

## **Sri Lanka Foreign Employment Agency Company - 2021**

### **1. Financial Statements**

#### **1.1. Qualified Opinion**

The audit of the Financial Statements of Sri Lanka Foreign Employment Agency Company 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 the Financial 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 Company as at 31 December 2021 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 judgment 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 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**

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) In accordance with paragraph 34 of the Sri Lanka Accounting Standard 16, a revaluation had not been carried out on Lands and Buildings owned by the company costed for Rs.74,370,330 since 2013 and their accurate value had not been included in the financial statements.	Assets will be revalued and submitted next year.	Action should be taken to include the accurate value of the assets in the financial statements in accordance with the Accounting Standards.
(b) As per paragraph 51 of Sri Lanka Accounting Standard 16, since the company had not been reviewed the residual value and useful life time when calculating the depreciation, the carrying value of 251 items of furniture and fittings were further in use despite being fully depreciated costed for Rs. 3,926,147 and 90 items of office equipment costed for Rs. 6,749,618 had become zero. Also, the correct value of those assets had not been disclosed in the financial statements as per paragraph 79 of the said standard.	A revaluation will be done in the next year and action will be taken to include the relevant amounts in the financial statements.	Action should be taken to include the accurate value of the assets in the financial statements in accordance with the Accounting Standards.

### 1.5.3 Accounting Deficiencies

The following observations are made.

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) An unrecognized balance of Rs. 1,341,146 had been stated under furniture, fittings and office equipment in the financial statements of the year under review.	Relevant balances will be checked in the next year and accurate information will be furnished.	Action should be taken to recognize these balances and accounted for.
(b) Although according to the financial statements, the balance receivable from the Foreign Employment Bureau was stated Rs.1,148,219, according to the financial statements of the bureau, the value was stated as Rs. 1,858,502 and a difference of Rs. 710,283 was observed.	The relevant documents have already been submitted including the data about the receivable balance from the Foreign Employment Bureau and requesting to pay the relevant balance.	According to the financial statement, the receivables should be recorded accurately and collected.
(c) As per the financial statements, balance confirmations for various creditors total balances amounting to Rs.2,797,439 as on 31 December of the year under review had not been submitted to the audit. The only one creditors' balance of Rs.477,630 was confirmed as Rs.307,900 and there was a difference of Rs.169,730 between the balances.	The relevant letters were sent to those institutions for balance confirmations requested by the audit.	Action should be taken to record the correct value of credit balances in the financial statements.

### 1.6 Accounts Receivable and Payable

#### 1.6.1 Accounts Payables

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
A total death compensation amounting to Rs. 7,090,081 which should have been paid to the employees who had died while working overseas during the period from the year 2013 to the year 2019 had not been paid and released.	The reason for the delay was the Bureau of Foreign Employment was still unable to submit of list of legal beneficiaries. The balance of the relevant compensation had been decreased to Rs. 6,690,081 by July 2022.	Immediate action should be taken to release the death compensation received on behalf of the expatriate workers on time

## 1.7 Non-compliance with laws rules, regulations, and management decisions

References to Laws, Rules, Regulations	Non-compliance	Comment of the Management	Recommendation
Section 133 of the Companies Act No. 07 of 2007	According to the provisions of the Act, the company had not been taken action to hold the annual general meeting	Annual general meetings were not held so far because the Foreign Employment Bureau holds the entire shareholding of the company. Share ownership had not been given to an external party.	The provisions in the Act should be followed up.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs. 15,326,918 and the corresponding loss in the preceding year amounted to Rs. 6,802,673. Accordingly, a deterioration amounting to Rs. 8,524,245 of the financial result was observed. Decrease in fixed deposit interest income by Rs.2,682,766 and increase in personal expenditure and other administration expenditure by RS 5,837,425 had been the main reasons for this deterioration.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Nine passports given to the company in anticipation of going overseas for employment were missing in the year 2019, but action had not been taken to conduct a formal investigation into the incident to identify responsible parties. However, based on an investigation report conducted by the Internal Audit Division of the Sri Lanka Bureau of Foreign Employment, 02 passports at a cost of Rs.30,000 including a fine of Rs.20,000 had been issued with the approval of the Board of Directors. Decision had not been taken regarding the other passports till the date of this report.	The other passport holders were informed to make passports and no one has requested so far.	Immediate actions should have been taken to prevent misuse of passports and disciplinary action should be taken against Officers who were negligent.

### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although the company had recruited a manager in 2014 for the management of the Information Technology (IT) activities, there was no innovation in that field and even though it was planned to update the agency's website at a cost of Rs.0.3 million in the year under review, the work also was not done.	The website could not be updated due to the financial situation of the company was not in a good condition. Arrangements will be made to make relevant updates as soon as the financial situation improves.	The requirement should correctly be identified and action should be taken to execute the planned activities.

### 3.3 Idle or Underutilized Property Plant and Equipment

The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A large number of items, including 06 air conditioners brought to the company after the closing of "Insilab Medical Center" in 2020 were stored in the company's garage in an unsafe manner. It was informed in reply to the audit reports of previous year that the goods were being kept for starting a training center in the agency premises. But the items were not used for any productive purpose and were stored in the garage without any protection even by the date of audit of 14 July 2022.	Informed that the relevant air conditioners are safely stored in the upstairs storage room of the Company.	Arrangements should be made to utilize this equipment.

### 3.4 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The Company had not taken action continuously to formally recruit a General Manager as per the approved recruitment procedure and the company had appointed 16 General Managers during the 26 years from its inception to the year 2021. The line ministry had appointed two officers on permanent basis only for a period of one year. 09 officers in Sri Lankan Bureau of Foreign Employment were employed as	The financial position of the company was not strength enough to provide salaries and other allowances upon the recruitment to the relevant posts and the top management of the Bureau has appointed qualified and experienced officers from the Bureau to the company, which is a subsidiary under the Bureau of Foreign Employment.	Actions should be taken to recruit qualified staff in accordance with the recruitment procedure on a permanent basis and action should be taken to continue the affairs of the company efficiently and effectively.

General Manager on the acting basis without formal procedure in 11 occasions after the year 2000. Bureau officers were also continuously appointed on acting basis to higher posts in the financial and administration departments of the company.

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

##### **4.1 Submission of Financial Statements**

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>Even though the financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, as per Section 6.5.1 of Public Enterprise Circular No. PED / 12 of 02 June 2003 and Treasury Circular No. 01/2004 of 24 February 2004, the financial statements for the year under review were submitted on 24 May 2022.</p>	<p>The financial statements were prepared by relevant date but this delay was occurred due to the inability to hold board meetings as the Covid Epidemic in the country and the Company was temporarily closed due to Covid Disease was infected while receiving board approval from the Company Secretary.</p>	<p>Arrangements should be made to submit the financial statements before the due date as per the circular provisions.</p>