

## **Sri Lanka Foreign Employment Agency – 2018**

---

The audit of the financial statements of Sri Lanka Foreign Employment Agency 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. 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 Company as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.2 Basis for Qualified Opinion**

---

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**

---

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 determines 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 Company'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 Company or to cease operations, or has no realistic alternative to do so.

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

As per Section 16(1) of the National Audit Act No.19 of 2018, the Company 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 Company.

#### **1.4 Auditor's Responsibility for the Audit of the Financial Statements**

---

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 in the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgement and maintain professional scepticism 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 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 organizations, 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 Company, and whether such systems, procedures, books, records, and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

**1.5 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 standards, and to maintain accountability for assets, access to 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 difference.

**1.5.2 Non- compliance with Sri Lanka Accounting Standards**  
-----

The following observations are made.

<b>Non- compliance with reference to particular Standard</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) The interest income of the year had been understated by a sum of Rs.105,483 and the foreign exchange transfer advantage had been overstated by a sum of Rs.94,781 due to not taking action to property identify the Interest and the Foreign Exchange Income relating to the Foreign Currency Bank Account and the foreign exchange income,	The interest relating to the year 2018 had been US\$718 and interest amounting to Rs.105,483 had been understated as an income on identifying only US\$59.72. Taking action to rectify these differences in the future.	The interest should be calculated relating to Foreign Currency Bank Accounts in terms of the Sri Lanka Accounting Standard 1`.

in terms of the Standard 21 of Sri Lanka Accounting Standards.

- |  |   |  |
|--|---|--|
| <p>(b) Action necessary to re-estimate the useful life of the Photocopy Machine costing Rs.380,600 and 05 Motor Vehicles costing Rs.17,761,154 that had been fully depreciated and that currently remain in use, and to rectify the accounting error occurred, due to not accurately estimating the useful life of the assets in terms of the Standard 16 of Sri Lanka Accounting Standards.</p> | <p>Rectifying the above accounting error and presenting, in the following year.</p> | <p>Action should be taken to estimate the useful life of the assets that had been fully depreciated but are currently in use in terms of Sri Lanka Accounting Standards.</p> |
|--|---|--|

### 1.5.3 Accounting Deficiencies

-----

The following observations are made.

Audit Issue -----	Management Comment -----	Recommendation -----
<p>(a) The interest income had been overstated by a sum of Rs.104,765 on stating that income as a sum of Rs.10,326,436 in the Statement of Comprehensive Income, despite the Fixed Deposit Interest Income relating to the year under review being a sum of Rs.10,221,671.</p>	<p>The relevant Fixed Deposits had been invested for the temporary renewal and the alteration of the interest percentages occur in the relevant year. The increase of the interest received occurs gradually on the addition of the interest in the maturing of this Deposit.</p>	<p>The income relating to the Accounting Period should be accurately identified on the Accounts being prepared on the accrued basis.</p>
<p>(b) The tax income relating to the year under review and the tax value payable had been understated by a sum of Rs.81,625 due to overstating the Capital Allowances and Remuneration payments by sums of Rs.30,700 and Rs.260,831 respectively in calculating the income tax value relating to the year.</p>	<p>A reply had not been furnished.</p>	<p>Action should be taken to calculate the income tax expenditure relating to the year as per the provisions of the Inland Revenue Act No.24 of 2017.</p>

## 1.6 Accounts Receivable and Payable

-----

### 1.6.1 Receivables

-----

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
-----	-----	-----
(a) Necessary action had not been taken to repay a total sum of Rs.16,215,000, that had been retained as a sum of Rs.50,000 each, before 10 years as Repayment Deposits from the workers who migrated for employment in South Korea and the visa fees totalling RS.904,322 that had been paid before 02 years from the Malaysian Clients for providing for 241 workers who had left to Malaysia, to the relevant persons.	Action is being taken to recover the receivable balances.	Necessary action should be taken to recover the money receivable expeditiously.
(b) Even though a balance amounting to Rs.1,118,392 as withholding tax receivable relating to the period 2000- 2010 and the Value Added Tax amounting to Rs.1,340,633 had been brought forward, it was observed as per the Files that the recovery of those balances remain uncertain.	Even though informing had been done to the relevant Institutions, it had not been received up to date.	The balances should be settled expeditiously on the accurate financial position of the Company is not being represented by not including those balances in the financial statements.

## 1.6.2 Payables

----- <b>Audit Issue</b> -----	----- <b>Management Comment</b> -----	----- <b>Recommendation</b> -----
(a) Action had not been taken to repay a total sum of Rs.16,215,000, a sum of Rs.50,000 each retained before 10 years from the workers migrated for employment in South Korea and the Visa Charges totalling Rs.1,904,322 that had been sent before 02 years from the Malaysian Clients for providing to 241 workers, who left to Malaysia, to the relevant persons.	Those balances remain being brought forward for the payment in the instance where those requests are being furnished.	Necessary axiom should be taken to repay these amounts, collected on repayment basis from the workers who migrated for employment, expeditiously.
(b) Action had not been taken to pay the compensation for deaths totalling Rs.8,273,415 that was received to the Agency within the period 2013-2018 for the Sri Lankans who died after leaving the country for foreign employment.	Delay in making payments to the relevant parties on not specifying the dependents and furnishing, by the Bureau.	Expeditious action should be taken to provide these compensation received for the workers who died abroad, by identifying the dependents and to provide them with the relevant money.

