

Sri Lanka Foreign Employment Agency Company -2022

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Foreign Employment Agency Company (Company) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, 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 reported 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 2022 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

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 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 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 but 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 Scope of the Audit

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 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 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 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 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 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 resources 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 Non-Compliance with Sri Lanka Accounting Standards

| Non compliance with the Reference to Particular Standard | Comment of the Management | Recommendation |
|---|--|--|
| (a) In accordance with paragraph 32 of Sri Lanka Accounting Standard 1, an entity shall not offset assets and liabilities unless required or permitted by a standard, but the receivable balance from a foreign employment company amounted to Rs.2,547,728 had been deducted from payable cash balance in the statement of Financial Position. As such, receivables and payables balances were understated by that amount. | The relevant corrections will be made and submitted in the accounting year 2023. | Financial statements should be prepared in accordance with Sri Lankan accounting standards to accurately reflect assets and liabilities. |
| (b) Deferred tax was not calculated for the year under review in accordance with Sri Lanka Accounting Standard 12 and only the deferred tax asset balance of Rs.264,653 since 2017 was shown under non-current assets in the statement of financial position. | The relevant deferred taxes will be calculated from the year 2023. | Action should be taken to calculate deferred taxes. |
| (c) According to paragraph 34 of Sri Lanka Accounting Standard 16, a revaluation was not done after the year 2013 for the land and buildings belonging to the company valued for Rs. 74,370,330 and its fair value was not included in the financial statements. | Action had been taken to hand over to an independent audit firm to identify property, plant and equipment which were further in use despite being fully depreciated which need revaluation and carry out revaluation of that properties and equipment and then measure their correct values. | Action should be taken to follow Sri Lanka Accounting Standards. |
| (d) In accordance with paragraph 51 of Sri Lanka Accounting Standard 16, due to not reviewing the residual value and useful life of its assets in calculating the annual depreciation by the company, the carrying value of 323 items of furniture, fixtures and office equipment costed for Rs.10,675,735 had been a zero value despite being further in use. As such, action had not been taken to revise the said estimated error in terms of Sri Lanka Accounting Standard 08 | | |

1.5.2 Accounting Deficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|---|--|
| (a) A sum of Rs.1,341,146 had been shown in the financial statements for a long time as unrecognized balance under furniture, fixtures and office equipment. | Action will be taken to prepare a fixed asset register with the correct revaluation values of all property, plant and equipment use by the institution and then incorrectly calculated depreciation during the year can be calculated accurately in the future. | Unrecognized balances should be identified and accounted for. |
| (b) Although according to the financial statements the balance due from the Foreign Employment Bureau was shown as Rs.2,460,744, according to the financial statements of the Bureau, the value was shown as Rs.3,019,704, and a discrepancy of Rs.558,960 was observed. | The difference between the balance as per the schedules of the Sri Lanka Foreign Employment Bureau and the balance receivable of the Sri Lanka Foreign Employment Agency will be checked and necessary action will be taken to correct the difference. | Action should be taken to record the accurate value in the financial statements. |
| (c) The balance of Rs.1,858,941 as on 31 December of the year under review remained from the provision made from the profit of the year 2013 for making payments to expatriates in distress was shown as a payable balance instead of being shown as a reserve. | The correction will be done as an allocation of the relevant money in the year 2023. | This accounting error should be corrected. |

1.6 Receivable and Payable Accounts

1.6.1 Accounts Receivables

| Audit Observation | Comments of the Management | Recommendation |
|---|---|--|
| (a) The balance of invoice receivable from foreign companies, where workers have been sent overseas, was Rs. 4,719,320 and in that balance, there was a balance of Rs. 3,772,364 which has existed for more than 5 years. | We have inquired about the issues for the recovery of this money and action will be taken to recover the related money in the future. | Action should be taken to recover the money. |

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|-----|--|--|--|
| (b) | According to an agreement made by the company with a private institute, a building was taken on rent basis to maintain the Insilab Institute and an advance of Rs. 600,000 had been paid. Even though the building had been vacated by now, it had not been possible to recover due to a pending legal case related to the building. | As there is a legal case at present, the advance amount of Rs.600,000 cannot be recovered, and will allocate the provision for the related case in the next year. | The management should work to finish the litigation without any disadvantage to the company. |
| (c) | Action had not been taken to recover the total receivable withholding tax amounting to Rs.1,118,392, value added tax amounting to Rs.1,340,623 and insurance premium amounting to Rs.211,225 since the year 2015. | The relevant tax payments have been made as scheduled and this is an error that has occurred in accounting and this will be corrected in the year 2023. Action will be taken to inform the Bureau and recover the insurance premium. | Action should be taken to settle accounts receivable balances. |

1.6.2 Accounts Payable

| Audit Observation | Comments of the Management | Recommendation |
|---|---|--|
| (a) Action had not been taken by the management to release the death compensation of Rs. 6,289,993 to the expatriate workers who died while working overseas in relation to the period from 2013 to 2019, until 30 June 2023. | The payments will be made by the Foreign Employment Bureau soon after the names of the recommended indemnities to be paid are received. | Reasons for non-payment of death compensation received on behalf of the workers should be investigated and action should be taken to release them immediately. |
| (b) The payable balance as on 31 December 2022 was Rs.82,242,065 and in that balance an amount of Rs.43,662,769 was between 5 and 15 years. The balances had not been properly identified, paid or removed from the books. | No reply was made. | Payable parties should be identified and arrangements should be made to pay or remove them from the books. |

