

Sri Lanka Foreign Employment Agency (Pvt) Limited – 2017

The audit of financial Statements of the Sri Lanka Foreign Employment Agency (Pvt) Limited (“Agency”) for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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. My observations on the performance of the Company of the year under review, which I consider should be tabled in Parliament in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, appear in this report.

1.2 Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board of Directors 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. 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 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 Company’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 Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Company, as well as evaluating the overall presentation of financial statements.

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 Foreign Employment Agency (Pvt) Limited as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Report on Other Legal and Regulatory Requirements

As required by Section 163(2) of the Companies Act, No. 07 of 2007, I state the followings:

- (a) The basis of opinion and scope and limitations of the audit are as stated above.
- (b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

2.3 Comments on Financial Statements

2.3.1 Sri Lanka Accounting Standards

Completely depreciated photocopy machine with a cost of Rs. 380,600 had further been utilized as the effective lifetime of property plant and equipment were not reviewed in terms of paragraph 51 of Sri Lanka Accounting Standard 16; and accordingly actions had not been taken to revise estimation error as per the Sri Lanka Accounting Standard 08.

2.3.2 Accounting Deficiencies

Cumulative depreciation amount as at 31 December 2017 with relating to vehicles at a cost of Rs. 16,683,524 and furniture at a cost of Rs. 550,491 were shown in financial statements as Rs. 17,603,895 and Rs. 625,738 respectively, hence cost of those assets had been over depreciated by Rs. 995,618.

2.4 Receivable and Payable Accounts

Following observations are made.

- (a) Though it was shown in financial statements that receivable withholding tax of Rs. 1,118,392 and receivable value add tax of Rs. 1,340,623 with relating to years from the year 2000 to 2010 should be recovered from the Department of Inland Revenue, related source documents were not available and recoveries of them were in uncertainty status.

- (b) Actions had not been taken even as at the end of the year under review to pay death compensations aggregating Rs. 6,484,111 for related parties which were received during the period from the year 2013 to the year 2016 for the Sri Lankan who died in abroad after leaving for foreign employment.
- (c) Out of the refundable deposit of Rs. 41,200,000 charged from 824 Sri Lankan migrant employees who were sent to Korea in the years 2006 / 2007, actions had not been taken to pay the amount aggregating Rs.16,460,000 for the relevant parties even as at the end of the year under review.
- (d) Remedial actions had not been taken to settle payable balance amounting to Rs. 7,728,284 and to recover debtor balances amounting to Rs. 2,938,020 remaining for a period more than one year.

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

Following non-compliances with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, and Regulations	Non-compliance
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(a) Paragraph 09.12 of Public Enterprises Circular No. PED/12 dated on 02 June 2003	Totalling Rs. 5,368,296 had been spent from Company funds during the period from the year 2011 to the year 2017 as installment amount by establishing an insurance scheme for agency staff concurrence with Sri Lanka Insurance Corporation without obtaining proper approval of Public Enterprises Department and General Treasury.
(b) Public Enterprises Circular No. PED 1/2015 dated on 25 May 2015	<ul style="list-style-type: none"> (i) Though monthly fuel allowance of the Company Chairman should be limited to 170 litres, 4176 fuel litres amounting to Rs.470,274 had been utilized during the period from May 2016 to December 2017 by exceeding that limit and also approval of Secretary of the Line Ministry had not been obtained for that extra fuel. (ii) A sum of Rs. 77,220 had been paid as fuel allowances for 03 months of the year 2017 for three Company Officers who are entitle only for group transport facilities.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Company for the year ended 31 December 2017 had been a net profit of Rs.103,278 as compared with the corresponding net profit of Rs.2,008,515 for the preceding year, thus indicating a decline of Rs. 1,905,237 in the financial result of the year under review as compared with the preceding year. Decrease in Company major income source of generating income by directing the employees into medical examination who were sent to states of Korea and Israel by Rs. 5,429,080 and though a sum of Rs. 10,693,006 had been received in previous year as commission income of medical center operated with a private Institute, loss of that income in the year under review as well as increase in payment of insurance compensation by Rs. 3,538,260 had been main reason for the above deficit.

3.2 Analytical Financial Results

Generated income through Company business activities had been decreased by Rs.17.38 million as compared with the previous year due to completely loss of 02 major revenue sources from 05 sources belonged to the Company and 25 per cent of overall revenue had been consisted with the interest generated through investment in fixed deposit. Accordingly it was observed in audit that Company has to face into financial crisis during upcoming years if it would not concentrated on new revenue generated sources by expanding its business activities.

