

Sri Lanka Foreign Employment Agency Company - 2020

The audit of the Financial Statements of Sri Lanka Foreign Employment Agency Company for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020 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 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.

	Non- compliance	Management Comment	Recommendation
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(a)	In accordance with paragraph 34 of 16 of the Sri Lanka Accounting Standards, company owned costs of Rs.74,370,330 property, plant and equipment were not revalued after 2013 and their exact value was not included in the financial statements	It will be revalued and submitted next year	Action should be taken to include the correct value of the assets in the financial statements in accordance with the Accounting Standards
(b)	As per paragraph 51 of Sri Lanka Accounting Standards 16, company did not review residual value and useful life when calculating the depreciation. As a result of that the carrying total value of two types of assets under further in use amounted to Rs.7,579,020 was shown as zero in the financial statements.	Will be corrected and submitted next year.	Action should be taken to include the correct value of the assets in the financial statements in accordance with the accounting standards

1.5.3 Accounting Deficiencies

The following observations are made.

Non- compliance	Management Comment	Recommendation
(a) Due to the amount of Rs. 1,992,479 interest income receivable for the reviewed year stated under the investment activities, the cash flow generated from investment activities were overstated at that amount	The amount of Rs.8,692,784 was stated as interest income on cash basis in the cash flow statements out of which only Rs.1,992,479 calculated as per the accrued basis	The cash flow statement must be properly prepared.
(b) According to the income statement, the gratuity expense was Rs.518,880 but in the cash flow statement, Rs.1,045,074 was added as gratuity expenses to the profit before tax. Accordingly, the cash flow generated from operating activities was Rs.526,194 overstated.	Will be corrected and submitted next year.	The cash flow statement must be properly prepared.
(c) The amount of Rs. 166,830 foreign exchange loss which relevant to the reviewed year was not adjusted to the loss before tax	Will be corrected and submitted next year.	The cash flow statement must be properly prepared.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

The following observation is made

Audit Observation	Management Comment	Recommendation
As per the financial statement of the Company, the amount of Rs.7,224,694 which is receivable from the Sri Lanka Bureau of Foreign Employment from 2000 to 2018, including commission was carried forward as a Receivable without recovering that Amount until December 31 of the reviewed year	This will be considered in the future and action will be taken to recover the relevant amount.	Necessary documents should be submitted properly and action should be taken to recover the amount due

1.6.2 Payables

The following observation is made.

Audit Observation	Management Comment	Recommendation
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A total sum of Rs. 7,490,081 death compensation which should pay for workers who went abroad for employment and died during the period from 2013-2019 had not been released	The reason for the delay is that the Bureau of Foreign Employment has not yet been able to submit the list of statutory beneficiaries. Payment will be made as soon as the receives the register	Immediate action should be taken to prevent the recurrence of such situations by looking into the reasons for non-payment of death compensation for workers in the long time

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

The following observations are made.

References to Laws, Rules, Regulations	Non-compliance	Management Comment	Recommendation
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(a) Section 133 of the Companies Act No. 07 of 2007	According to the provisions of the Act, the company had not taken action to hold the annual general meeting.	Annual general meetings were not held because the Foreign Employment Bureau holds the entire shareholding of the company and submit the annual financial reports to Bureau	The provisions of the Companies Act should be followed
(b) Section 6.5.1 of Public Enterprises Circular No. PED / 12 dated 02 June 2003 and Treasury Circular No. 01/2004 dated 24 February 2004	Even though the financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, Company had delayed the submission of financial statements for the year under review by 116 days until 15 July 2020	Approval for the Financial Statements was delayed due to the covid pandemic in the country	Arrangements should be made to submit financial statements on the due date.
(c) Treasury Circular No. 842 dated 19th December 1978	The company did not maintain an updated Fixed Asset Register for the cost of Rs. 83,714,143 company owned property Plant and equipment	will maintain a fixed asset register in accordance with the circular instructions	Maintain an updated fixed asset register in accordance with the circular instructions

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a deficit of Rs. 6,802,673 and the corresponding loss in the preceding year amounted to Rs.3,015,784. Accordingly, a deterioration amounting to Rs.3,786,889 of the financial result was observed. A decrease in revenue from service supply from Rs.2,687,358 and fixed deposit interest income of Rs.1,846,187 had been the main reasons for this deterioration.