## 2. Financial Review

### 2.1 Financial Results

-----

The operating result of the year under review amounted to a surplus of Rs.6,648,781 and the corresponding surplus in the preceding year mounted to Rs.2,469,369. Therefore, an improvement amounting to Rs.4,179,412 of the financial result was observed. Even though the total income of the Company had decreased by a sum of Rs.7,787,156, the decrease of other administrative expenses and the medical centre expenses by sums of Rs.10,322,336 and Rs.1,892,000 had been the main reasons for the improvement of the financial result.

## 2.2 Trend Analysis of major Income and Expenditure Items

-----

Twenty- eight per cent of the total income of the Company had been the interest earned by Fixed Deposits Investments and the income earned by commercial activities had been decreased by a sum of Rs.7.46 million, as compared with the preceding year. The foreign travelling expenses, depreciation of assets and the payment of compensation of the year under review had been decreased by sums of Rs.2,525,250, Rs.3,625,911 and Rs.2,250,103 as respectively as compared with the preceding year and 72 per cent of the operational income amounting to Rs.24,460,137 or, a sum of Rs.17,536,936 had been spent for employee cost.

## 3. Operational Review

-----

### 3.1 Identified Losses

-----

The following observations are made.

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) The following losses had been incurred to the Company due to carrying out the activities on the medical centre improperly, which was initiated with a private Institution with the objective of issuing medical reports to the workers who leave to South Korea and to Israel.	It had not been able to act in accordance with Section (f) of the Lease Agreement due to the retention of the Director of the InsLab Medical Centre, who remains within the premises by force. Necessary action is being taken for handing over the relevant possession to the owner by releasing that building.	Disciplinary action should be taken relating to the relevant Officers responsible on the Company not taking action to hand over the building in terms of the Agreement despite the commercial activities being defaulted.
i. As per Section 17 of the relevant Account, vacating from the business premises should be carried out after informing the relevant private Institution, by the Company. However, even though it had been informed to that private Institution to		

default its commercial activities on 26 September 2016 due to the medical reports issued by that medical centre being rejected by those foreign states, it had not been defaulted their commercial activities and the building had also not been vacated even by the date of audit of July 2019.

- ii. The Agreements could be terminated by making a 3 months written notice or by making an early notice by making the lease advance payment for 3 months, in the instance where the lease is required to terminate the Lease Agreement, in terms of Section (f) of the Lease Agreement entered into between the owner of the building of which the above medical centre is being maintained and with the Foreign Employment Agency Company. However, instead of taking action accordingly, a fruitless expenditure totalling Rs.2,640,000 had been incurred from September 2016 to September 2017 as the rent for the building, the period of which the Lease
- That amount had been paid in 12 installments with the approval of the Board of Directors, as per the request made by the owner of the building. Any amount whatsoever had not been paid after 17.09.2017.



Agreement should be terminated.

- iii. Even though a period of 01 year and 09 months had lapsed since the termination of the Lease Agreement by the date of audit of 05 July 2019, action had not been taken to recover the advance amounting to Rs.600,000 in terms of the Agreement.
- The advance could not be recovered on the building, not being able to be handed over during the prescribed period.
- Action should be taken to recover the overpaid rent and the advance.
- (b) Even though the period of insurance coverage in the Agreement entered into between the Company and Sri Lanka Insurance Corporation relating to the Insurance Fund for the Emigrated Workers, the period of insurance coverage in the Agreement entered into between the Sri Lanka Foreign Employment Bureau and the Company had been 2 years and 03 months. An additional compensation totalling Rs.7,024,940 had to be paid within a period of 03 years including a sum of Rs.2,600,000 in the year under review due to the burden of responsibility of the reparations made to the insurers within that period of concession being incurred by the Company.
- The relevant payments had been made on the Company being responsible on the payment of compensation, as per the Agreement initialized relating to this Insurance Scheme.
- Attention had not been paid on the risk that could arise in initializing this Agreement, in the future, and on the financial loss that could be incurred to the Company by doing so. Moreover, entering into a mutual agreement relating to the above matters on the method of compensation to the members who had been insured by that date, in the instance where this Insurance Scheme is being handed over to Sri Lanka Foreign Employment Bureau. Necessary action should be taken to identify the Officers responsible to the financial loss incurred to the Company on not paying attention to the above matters and to recover the loss.

