

Sri Lanka Bureau of Foreign Employment and its Subsidiary Company - 2013

The audit of consolidated financial statements of the Sri Lanka Bureau of Foreign Employment and its Subsidiary Company for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the consolidated comprehensive statement of 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 18(3) of the Sri Lanka Bureau of Foreign Employment, Act, No.21 of 1985. My comments and observations which I consider should be published with the Annual Report of the Bureau 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 consolidated financial statements in accordance with Sri Lanka Accounting Standards and for 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 risks assessments, the auditor considers internal control relevant to the Bureau'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 Bureau'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 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.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion – Bureau

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Bureau of Foreign Employment as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Qualified Opinion – Group

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Sri Lanka Bureau of Foreign Employment and its Subsidiary Company as at 31 December 2013 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 Consolidated Financial Statements

The Cabinet of Ministers had considered the Cabinet Memorandum No. 96/1019/107/028 dated 18 April 1996 for the establishment of a Subsidiary Company with limited liabilities under the Sri Lanka Bureau of Foreign Employment at the meeting held on 29 May 1996 and approved the establishment of a Subsidiary Company with limited liabilities and a fully paid capital of Rs.5 million. Accordingly, the Sri Lanka Foreign Employment Agency (Private) Company Ltd. with Rs.5 million out of the issued share capital of Rs.5,000,040 of its total authorized capital of Rs.100 million had been established on 06 October 1996.

Any dividends out of the declared dividends of the Subsidiary Company after the year 2009 had not been received and the dividends receivable as at 31 December 2013 amounted to Rs.3,510,073.

2.2.2 Sri Lanka Accounting Standards

The following observations are made.

- (a) According to the Sri Lanka Accounting Standard No. 16, in depreciating property, plant and equipment, the effective life of assets should be estimated in advance annually and the rates of depreciation and the methods of depreciation should be changed. As the rates of depreciation had not been estimated annually, the net value of 21 motor vehicles had been shown as a very low value of Rs.500 in the books.
- (b) According to the Sri Lanka Accounting Standard No. 36, if the assets show an impairment position during a specified period, the book value and the market value of such assets should be compared and if the book value is less than the market value, such difference should be written off. But such comparison of value or adjustments had not been done.

2.2.3 Accounting Deficiencies

The sum of Rs.100 million paid in the year under review to the Samurdhi Authority for opening a fixed deposit had neither been disclosed nor shown as a receivable amount in the financial statements.

2.2.4 Unreconciled Control Accounts

According to the financial statements and the schedules furnished therewith differences in 05 assets accounts and 04 liabilities accounts amounting to Rs.850,102 and Rs.56,359,101 respectively were observed. Action had not been taken to identify the differences and settle the accounts.

2.2.5 Unexplained Differences

The following matters were observed.

- (a) The Compensation Payable Fund as shown in the financial statements amounted to Rs.2,822,502,845 whereas the assets relating to that amounted to Rs.2,678,226,189 and a difference of Rs.144,276,656 between the Fund and the assets was observed.
- (b) A difference of Rs.55,967,407 between the cash balance of Rs.189,125,330 of the Welfare Divisions maintained in the Sri Lankan Missions Abroad and the balance amounting to Rs.133,157,923 shown in the Consolidated Financial Statements was observed. The Bureau had not furnished an explanation for the difference.

2.2.6 Lack of Evidence for Audit

The following evidence had not been furnished to audit.

Item -----	Value -----	Evidence not made available -----
	Rs.	
i. Deposit for Korean Ticket Fees	134,541,914	Schedules and Registers for Confirmation
ii. Deposit for Korean Visa Fees	31,707,119	
iii. Loans granted for Korean Technical Training	4,563,693	
iv. Re - entry Korean Charges	514,888	
v. Pre – paid Licence Fees	13,551,066	
vi. Air Travel Ticket Fees Receivable	787,274	

2.3 Accounts Receivable and Payable

The following matters were observed.

