

## **Sri Lanka Foreign Employment Agency Company - 2023**

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### **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 2023 comprising the statement of financial position as at 31 December 2023 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 2023 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 skepticism 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;
- 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, assets and liabilities shall not be offset, although the receivable balance to the company which was Rs.2,726,701 had been deducted from the balance payable to other creditors, due to that receivable and payable in the statement of financial position was understated by the same amount.	The relevant correction will be made and submitted in next year.	Receivable and payable balances in the statement of financial position should be presented accurately in accordance with Sri Lankan accounting standards.
(b) In accordance with paragraph 34 of Sri Lanka Accounting Standard 16 , a revaluation is required to be made when the fair value of an asset materially differs from its carrying amount, Although land and buildings amounting Rs. 74,370,330 had not been revalued after year 2013.	As stated in the previous year, goods revaluation had been carried out as of 31.12.2023, though profit and loss of the revaluation had not been adjusted to the final accounts due inconsistency in the fixed assets classification.	Require to comply with the Sri Lankan accounting standards.

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Interest receivable on fixed deposits was Rs. 25,510,888 as per the auditor calculations, although it was accounted as Rs.26,350,281 in the financial statements which had caused to overstated the interest income and the interest receivable by Rs. 839,393 for the year.	According to the financial statements, the interest income to be received is Rs.26,350,281 and it is not clear to give an answer as those values do not match the interest income values disclosed in the audit inquiry.	Interest income and interest receivable in the year should be calculated and accounted accurately.
(b) Gratuity expense and paid amount should be Rs. 1,217,447 and Rs.864,784 respectively in the cash flow statement of the reviewed year, although that amount had been identified as Rs. 1,871,845 and Rs. 470,194 respectively. Due to this, the cash flow generated from operating activities for the reviewed year was overstated by Rs. 259,808.	Correction will be made and forward to you herewith	The cash flow statement should be prepared accurately.

(c) Investment interest income received during the year was Rs.34,775,891, although cash flow statement identified that as Rs. 53,815,263 and that had overstated the cash flow generated from investment activities by Rs.19,039,372.	Correct will be made and forward to you herewith	The cash flow statement should be prepared accurately.
(d) Withholding tax of Rs. 2,838,980 had deducted from income tax expenses in computing income tax expense of the reviewed year and that caused to increase and decrease the profit of the year and tax payable respectively in the financial statement.	Correct will be made and forward to you herewith	Income tax expenses of the year should be compute and accounted correctly.
(e) As per the Statement of financial position of the company, balance receivable from foreign employment bureau was Rs. 5,492,589, although financial statement of bureau stated the payable to the company was Rs. 4,645,285 which resulting the difference of Rs. 847,304.	The insurance premium amount of Rs.211,225 which existed from 2015 had already been collected and confirmation will be obtained relevant to the balance of Rs.11,392 and steps will be taken to remove the balance.	Balances between institutions should be identified and accounted correctly.
(g) Provision of Rs. 1,858,941 made from profit in year 2013 to make payments for the disaster-affected emigrants, and that balance reflected as payable balance instead of reserve as at 31 of December of reviewed year.	Payable balance include the sufficient provision as a percentage of the profit to arrange the payment to disaster – affected emigrants, and will forward to director board to take necessary approvals to add the balance of Rs. 1,858,941 that existed from year 2015 to the income.	Action should be taken to correct the accounting error.

## 1.6 Receivable and Payable Accounts

### 1.6.1 Accounts Receivables

Audit Observation	Comments of the Management	Recommendation
(a) Sum of Rs. 2,459,014 which existed from year 2015 relevant to Withholding tax and value added tax amounting Rs. 1,118,392 and Rs. 1,340,622 respectively had not been settled in the reviewed year.	Value added tax balance of Rs. 1,340,622 only remain.	These balances should be settled.
(b) Invoice receivable balance was Rs 6,453,985 from the foreign companies that send workers abroad and that included the outstanding balance of Rs. 3,770,670 existed for more than 05 year, although no proper action had been taken.	Necessary action are being carried out to obtain director board approval to set off the receivable and payable balances which existed more than 5 years against income and expense.	Proper and prompt action should be taken to recover those cash amounts.

## 1.6.2 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
Sum of Rs. 15,265,000 of security deposit on refundable basis had been charged from emigrant workers who departed to south Korea in year 2006, though 15 years had been spent and settlement had not been done. Further payable balances which exceed the 5 years were Rs. 4,088,891 existed in the financial statement.	Payments have been made to all personals that came to Sri Lanka after completing 3 years and confirmed it to our institute. Payments will be made continuously to the every depositor after a request	Refund entitled parties should be recognized and payment should be made.

## 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	Internal audit unit had not been established from the inception of the company.	Internal auditor was not available from the inception of the Foreign Employment Agency Company and currently internal audits are being conducted by the Ministry of Foreign Employment	Action should be taken according to the provision of the Act.
i. Section 40 (i)			
ii. Section 41(2)(g)	Audit and management Committee should have been established to assist to the board, although It was not done accordingly.	Our organization is a very small unit with only 19 people, due to that there are many practical difficulties in doing such a thing	Action to be taken according to the provision of the Act
(b) Financial regulation 384 and 384(3) of the Financial regulation code of Democratic Socialist Republic of Sri Lanka	Company had not complied in accordance with the financial regulation regarding the Receipt and issuance of the cheques.	It's expected to take necessary and corrective actions to prevent the mentioned matters in future.	Action to be taken according to the financial regulation.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit before tax of Rs. 151,154,029 and the corresponding profit in the preceding year amounted to Rs. 37,547,493. Therefore, an improvement amounting to Rs. 113,606,536 of the financial result was observed. The main reasons for the improvement are the increase of recruitment revenue, other revenue and financial income.