2.2 Trend Analysis of Major Income and Expenditure Items

Forty Five point Seven percent 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.2,687,358 as compared with the preceding year. Out of the total operational income amounting to Rs.18,340,074, a sum of Rs.14,832,188 or 80.87 percent had been spent for employee cost.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
The company has been lost nine passports submitted who expected to go aboard for employment. In that regard, Company did not take immediate actions to inform the Police and the Department of Immigration and Migration. The company spent an idle cost of Rs.15,000 with a Rs.11,500 fine for the Preparation of one re-applied passport without taking disciplinary actions against the officials responsible for the loss of these passports. Also, no decision had been taken on the remaining missing passports	According to verbal instructions given by the top management, the investigation was carried out by the Legal and Investigation Division of the Bureau of Foreign Employment and the Internal Audit Division without making a police complaint. One passport is made with the approval of the Board of Directors. A list of 1035 passports handed over to the company and which they have not offered to take back has been submitted to the Bureau of Foreign Employment for further action.	Immediate actions should take to prevent misuse of passports and disciplinary action should be taken against negligent officers.

3.2 Operational Inefficiencies

----- Audit Observation -----	Management Comment -----	Recommendation -----
(a) The company received 1492 job opportunities under 14 valid job orders from 5 countries in 2019 and 2020, valid for two years but as of the audited date of March 30, 2021, only 20 workers were referred for jobs. Even though 481 job opportunities received under 04 job orders in the vocational and vocational training sector from the Japanese Government only 15 workers were referred. Also, the management had not acted on a strategic plan for the company's future. Accordingly, the performance of the company which is the only government-sponsored and government-secured employment agency to supply Sri Lankan workers to all sectors and to act as an employment agent was observed that in a very poor performance during the year under review as well as in previous years.	The dispatch of workers for work orders was minimal due to the global epidemic in the recent past. Also, we do not have capacity to get job orders through sub agents in foreign countries by paying commissions. After the year 2017, the officials of the company did not participate in foreign tours for job promotion activities. Management should focus on achieving the goal of starting this company by taking the advantage of this state sponsored business opportunity.	Management should focus on achieving the goal of starting this company by taking the advantage of this state sponsored business opportunity

3.3 Inactive or underutilized property plant and equipment

The following observations are made.

Audit Observation	Management Comment	Recommendation
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<p>(a) The company entered into an agreement with a private company to set up the Insilab Medical Center in 2014 by giving Rs.3,476,298 worth of office equipment but they did not handover the equipment, documented and conducted the Board of Survey as per Financial Regulation 751,753 and 756 respectively. Although the company has not used these items since 2016 and had been brought in the year 2020, at the time returning these items 48 units of 03 categories of office equipment which was not mentioned the value and Rs. 415,675 worth 02 items were shortfall. The company had not been acted as per Financial Regulations 760 and also no action had been taken to use in the office by formally documented the recalled items or to remove the disposable items.</p>	<p>Item descriptions are currently included in the Inventory Book. Board of Survey was not conducted due to legal matters in 2019-2020. We plan to use these items for the company's use. There was a shortage due to broken items.</p>	<p>Actions should be taken to utilize these products effectively and to prevent misuse.</p>
<p>(b) The company received Rs.107, 043,120 from the revenue earned during the period of operation under the agreement for the issuance of medical certificates to the private company and received only 30 percent revenue of Rs.32,112,936 for building rent, office equipment, and after maintenance costs as well as the use of the company's name and transfer of workers to the center by the bureau. Also, the medical center had to be closed due to the issuance of fake medical certificates.</p>	<p>Acted upon accordance with the agreement with the medical center</p>	<p>Disciplinary Actions should be taken to those who responsible for this because initiation and maintenance of this medical center was adverse to the company which was a result of management inefficiency and negligence</p>

- (c) Due to the aforesaid private institution not leaving the rented building within the stipulated time, the company had to appear in the case and a risk of losing the advance paid for the building
- We have informed the Attorney General about this matter in October 2017. Accordingly, the Attorney General's Department has provided necessary legal assistance for ongoing two cases.
- Management should take actions to complete the litigation in a way that does not adversely affect the company

3.4 Human Resource Management

Audit Observation	Management Comment	Recommendation
<p>The approved staff for the company was 30 and by the end of the year under review only 19 of them was employed and Permanent Employees of the Sri Lanka Bureau of Foreign Employment were appointed to the three posts of General Manager, Financial Manager, and Manager (Administration and Human Resources) on an acting basis since long time. Also, a driver was employed in excess of the approved staff</p>	<p>This is due to the fact that the financial position of the company has not been strengthened for permanent recruitment to the relevant posts and our top management has appointed qualified and experienced officers from the Bureau to the company, which is a subsidiary under the Bureau of Foreign Employment. The driver had been recruited before approving the scheme of Recruitment for 2019</p>	<p>Actions should be taken to recruit adequate staff on a permanent basis to achieve the objectives and goals of the company</p>

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Management Comment	Recommendation
<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 Company had delayed the submission of financial statements for the year under review by 116 days until 15 July 2020</p>	<p>Due to the epidemic situation in the year 2020, the financial statements could not be submitted to the Auditor General as planned.</p>	<p>Arrangements should be made to submit the financial statements before the due date as per the circular provisions.</p>