- (a) Out of the Labour Contract Agreement Fees amounting to Rs.2,622,815,725 collected by the Welfare Divisions of the Foreign Missions from the year 2003 to the end of the year under review and remitted to the Bureau through the General Treasury, a sum of Rs.1,262,267,079 only had been received by the Bureau and a sum of Rs.1,360,548,646 remained receivable.
- (b) The Refundable Bid Deposits amounting to Rs.1,038,205 as at the end of the year under review shown in the financial statements included balances as amounting to Rs.583,681 older than two years. Action had not been taken to settle those balances.
- (c) Out of the Cess amounting to Rs.2,873,500 recoverable as at the end of the year under review from the Foreign Employment Agencies, a sum of Rs.368,750 relating to 120 Agencies had not been recovered even by September 2014.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Sri Lanka Bureau of Foreign Employment Act, No. 21 of 1985 Section 15	Even though the objective is the raising and development of employment opportunities outside Sri Lanka for Sri Lankans, providing specialized training and making arrangements for the security and welfare to the migrant labour and the members of their families, a sum of Rs.101,613,470 had been spent on the Talent Star Project contrary to the objectives.
(b) Payment of Gratuity Act, No. 12 of 1983 Sections 5(1) and 6(2)	Even though a gratuity should be paid to each employee leaving the service after completion of a service of 05 years, within 30 days from the date of termination of service, the payment of gratuities during the year under review to 19 officers whose services had been terminated by the Bureau had been delayed in the ranges of 75 days to 1,654 days.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

- (i) Financial Regulation 371(2)(c) Even though advances should be settled immediately after the completion of the relevant purpose, action had not been taken over a period exceeding 09 years to settle advances amounting to Rs.238,183 obtained in 18 instances.
- (ii) Financial Regulation 395(c) Even though the Bank Reconciliation of the transactions at the end of each month should be prepared before the fifteenth day of the month following, 32 Bank Reconciliation Statements relating to 15 Bank Current Accounts of the Bureau and 17 Bank Current Accounts of the Labour Welfare Divisions of the Bureau maintained in Sri Lanka Foreign Missions had been prepared and presented after delays ranging from one month to three months.
- (iii) Financial Regulation 756 Twelve Labour Welfare Divisions of the Bureau maintained in Sri Lanka Missions Abroad had not conducted Boards of Survey as at the end of the year under review and furnished reports to audit.
- (d) Public Administration Circular No. 41/90 of 10 October 1990 Paragraph 2.11 Even though fuel consumption of motor vehicles should be tested once in every 06 months, such tests had not been carried out though a sum of Rs.27,333,369 had been spent on fuel for 117 motor vehicles.
- (e) Procurement Guidelines of 25 January 2006
- (i) Section 5.4.12 Even though the particulars of payments made to cover the Value Added Tax should be brought to the notice of the Commissioner General of Inland Revenue with copy to the Auditor General on or before the fifteenth day of the month following the payments, it had not been so done.
- (ii) Section 1.2.1 The Bureau had obtained a land belonging to a Private Engineering Services Company on lease basis for 99 years and had paid an advance of Rs.20 million without the procurement entity considering the matters to

be ensured through the Procurement Procedure.

- (iii) Procurement Manual Supplement
No. 19

Even though the approval of the Secretary to the Line Ministry for the repair of motor vehicles costing over Rs.200,000 should be obtained, such approval had not been obtained in connection with 09 instances of repairs during the year under review costing Rs.4,927,672.

2.5 Transactions not supported by Adequate Authority

A post of Labour Welfare Officer for the Welfare Division of Sri Lankan Mission on Japan had not been approved and salaries amounting to Rs.5,103,405 and allowances amounting to Rs.3,483,992 had been paid in the years 2012 and 2013 for a post not approved. According to the reply of the Bureau, there are no problems for the Sri Lankan labour employed in Japan. That the officers' duty is the promotion of job opportunities in Japan for Sri Lankan labour and the salary and allowances only are paid to the officer due to the welfare work being at the minimum level.

3. Financial Review

3.1 Financial Results

The operations of the Bureau and its Subsidiary Company for the year under review had resulted in a pre-tax surplus of Rs.326,198,141 as compared with the surplus for the preceding year amounting to Rs.258,895,523, thus indicating an improvement of Rs.67,302,618 or 26 per cent in the financial result for the year under review. The improvement in the income as compared with the preceding year had been the main reason for the improvement.

3.2 Legal Actions instituted against or/ by the Bureau

Fifteen external parties had filed cases against the Bureau as at the end of the year under review and the Bureau had filed one case against an outside party.

4. Operating Review

4.1 Performance

The following matters were observed.

- (a) Training of migrant labour is being done by 11 private Training Centres in addition to 18 Regional Centres of the Bureau. It was observed that an adequate supervision and administration had not been done in relation to the training conducted and the services provided to the trainees by the private Training Centres.
- (b) According to the Action Plan for the year under review, there were 13 activities which had not been carried out at all while the performance of 25 activities had been at a weak level.

4.2 Management Inefficiencies

The following matters were observed.