1.6.3 Non-compliance to Laws, Rules, Regulations and Management Decisions etc.

| Reference to laws, rules, regulations | Non compliance | Comment of the Management | Recommendation |
|--|---|---|---|
| (a) National Audit Act No. 19 of 2018 dated 17 July 2018 (i) Section 40 (i) | Although the entities audited under this Act shall have its own internal auditor appointed by the Board of Directors of the entity for conducting the internal audit, no internal audit unit had been established since the inception of the Foreign Employment Agency Company. | That the activities related to conducting an internal audit are being carried out from this year. | Efforts should be made to conduct an effective internal audit. |
| (ii) Section 41(2)(g). | The governing body had not appointed an Audit and Management Committee to assist itself. | No reply was made | Audit and Management Committees should be appointed to establish proper internal control. |

2. Financial review

2.1 Financial results

The operating result of the year under review had been a profit of Rs. 37,691,612 as compared with the corresponding loss of Rs. 15,326,918 for the preceding year, thus observing an improvement of Rs. 53,018,530 in the financial result. The increase in income from recruitment of workers for expatriation, increase in income from issuance of airline tickets and interest income on fixed deposits had mainly attributed for this improvement.

2.2 Trend Analysis of major Income and Expenditure items

- (a) Due to expatriation had improved by 114 percent in the year under review compared to the year 2021, the income from recruitment of workers for expatriation in the year under review had increased by Rs. 14.69 million and it was 23 percent of the total income.
- (b) Airline tickets are issued by the foreign employment agency company, the income earned by it had increased by Rs. 52.2 million and compared to the year 2021 and it was 63 percent of the total income.

3. Operational review

3.1 Management Inefficiencies

| Audit Observation | Comments of the Management | Recommendation |
|--|--|---|
| <p>(a) The company was started with full ownership by the government and had the ability to employ Sri Lankan workers without restrictions at a relatively low cost with government security. Although 2561 and 2860 job offers were received in the years 2021 and 2022 respectively, the number of people who had gone overseas for employment was 155 and 333 respectively. It was only 04 percent and 13 percent from the job offers received and observed that the main objective of the company had not been fulfilled.</p> | <p>Due to the Corona global pandemic and the economic instability in the country, the departure for foreign employment in the years 2021 and 2022 was at a minimum level, and it has achieved a clear growth since the last quarter of the year 2022.</p> | <p>Necessary actions should be taken to achieve the objectives of the establishment of the company.</p> |
| <p>(b) Although a provision of Rs.1,905,932 was allocated for business promotion in the year under review, only a sum of Rs.393,988 was spent. Accordingly, recruitment promotion activities for foreign jobs were not done sufficiently.</p> | <p>Due to the various economic influences in the country since the year 2019, the institution also had to face a certain economic instability situation, so the large investment in business promotion activities was minimized.</p> | <p>Action should be taken to execution of activities according to the annual action plan.</p> |
| <p>(c) The company had established an air ticket issuing unit by including the issue of air tickets of migrant workers as a business activity of the company through the special resolution of the 1996 Memorandum of Article dated 28 September 2017. But action had not been taken to obtain approval for relevant positions in the approved cadre or make appointment of trained staff. Even Air Transport Services License (IATA) was also not legally obtained. As a result, expatriate workers had to pay high price for the purchase of air tickets</p> | <p>That Sri Lanka Foreign Employment Agency Pvt. Ltd. did not have officers who obtained IATA training certificate to obtain air transport service license. Accordingly, with the approval of the management of the Bureau and with the support of these officers, the relevant air ticketing agency was established on 26.01.2021. Since we have made the</p> | <p>The necessary legal background should be prepared for the company's business operations.</p> |

due to the air ticket issuing service is conduct by the agency.

company into a profitable level and have improved issuing air ticketing in the year 2023, we have started training an officer to train air tickets and obtain IATA certification.

(d) Sixteen General Managers had been appointed in the 26 years since the establishment of the company up to now without recruiting an officer on a permanent basis by calling applications for the post of General Manager of the company through external or internal channels according to the approved recruitment procedure for the company. 09 Bureau officers were employed in 11 occasions as General Managers on acting basis after the year 2000, without any formal system.

The financial situation of the institution is not strong enough to provide salaries and other allowances for the position of General Manager. That qualified and experienced officers have been appointed by the top management of the bureau to our institution, which is a subsidiary institution under the Foreign Employment Bureau.

According to the approved recruitment procedure, a qualified staff should be recruited on a permanent basis to run the affairs of the company efficiently.

3.2 Operational Inefficiencies

Audit Observation

According to the action plan prepared by the company for the year under review, a sum of Rs.2.2 million was estimated to get 49 new employment orders through 05 methods, but only 22 employment orders were obtained by spending Rs.1.2 million.

Comments of the Management

That progress will be submitted according to the action plan of the year under review.

Recommendation

The action plan should be formally revised and acted upon.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

| Audit Observation | Comments of the Management | Recommendation |
|--|---|---|
| According to Treasury Circular No. 01/2004 dated 24 February 2004 and circular No 01/2021 dated 16 November 2021, although the financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, the company had submitted the financial statements to the Auditor General on 19 May 2023, with a delay of 80 days. | Although the financial statements related to the year 2022 were finalized by 30 January 2023, the Board of Directors advised to make changes in formats in the financial statement. Accordingly, changes were made in the formats and resubmitted to the Board of Directors for approval and then furnished the financial statements. | Arrangements should be made to submit the financial statements before the due date. |