

Sri Lanka Bureau of Foreign Employment - 2019

1.1 Qualified Opinion

The audit of financial statements of the Sri Lanka Bureau of Foreign Employment for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 and a summary of significant accounting policies and other explanatory information 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 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 financial statements give a true and fair view of the financial position of the Bureau as at 31 December 2019, 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 Bureau's ability to continue as a going concern, disclosing matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bureau or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16 (1) of the National Audit Act, No. 19 of 2018, the Bureau 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 Bureau.

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 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 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 Bureau'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 based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bureau'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 Bureau 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 Bureau and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Bureau has complied with applicable written law, or other general or special directions issued by the governing body of the Bureau;
- Whether the Bureau has performed according to its powers, functions and duties; and
- Whether the resources of the Bureau 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 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.

Non Compliance	Comments of the Management	Recommendation
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(a) In accordance with paragraph 5.2.1 of the Sri Lanka Financial Reporting Standards 9 - Financial Performance Standards, In the subsequent evaluation of fixed deposits, that is, on the day of reporting, even if the measurement should be made on the basis of amortization value or fair value, the value of the fixed deposit valued at the cost was stated in the final accounts.	Necessary corrections will be made in accordance with the relevant standard in the preparation of the final accounts for 2020.	Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.

- (b) As per the schedules submitted for audit for financial assets maintained at amortized value such as Treasury bonds, in accordance with paragraph 5.4.2 of the above standard, interest amounted to Rs. 215,068,099 calculated under the effective interest rate should have been recognized as interest income, interest amounted to Rs. 194,238,294 calculated under the nominal interest rate had been shown as interest income. Interest income calculated under the effective interest rate dose not shown in the financial statements and it should have been shown as Rs. 215,068,099. Accordingly, correction will be done in the year 2020. Financial statements should be prepared in accordance with Sri Lanka Accounting Standards.
- (c) Differed tax revenue had been over stated by Rs.75,807,236 in the financial statements due to the reasons such as the Bureau had not apply the temporary change on written off value of intangible assets amounted to Rs. 14,475,000 to the differed tax calculation as on 31 December of the year under review, applying a tax rate of 24 percent instead of the standard tax rate of 28 percent on the last day of the financial year contrary to paragraph 47 of Sri Lanka Accounting Standards 12, and the difference between the differed tax liability calculated at the end of the year and the total differed tax liability for the financial year is not recognized in the income statement. After accounting all the income at the end of the year and then compares it with tax payments by the Bureau, which takes considerable time. If there is a difference, the refund will be made to the Inland Revenue Department and the amended report will be forwarded to the Inland Revenue Department. The relevant adjustments will be done in 2020. Differed tax should be calculated and paid in accordance with Sri Lanka Accounting Standards.

1.5.3 Accounting Deficiencies

The following observations are made.

	Audit Observation	Comments of the Management	Recommendation
(a)	Depreciation value for the year was under stated by Rs. 5,301,080 in the financial statements due to the reasons that failure to calculate depreciation in respect of 120 items of	Necessary action will be taken to correct this error in the preparation of the final accounts for the year 2020.	Depreciation calculation on assets should be done correctly.

assets valued at Rs.120,586,903 for the year under review and depreciation had not been calculated accurately of 92 asset items purchased during the year. As such, the profit for the year and the value of the property, plant and equipment were over stated by that amount in the financial statements.

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| (b) | The total sum of Rs. 3,206,875 recovered in 2017 and 2018 for the purchase of air tickets from workers migrating to Korea had been incurred for that work, but were stated in the financial statements as payable. | Action will be taken to further examine the information and make the required correct adjustment entries in the year 2020. | Action should be taken to correct this accounting error. |
| (c) | Economic service charge payable amounted to Rs. 4,148,432 for the year under review had not been accounted for. | This was not recorded in the year under review at the time of preparation of final accounts. Action will be taken to act correctly in the year 2020. | Action should be taken to correct this accounting error. |
| (d) | Due to non-adjustment of withholding tax payable of Rs. 15,312,517 on Kuwait compensation investment income, when calculating the income tax liability shown in the notes No. 15 of the Financial Statements, tax payable and pre-payments and other receivable assets were over stated by that amount. | Expect to make the relevant adjustments in 2020. | Action should be taken to correct the errors in the calculation of income tax liabilities in the next year. |
| (e) | Even though the accrued Value Added Tax was Rs. 9,614,771 at the end of the year under review, it was shown as Rs. 8,271,428 in financial statements and the accrued tax expenditure was under stated by Rs. 1,343,343 | Expect to make the relevant adjustments in 2020. | Action should be taken to correct this accounting error |
| (f) | Due to the total sum of Rs. 1,185,480 paid by the Bureau on reimbursement basis for the overseas travel of the officers of the Line Ministry was | Accounted as an expenditure of the Bureau as per the instructions given that | This expenditure should not be a burden to the Bureau as the necessary |

accounted as Business promotion expenses instead of shown as receivable expenses. As such the profit of the year was over stated by that amount.

the funds of the Bureau should be used to bear the relevant expenses.

provisions for the foreign trips of the officers of the Ministry have been allocated in the Annual Budget.