- (a) An officer of the Bureau dismissed from service after conducting a formal disciplinary inquiry had been reinstated in service disregarding the disciplinary orders. The reinstatement in service had been cancelled in 12 February 2014 and a sum of Rs.152,960 had been paid as salary and allowances for the period from July 2013 to January 2014.
- (b) Even though officers of the Bureau who obtain more than 10 days of no-pay leave during a year are not entitled to bonus, contrary to that, a systems Analyst of the Bureau who had obtained no-pay leave from 24 December 2007 had been paid bonus amounting to Rs.51,875 though he had obtained 11 ½ days of no-pay leave in the year 2007. The Bureau had failed to recover the money from the officer even by 12 May 2014, the date of audit.
- (c) The penalty of Rs.866,828 recoverable from the above mentioned Systems Analyst in terms of the agreement entered into between the Bureau and the officer for the failure to fulfil the minimum period of service due to the no-pay leave obtained by the officer in several instances, had not been recovered even up to 12 May 2014.
- (d) The deposits made with the Bureau by the Agencies during the year under review and a period of 05 years for the settlement of complaints / disputes of the migrants as at the end of the year under review totalled Rs.17,465,688. Action had not been taken even by September 2014 for the settlement of the unsettled amounts of the deposits.
- (e) The Bureau had maintained a Provident Fund Scheme for the migrant Labour from the year 1989 to the year 1996 and out of the contributions paid by the migrants 60 per cent had been deposited in the Employees Trust Fund Board in the name of the migrant labour and the balance had been retained by the Bureau. The sum retained by the Bureau as at the end of the year under review amounted to Rs.6,110,128. The Provident Fund Scheme is dormant at present, and the Bureau retains the above money belonging to 1,620 migrants without being released to them.
- (f) The Bureau had not introduced a formal course of action for making payments to the migrants concerned the balance of Rs.2,822,502,845 remaining out of the money received from the United Nation Compensation Commission for the payment of compensation for the distress caused to the Sri Lankans employed in Kuwait resulting from the invasion of Kuwait by Iraq in the year 1990.
- (g) A sum of Rs.3,474,174 out of the money received during the years 2009 to 2013 from the Insurers for the payment of insurance indemnity had been shown as creditors in the financial statements without taking actions to pay the migrant workers concerned.

4.3 Operating Inefficiencies

The following matters were observed.

- (a) Even though a sum of Rs.1,210,968 deposited by the Bureau had been shown as a receivable in the financial statements, no follow-up action whatsoever had been taken for the recovery of that amount.
- (b) According to the financial statements of the Sri Lanka Foreign Employment Agency, out of the death compensation amounting to Rs.9,813,000 payable concerning 32 migrants, money for the payment of compensation relating to 11 migrants amounting to Rs.3,465,000 had been received. Even though a period of one year had elapsed by 12 September 2014, the date of audit, the Bureau had not taken action to release the money to the dependents.
- (c) The Register of Motor Vehicle Loans had not been updated and the following matters were observed during the course of a test check.

Motor vehicle loans amounting to Rs.1,049,000 paid to three officers had not been entered in the Register of Motor Vehicle Loans.

The loan balance of an officer amounting to Rs.372,000 had been shown as Rs.87,360 in the Register of Motor Vehicle Loans due to the failure to record the new loans granted and the installments recovered.

- (d) Action had not been taken for the recovery of festival advances, urgent, distress and motor vehicle loans amounting to Rs.5,625,164 obtained by 38 officers and the interest thereon amounting to Rs.512,009.
- (e) It was observed that advances amounting to Rs.3,184,340 had been granted to an officer in 09 instances despite the non-settlement of the previously obtained advances.

4.4 Underutilised Assets

The following observations are made.

- (a) A stock of 200 mosquito nets for 100 bunk beds had been ordered and obtained for the Tangalle Training Centre. As one mosquito net is adequate for one bunk bed and as such 100 mosquito nets valued at Rs.245,000 remained in the stores without being used, due to ordering for 100 mosquito nets exceeding the required quantity.
- (b) The Bureau had received the approval of the Cabinet of Ministers for the establishment of Training Centres by the Bureau covering all the districts. Even though a sum of Rs.57,272,816 had been spent in the years 2007 to July 2013 for the establishment of Migrant Resources Centres at Katharagama, Ratnapura, Haliela, Homagama and Dambulla, the work of those construction projects had not been completed even by the end of the year under review. As such the Centres could not be made use of for the purpose.

4.5 Identified Losses

The following matters were observed.

