worked less than 8 hours (per working day) as holiday pay during the year 2021</p>	<p>in terms of the Internal Administrative Circulars issued from time to time with the approval of the Board in line with its Act. The Corporation follows the conditions and guidelines of the Establishment Code only under the circumstances where the Corporation does not have any internal administrative circular to govern any particular matter. Accordingly, the Corporation follows the Administrative Circular No 5 dated 12.08.1994 in regard to payment for working on holidays which was approved by its then line Ministry of Trade &amp; Commerce by their letter dated 02.07.1991.</p>	<p>Establishment Code.</p>
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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. 248,667,973 and the corresponding profit in the preceding year amounted to Rs. 223,348,932. Therefore an improvement amounting to Rs.25, 319, 041 of the financial result was observed. The reasons for the improvement are increase in the gross written premium income and increase in the other income.

**3. Operational Review**  
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**3.1 Management Inefficiencies**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
<p>The Corporation had planned 08 Product awareness on CPA for Grama Niladaries &amp; Divisional Secretariat officers (Physically or via Webinar) under “Achieving Sustainable Development Goals (Poverty Alleviation)” for the first three quarters. But the Corporation had not been</p>	<p>The product awareness programs on CPA for Grama Niladaries &amp; Divisional Secretariat officers too could not be conducted as they could not be facilitated due to the Covid pandemic situation that prevailed in the country.</p>	<p>The awareness programmes should be compatible with the action plan.</p>

conducted any programmes under this activity.

### 3.2 Operational Inefficiencies

#### Audit Issue

The following objectives had not been achieved according to SLECIC Act.

- To provide guarantees to exporters against losses that may be sustained in undertaking market surveys, publicity and any other promotional measures in foreign countries.
- To undertake market studies abroad for promotion of exports from Sri Lanka and to conduct seminars and courses on various aspects of export promotion to collect and disseminate information marketing possibilities and procedure.
- To help exporters to diversify and expand exports, find new markets in sell their goods abroad on competitive terms of payments.

#### Management Comment

In 1978 when this Corporation was established, it was the only organization that was meant to deal with export development and promotion of the country. However, with the establishment of Sri Lanka Export Development Board (EDB) in 1979 by Act No. 40 of 1979, the functions of export development and promotion were assigned to EDB with the required resources enabling them to specialize in that field. As a result, some objectives of SLECIC overlap with that of EDB. Therefore, while SLECIC mainly concentrates on Export Credit Insurance Activities with its limited personnel and other resources, the EDB, the specialized body for export promotion, carries out the other export promotional activities necessary to boost the exports of the country. Therefore the promotional activities do not need to be duplicated by both organizations.

#### Recommendation

Should work in accordance with the SLECIC Act.

### 3.3 Human Resources Management

#### Audit Issue

(a) The cadre of the Corporation had been approved for 37 posts with 56 vacancies but there were 27 number of vacancies related to 36

#### Management Comment

Not Responded

#### Recommendation

The vacancies should be filled appropriately.

posts as at 31 December 2021.

- (b) 08 positions had been filled in addition to the approved cadre as at 31 December 2021. The Corporation made many request in writing and had extensive discussions regarding the approval of the revised cadre positions with the Management Services Department in 2018, 2019, & 2020. The Corporation hopes to finalize the revised cadre by 2022 in order to resolve this matter. Further the Board has decided to regularize of the entire HR function of the Corporation with the assistance of a consultant in order to resolve all the matters. Action should be taken to approved the revised cadre.
- (c) An employee of the Corporation was interdicted and paid half a month's salary amounting to Rs. 19,480 since May 2012 to date, and the total payment made as salary to the above mentioned employee up to 31 December 2021, was Rs.2,240,200. Actions had not been taken to speed up the disciplinary action process of the above mentioned interdicted employee, by the end of the year under review. The last summoned date regarding this matter had been in 2018, and no further progress had been made as at 31 December 2021. The inquiry in regard to this employee is yet to be completed therefore the half months salary has been paid continuously. This matter was discussed at the Board Meeting held on 03.05.2021 but no further action could be taken, but an inquiry officer has been contacted recently in this regard and the Corporation is awaiting his response. Action should be taken to speed up the disciplinary action procedure.

#### **4. Accountability and Good Governance**

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##### **4.1 Internal Audit**

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<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) According to Section 3.7.5 of the Public Enterprises Circular No. PED 12/2003 of 02 June 2003, the Internal Audit Manager is responsible for review systems and procedures, to ensure that the operations are carried out in a true and	The Corporation is expected to operate as a commercially viable venture and also requires to build up its own "Fund" to meet the liabilities. The Corporation has so far felt that it is economically beneficial to outsource a specialized internal audit service provided by a professional team. Therefore, the option of having a separate internal audit	The Corporation should adhere to the Management Audit Circular No. DMA/01-2019 dated 12 January 2019.



fair manner, thus there is no Internal Auditor position made in the approved cadre of the Corporation. However, the Corporation had outsourced the service of an Internal Audit firm to continue with the Internal Audit functions of the Corporation without entering to an agreement and provided Rs.546,480 as audit fees, but no audit reports had been issued during the year 2021.

division has not gained ground for favorable consideration as yet and the present arrangement has worked well for the institution.

When preparing its final accounts for the period 2021 the Corporation made a provision for Internal audit fees, but no payment had been made for 2021.

#### 4.2 Budgetary Control

##### Audit Issue

Even through Rs.27, 590,000 had been allocated under the current year budget for IT division, only Rs.1, 176,375 (as a percentage of 4.26%) had been spent during the year under review.

##### Management Comment

The Corporation budgeted to purchase 03 new servers together with the software and firewalls which amounted to Rs.14.9 Mn. in 2021. But approval for the purchase was only received from ICTA in June 2021 although the request had been made in 2020. As a result the cost of the items had almost doubled by that time and therefore the servers and related costs were not incurred.

A cost of Rs. 8.75 Mn. was approved for the system study and upgrading of the operating system but only a modification costing Rs.630,000/- was carried out in 2021 while the system study was not carried out due to the non-availability of adequate human resources within the organization. Further Rs.1.5 Mn. was budgeted for the new accounting system too was not utilized due to the same reasons.

All other IT related expenses were incurred based on their requirement in 2021 due to the non-availability of goods and the high costs in the market.

##### Recommendation

Action should be taken to utilize the budget efficiently.