4. Operating Review

4.1 Performance

4.1.1 Activity and Review

According to the Sri Lanka Bureau of Foreign Employment Act No. 25 of 1985, the entitlement of implementing objectives of a Foreign Employment Agency had been received to Foreign Employment Bureau. Sri Lanka Foreign Employment Agency (Pvt) Limited had been established with fully ownership of it based on that authority. According to the article of the association of the Company, it had been received a vast range of implementation ability with relating to this field including to act as a Foreign Employment Agency Institute and training of migrant labor. Further this Company is the only Public Institute that could be implemented business activities in this field. However as per the following matters it was observed that the Company had failed in maximum utilization of this strength and business opportunity even in the year under review.

- (a) According to the information of Sri Lanka Bureau of Foreign Employment, entire amount of job opportunities received to the country in the year under review were 310,786. Out of them, 427 job opportunities or 0.14 per cent had only been sent to abroad by the Company. Further it was decreased the number of job orders by 09 and number of job opportunities by 2211 received in the year under review as compared with the year 2016.

- (b) The Company had failed to recruit qualified workers for 140, 100 and 60 job opportunities received from States such as Jordan, Singapore and Bahrain respectively in the year under review. Further, out of 58 technical and professional job opportunities received from Maldives, workers had also not been recruited for 55.
- (c) Though job orders had been received from Countries like Qatar, Kuwait and Oman in the year 2016, workers had not been recruited for them and no any job orders had been received from those countries in the year under review.
- (d) Out of 806 migrants departures in the year under review; the amount departures for jobs found by the Company, other than the amount in abroad on direct and memorandum of understanding, was 44. That was a lower level as 5 per cent of the entire migrants of the Company.
- (e) Number of Countries that, workers directed employment by the Company, had been gradually being decreased from previous years; and that amount had been decreased up to 05 as at the year under review which was 13 Countries in the year 2013.
- (f) Though workers had been sent to abroad for 32 types of foreign employment in the year 2015, it was decreased up to 07 types and 10 types of employment in the years 2016 and 2017 respectively and that decrease was 78 per cent as compared with the year 2015.
- (g) One of the main objectives of the Company had been to develop foreign relationships with the view of promoting foreign employment. The Company Officers had been participated for foreign tours in 10 instances by spending a total of Rs. 6,349,683 and Rs. 2,525,249 in the years 2016 and 2017 respectively. However foreign employment opportunities had not been improved as expected. Further, out of 3,616 job opportunities mentioned so as received, only 1,213 workers had been able to be sent for employment.

4.2 Management Activities

Following observations are made.

- (a) Following observations were made with relating to the agreements engage in relation with supplying of agrarian workers to State of Israel.
 - (i) According to the agreement engaged into between State of Israel and Bureau of Foreign Employment, every necessary step should be taken by the Company to returning back into Sri Lanka after completion of relevant job period of employees who migrated through the Company. However, though 92 out of 1043 employees who were migrated during the past 04 years had not been return to the mother country after the completion of the job period, the Company had failed to returning back even as at the end of the year under review.

- (ii) According to the agreement engaged into between migrant employees and Sri Lanka Foreign Employment Agency (Pvt) Limited, the cash equivalent to the relevant bond amount should have been paid to Sri Lanka Foreign Employment Agency (Pvt) Limited by the employee and compensator at the time of failure to perform activities, liabilities and responsibilities that were engaged into. However relevant legal actions with relating to 70 out of above mentioned 92 people had been delayed 01 to 04 years of period and relevant legal actions with relating to 19 people had not been taken even as at the date of audit on 12 June 2018. Accordingly the opportunities of receiving the bond amount of Rs. 28,500,000 approximately had been lost and it was observed in audit that there would be risk of non-receiving job opportunities from State of Israel to Sri Lanka due to the breaching of contracts as mentioned above.
- (b) The revenue aggregating Rs. 6,733,143 had been generated by the Company during the year under review through providing services to migrant who were expected to be migrate for jobs found on personal contacts but without a proper approval and following proper procedure, and through entering information into database with relating to people directed to foreign employment; other than the statutory charges to be charged when implementing the main objectives in the article of association of the company.
- (c) According to the agreement entered by the Company with a Private Institute, medical center had been opened in rented building in the year 2013 and issuing of medical reports to employees leaving for jobs to Korea and Israel had been the main activity of this Institute. According to the agreement entered with the Company, though it should be required to leave the business premises by the Agency after informing to the Company about the completion of the business activity at the end of the agreement; Company had to pay a building rent approximately aggregating Rs.1,320,000 with relating to the period due to non-leaving the business premises even as at the date of the audit on 24 April 2018 hence the Company had been informed to shut down the business activities on 26 September 2016 Company had failed to get necessary legal proceedings and recover the loss occurred even as at the date of audit on 30 July 2018.
- (d) An insurance scheme named as “Relief Insurance Fund” had been implemented by Sri Lanka Foreign Employment Agency (Pvt) Limited, Sri Lanka Foreign Employment Bureau along with the Sri Lanka Insurance Corporation with a view of granting a compensation amount and reimbursement the expenditure incurred to get them return to Sri Lanka who were going abroad for employment and if they were completely, partially disable or died during the period of employment.