- (a) Action had not been taken to set off the input tax amounting to Rs.23,430,210 included in the sum of Rs.218,681,760 paid as the insurance premiums to the National Insurance Trust Fund and the Sri Lanka Foreign Employment Agency during the years 2011 and 2012, in the computation of the tax.
- (b) A sum of Rs.822,894 had not been recovered in the registration of 146 migrants by the Airport Unit during the years 2008 to 2011.
- (c) A sum of Rs.12,260 deposited in a Bank Account as registration fees in the year 2007 and remaining without being realised had been written off on a decision of the Board of Directors without conducting a formal inquiry.
- (d) The Sri Lanka Foreign Employment Agency had paid a surcharge of Rs.5,986 due to the failure to pay the contributions to the Employees Trust Fund in respect of January and April 2009, September 2010 and February 2013 on the due dates.

4.6 Resources of the Bureau given to other Government Institutions

The following matters were observed.

- (a) Three motor vehicles belonging to the Bureau and obtained on hire basis had been used by the relevant Ministry and other Government Institutions contrary to Section 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. The Bureau had paid a sum of Rs.2,229,874 in the year under review as the cost of fuel and hire charges.
- (b) Ten officers of the Bureau had been deployed in the services of the Ministry and other Institutions of the Government and sums of Rs.5,425,814 as salaries and Rs.2,527,220 had been paid during the period 2013 to June 2014.

4.7 Uneconomic Transactions

Notwithstanding the purchase of a land, one acre in extent situated in the Division of the Divisional Secretariat, Hali Ela for a sum of Rs.20 million and plans made for the construction of a Migrant Resources Centre of 06 storeys at an estimated cost of Rs.594 million, obtaining another land situated in the Division of the Divisional Secretariat, Haputale in the Badulla District on lease basis for 99 years for a sum of Rs.84 million for the construction of a Training Centre was observed as an uneconomic transaction.

4.8 Staff Administration

The particulars of the staff of the Bureau as at 31 December 2013 had been as follows.

- (a) Even though a permanent staff of 892 under 24 posts of the Bureau had been approved as at 31 December 2013, the actual permanent staff had been 821 and 71 vacancies were observed.
- (b) According to the letter No. DMS/E4/46/4/274/1 dated 06 September 2010 of the Department of Management Services granting approval for the proposal for the restructure of the staff, a staff of 892 for 24 posts had been approved for the Bureau. Instead of taking action for filling of vacancies in the approved staff as referred to above, 248, 16 and 03 persons exceeding the approved staff and the vacancies had been deployed under the contract, secondment and assignment bases respectively.
- (c) Twenty two officers had been recruited on contract basis for 09 posts not approved and a sum of Rs.9,069,532 had been paid during the year 2013 as salaries and allowances.

4.9 Utilisation of Motor Vehicles

The following matters were observed.

- (a) The requisite approval had not been obtained for the 13,632.75 litres of fuel valued at Rs.2,204,131 obtained in excess of the specified limits obtained by 18 officers during March to December 2013.
- (b) An Isuzu Trooper Jeep purchased by the Bureau on 12 November 1999 for Rs.2,075,000 had run 174,142 kilometres from November 1999 to about August 2013. The overall repair cost for that period amounted to Rs.6,682,144. As such nearly three times the value of the motor vehicle had been spent on repairs to the motor vehicle.

5. Accountability and Good Governance

5.1 Corporate Plan

Even though the Bureau had prepared a Corporate Plan for the years 2011 to 2015 compliance with paragraphs 5:1:2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, an evaluation of the progress of the achievement of targets, activities not implemented and slow moving had not been carried out and a report on future action had not been prepared. That had not been brought to the notice of the Board of Directors.

5.2 Budgetary Control

The following matters were observed.

- (a) The variances between the estimated expenditure and the actual expenditure of the Bureau ranged between 11 per cent and 629 per cent and as such the budget had not been made use of as an effective instrument of management control.
- (b) The variances between the estimated expenditure and the actual expenditure of the Employees Welfare Fund ranged between 33 per cent to 100 per cent. It was not possible to be satisfied in audit that adequate welfare activities had been done by the Fund.

5.3 Audit and Management Committees

Even though 03 meetings of Audit and Management Committees had been held, it was observed that the decisions taken had not been brought to the notice of the Board of Directors.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Bureau from time to time. Special attention is needed in respect of the following areas of systems and controls.

- (a) Accounting
- (b) Motor Vehicles Control
- (c) Income Generated and Services Supplied through Sri Lanka Foreign Missions
- (d) Activities of Foreign Employment Agencies
- (e) Utilisation of Assets