### 3.2 Management Inefficiencies

-----

The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
-----	-----	-----
(a) Even though the Company had earned the capacity to act as a foreign employment agency and to act in a broader scope relating to the field including the training of migrant workers as per the Articles of Association of the Company, its commercial activities had gradually deteriorated in the preceding few years and had been restricted only to referring workers towards foreign employment, by the end of the year under review. The Company had driven into a financial and an administrative crisis on not being able to report a considerable progress even in that commercial activity.	Action is being taken to broaden the commercial activities and to bring the Company to a profitable state.	The attention of the management should be paid towards providing expeditions solutions towards the condition of financial and administrative crisis that the Company is faced with.
(b) It was observed in studying the Reports of the Meetings that the attention of the management had not been sufficiently paid on the gradual deterioration of the financial and administrative activities of the Company has been indicated by the Audit Reports of the preceding years, despite the meetings had been held by	Action is being taken, necessary to broaden the commercial activities of the Company.	Necessary action for the continued existence of the business should be taken by paying attention to the matters indicated in the Annual Audit Reports.

the Board of Directors of the Company in 06 instances in the year 2018.

- |   |   |  |
|---|---|--|
| <p>(c) An approved, specific methodology had not been formulated for the charging of agency fees from the workers who migrate for employment engaged through direct relations and the fees had been charged in various instances in varying scales. The charging of sums of Rs.25,000, Rs.29,113 and Rs.33,261 relating to 03 employment orders that were subjected to audit test checks could be stated as examples.</p> | <p>The fees had been determined by considering the practical condition.</p> | <p>The necessary approval should be obtained by preparing a procedure suitable for the charging of fees.</p> |
|---|---|--|

### 3.3 Operational Inefficiencies

-----  
 The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) The number of orders for employment and the opportunities for employment that had been received to the Company had been gradually decreased from 17 to 08 and from 1235- 839 respectively, in the period of 02 preceding years. The total number of workers who had properly migrated through Sri Lanka Foreign Employment Bureau in the year under review had been 211, 459 and the number of workers who were emigrated for opportunities of employment made through the Company had</p>	<p>Action necessary for the growth of the business remains being taken, following a planned programme.</p>	<p>An efficient procedure should be planned and implemented to receive new opportunities of employment to the Company and to refer eligible workers for the opportunities of employment, received to the Company.</p>

been 424. It had been 0.20 per cent of the total number of emigrants. Moreover, it had not been able to refer workers for 760 opportunities of employment that were made by the Company in the year under review. Orders for employment had not been received from Qatar and from Kuwait in the year 2018 on not referring workers for employment orders received to the Company in the prior years.

- (b) Even though the responsibility of handling the return of the workers who left to Israel after the expiration of their work permits had been entrusted to Sri Lanka Foreign Employment Bureau as per the Agreement entered into with Israel relating to the referring for employment in the field of Agriculture, the Company had not been able either to return 105 workers who had remained illegally within Israel, to Sri Lanka or to take legal action against their sureties, within two years. However, the Company had taken action to charge a security amounting to Rs.100,000 in addition to the above bond from the emigrants who emigrated after returning to their motherland after the completion of their period
- Action is being taken necessary to enable the return of the workers who remain illegally in Israel, after the expiration of their work permits.
- Legal action should be taken either against the workers who did not return to Sri Lanka after migrating for employment or against the persons who initialed for the bonds on behalf of those workers. The attention of the management should be paid as to whether taking action to keeping money as security in emigrating by the workers who returned to their motherland legally after the completion of their period of employment.

of employment by being employed in Israel, by way of entering into a bind amounting to Rs.2,500,000.

### 3.4 Human Resources Management

-----  
 The following observations are made.

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
<p>(a) The Officers of the Bureau had been appointed in 10 instances by the Chairman of Sri Lanka Foreign Employment Bureau for the post of the General Manager which remains vacant from the year 2013 without the approval of the Board of Directors of either the Company or of the Bureau. Even though it had been decided to recruit a General Manager on permanent basis for this Institution in the Executive Meeting of the Committee on Public Enterprises held on 15 March 2019, an Officer of the Bureau remained being served on acting basis even by the date of audit of 03 June 2019.</p>	<p>It had been decided that the deployment of the staff of Sri Lanka Foreign Employment Bureau in service on acting basis is advantageous on the Company remaining in a financially critical condition, currently.</p>	<p>Necessary steps should be taken to recruit a General Manager on permanent basis and to fill the other vacancies, by paying attention on the recommendations made by the Committee on Public Enterprises.</p>
<p>(b) Moreover, a total sum of Rs.143,925 had been spent as the salary without any assignment of duties relating to the period that an Officer was recruited as a Business Development Consultant and was deployed in service, external to the approved</p>		

cadre of the Company.

#### 4. Accountability and Good Governance

-----

##### 4.1 Corporate Plan

-----

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A Corporate Plan had not been prepared by the Company.	Action necessary for the growth of business is being taken as per a planned programme.	A Corporate Plan with a long-term vision should be prepared for this Company that is engaged in a competitive business activity by way of paying attention to the weaknesses remaining, the business needs and also, towards the business threats and in a manner that the objectives of the Company could be achieved.

##### 4.2 Annual Action Plan

-----

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
Functions relating to 07 programmes including in the Action Plan prepared by the Company from the year 2018 could not be executed as planned, in the year.	The future plans had been prepared including the programmes that could not be implemented in this year.	The Annual Action Plan should be prepared on an authentic basis and necessary steps should be taken to timely review, including the necessary revisions and to implement the planned programmes.