Accordingly the recovery period of the agreement engaged into between the Sri Lanka Insurance Corporation and the Company was 02 years and according to the agreement entered into between Sri Lanka Foreign Employment Bureau and the Company, 03 months of additional period of relief cover had been mentioned other than the 02 years insurance recovery period. This insurance scheme had been taken into the purview of Sri Lanka Foreign Employment Bureau from the month of March 2015, without taking the responsibility to compensate the damage of insured during

the cover period. Accordingly the one of main activities of the Company had been revoked. However the compensation amount aggregating Rs. 4,400,000 had been paid as compensation for that period by encasing the fixed deposit investments of the Company due to be borne the responsibility to compensate the damage of insured during the cover period.

- (e) As a result of the delay occurred due to the inability of purchasing air tickets in due date for 08 employees who were planned to be sent to State of Israel on 22 August 2017, those persons had to be redirected into medical checkup and additional amount of Rs. 121,500 had been spent for this by the Company.

4.3 Idle and Underutilized Assets

Six bank current accounts were maintained in the Company as at 31 December 2017 and out of them, only 3 accounts were active during the year. As per the bank statements, year-end balances of those current accounts were aggregating to Rs.12,599,467 and balances between Rs. 08 million and Rs. 21 million had been remained from March to December in the year under review. It was observed in audit that maintaining such dormant current accounts and keeping excess balances in current accounts were a weakness in financial management. Further 08 saving accounts were maintained in the name of the Company as at the end of the year under review and out of them, 05 accounts with balances aggregating Rs. 164,165 from the year 2014 and an account with a balance of Rs. 2,100 from the year 2016 were remained dormant.

4.4 Staff Administration

Following observations are made.

- (a) According to the paragraph 9.2 of Public Enterprises Circular No. PED /12 dated on 02 June 2003, actions had not been taken to get approval for cadre and prepare recruitment and promotion procedure in terms of paragraph 9.3.1 in enabling to achieve Company goal and objectives.
- (b) Post in higher and middle management levels were continuously being vacant during the 06 previous years subjected to sample test check, and as per the following matters it was observed that appointing officers in secondary and acting basis and keeping vacancies without filling those post had been the normal procedure and this situation had been a barrier for going concern of the Institute.
 - (i) Officers of Bureau had been appointed in acting basis in 07 instances where the post of General Manager were vacant from the year 2014, and the maximum period served by each Officer in this post had been 17 months.
 - (ii) The post of Finance Manager was vacant from April 2017 to March 2018 and an Officer had been appointed on acting basis by the date of audit on June 2018.

- (iii) The post of Business Promotion Manager was vacant from the year 2016 and though Officers in the Bureau had been appointed for that in 04 instances on acting basis, it was questionable in audit whether the responsibilities of that post would be implemented properly due to non-promoting of business activities as expected.
- (iv) An Officer of the Bureau had been appointed to the post of Human Resources Manager on acting basis from 05 September 2016 having remained vacant in 06 years.
- (v) An Officer recruited on contract basis had been appointed to the post of Cashier instead of assigning a permanent Officer.

5. Systems and Controls

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

Areas of Systems and Controls	Observations
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(a) Debtors and Creditors Control	Non recovering of arrears loan balances in long term and unsettling of dormant creditor balances.
(b) Operational Control	Non implementation of planned module to utilize the business opportunities belonging to the Company.
(c) Financial Control	Non maintaining of bank current accounts and fixed deposits with proper management in keeping maximum economic benefits towards the Company.
(d) Human Resources Management	Non recruiting qualified Officer on permanent basis and non-strengthening of human resource management.