### 2.2 Trend Analysis of major Income and Expenditure items

Recruitment income had been grown by 827 percent compare to the year 2022 and that had caused to increase the earned income by Rs. million 166.33 which was 59 percent from total income.

## 3. Operational review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Company received foreign job vacancies of 2860 and 2303 in the years 2022 and 2023 respectively, though vacancies of 316 and 663 of those were only sent to abroad for employment. It was 4 percent and 28.7 percent of the job vacancies received respectively which was a lesser quantity.	The Foreign Employment Bureau approves a job order for a period of 02 years. Accordingly, the orders obtained in the year 2022 will be canceled in the year 2024 and the first approvals obtained in the year 2023 will remain valid until the year 2025. Then candidates are scheduled to be sent abroad relation to the approvals obtained in the year 2024.	Necessary steps should be taken to send workers abroad before the expiry of the foreign employment orders received to the company.
(b) Rs. 8,004,000 had been allocated for foreign visits to promote the foreign employment and labor market in the reviewed year. Rs.12,048,447 was spent for 6 foreign tours, though Rs.228,812 was only spent on business promotion. However, the company sent 663 people for overseas employment in year 2023, out of which 203 were job opportunities found by workers through external parties. That was 30 percent of the people who went abroad.	No comment was made.	Labor market promotion should be conducted effectively.
(c) According to the Special Proposal Convention dated on 28 <sup>th</sup> September 2017, constitutional amendment had been made to establish ticket issuance unit. Although it had spent more than 6 years and required legal framework had not been formed until 31 December 2023	Currently Two officers of had been assigned by Sri Lanka Foreign Employment Bureau which is the parent institution.	Legal framework should be arranged to conduct business activities.

### 3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Rs.1,227,000 had been spent on qualification testing to send 133 of welders to south Korea on 20th May 2023 , although spent amount had become ineffective expense due to no further action had been taken.	Basic cost of Rs. 9,225 had been incurred relevant to the practical test of the job receiver, although it was decided to charge the cost borne by company from the job receivers for the expenses of incurred for the expenses of fuel, food, overtime, stationery of officials who participated and job receivers agree to pay that amount.	Required steps should be taken to achieve the established objectives at the setting up of the company
(b) Company had made security deposit of Rs.2,000,000 with the Bureau in December 2023 to recruit the 100 workers for the Israeli construction sector, although recruitment had been suspended, company had not taken steps to redeem the deposit.	It has been decided to continue this security deposit with the expectation of opening up of the job opportunities in the private sector of the Israeli construction field which was currently open only for the public sector.	Arrangements should be made to send workers for relevant job opportunities or to redeem the deposit immediately.
(c) Company had not complied with the procurement procedure due to price quotation and invoices had been received to the personal name of the chairman to purchase of 05 stalls and name board to the mobile job fair which held on 15 and 16 of July 2023 at the Mutraveli Stadium in Jaffna. Two cheques amounting Rs. 2,180,000 had been issued for the name of the relevant program which was “Glocal Fair”, instead of the purchase supplied institute name.	Our company makes payments to the name of the company mentioned in the invoice, and a representative of the relevant company comes to collect the cheques. And cheques were issued after checking the national identity card of the representative of the institution and then affixing his signature on the voucher.	Proper investigation should be conducted regarding this transaction and reasons should be examined the reason to issue the cheque in name that other than the institution name.
(d) Air tickets 3767 had been purchased through private agencies while being able to purchase those directly from Sri Lankan Airlines for the employees who left to South Korea during the period from January 2023 to September 2023. And it had charged higher price than the company price which excess was rage at Rs. 3000 to Rs. 72,000 , due to that Rs.122,560,967 had overcharged from employees. Form this case, Foreign Employment Agency and 04 private agencies had earned a profit of Rs.27,786,521 and Rs.94,774,446 respectively.	The Deputy General Manager of the Foreign Employment Bureau engages in Departmental Procurement Committee (Final Approval) from 2023/06/16. And observation made was not correct. All these procurement had been made with the approval of the TEC and DPC. In addition to the 10 relevant institutions, price quotation had been requested from Sri Lankan Airlines, though that institute had not been responded.	Investigation should be made relevant to purchase of tickets through private agencies while the company has the ability to purchase tickets directly from Sri Lankan Airlines, and refund the overcharged amount from the workers.

- (e) According to Director board Resolution No. 51/2022 dated October 26, 2022, the company must issue tickets with a maximum profit margin in between 1 percent to 7 percent per ticket. Although tickets had been purchased through the private agencies at higher price compare to the prices of the sri Lankan airline in year 2023, due to that 5% profit earned in previous year had declined to 2.5% and that had caused to deprive the profit of Rs. 27,095,464 to the company.
- Although Private individuals can purchase tickets from Sri Lankan Air lines website, which could not be practical for large groups. And there was no special cabinet approval or circular provision to purchase only from Sri Lankan Airlines without considering the price comparison method.
- Previously company had followed a procedure of direct purchasing of air ticket through the Sri Lankan airline service company and earns 5 percent profit. Accordingly decision shall be taken in advantage 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>
According to the paragraph 6.6 of the Operational Manual of public Enterprise Circular No. 01/2021 dated 16 November 2021, financial statements should be submitted to the Auditor General within 60 days of the end of the financial year, although the company had submitted the financial statements to the Auditor General on 21 May 2023, with a delay of 80 days.	Although the financial statements had been completed by 2023/02/28, submission was delayed due to fixed assets had been given to revaluation and that report was not completed on the due date.	Financial statements should be submitted on due date as per the circular.