- (g) Even though the value of income tax assessed by the Inland Revenue Department for the year 2016/2017 was Rs.174,431,987, due to the fact that only Rs. 138,479,953 had been taken into account as income tax payable, the provision for income tax payable was under stated and the retained profit of the year was over stated by Rs. 35,952,034.
- Income tax assessments are being lengthy discussed with the Inland Revenue Department and expect to make the relevant provisions in the financial statements once the total tax liability is issued.
- Action should be taken to note the correct values in the preparation of financial statements.

1.5.4 Lack of Documentary Evidence for Audit

Item	Amount Rs.	Evidence not made available	Comment of the Management	Recommendation
Relevant information for the amount shown in the financial statements as receivable to the Bureau since 2018 for the purchase of air tickets in respect of workers migrated for employment.	1,702,912	Source documents and detailed schedules	Expect to examine it further and will submit information.	Action should be taken submit relevant sources to the audit with regards to the amount shown as receivable.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
Due to the total sum of Rs. 1,185,480 incurred for foreign travels for officers who participated from the Ministry during the year under review was accounted as business promotion expenditure, the	Accounted as an expenditure of the Bureau as per the instructions given that the funds of the Bureau should used to bear the relevant expenses.	Action should be taken to reimburse the relevant amount from the Ministry.

expenditure for the year was over stated by that amount. Even action had not been taken to reimburse that amount from the Ministry.

1.6.2 Payables

The following observation is made.

Audit Observation	Comments of the Management	Recommendation
<p>A payable sum of Rs. 517,702,375 retained for various reasons from the migrant workers for employment, a sum of Rs. 32,073,228 received as insurance compensation of migrant labour's, and a total sum of Rs. 327,321,606 to be settled for employment agencies was kept in the Bureau for a long time without making settlement to the relevant owners.</p>	<p>Payments will be made to the requested parties who request for payment with the correct schedules. But so far significant numbers of applications have not been submitted to the Finance Division for payment due to source documents or any other deficiencies. The payment will be made upon duly submit of relevant requests.</p>	<p>When registering for insurance, proper awareness should be given about the documents to be submitted for compensation and the method of applying for compensation. Necessary action should be taken to pay the dues expeditiously, including the insurance compensation which has not yet been paid.</p>

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following observations are made.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
<p>(a) Sri Lanka Bureau of Foreign Employment Act, (i) Section 46</p>	<p>A separate bank account had not been maintained for the transactions of the Workers Welfare Fund.</p>	<p>A current account in Bank of Ceylon is being maintained for the Labour Welfare Fund.</p>	<p>A significant discrepancy was observed between the transactions made from that bank account mentioned in the answer and</p>

the transactions in that account according to the financial statements. Therefore, action should be taken to maintain separate bank accounts in accordance with the provisions of the Act.

- (ii) Section 42(2) According to the financial statements, salaries and allowances of the staff of the Bureau and other general expenses of Rs. 1,050,341,472 had been incurred in the year under review utilizing the funds of the Labor Welfare Fund which are not directly related to its objectives and goals which was established for the welfare of Sri Lankans working outside Sri Lanka. It was 72 percent of the total expenditure of the welfare fund.
- Relevant expenses are borne by the Labour Welfare Fund as per the Cabinet Order No. 1998/783/32/017 dated 03 June 1998 and ACCOUNTINGECI R NO 01 OF 1999 issued by the Ministry of Foreign Affairs.
- The Labour Welfare Fund should be utilized to achieve the objectives and goals of its establishment.

(b) Public Finance Circular No. PF / 423 dated 22nd December 2006

- (i) Paragraph 4.2 (d) The financial information reports of the Labour Welfare Fund for the year under review had not been submitted to the
- This circular had been issued in the year 2006 but had not been acted accordingly.
- Should be acted according to the circular provisions.

Director General of Public Finance and had not been acted in accordance with the instructions of the Department of Public Accounts and the Department of External Resources regarding the revenue received by the Fund from the Foreign Missions.

- (ii) Paragraph 4.3 The performance report containing the information, as per the circular, regarding the Labour Welfare Fund had not been submitted to the Auditor General with a copy to the Director General of Public Finance.
- This circular had been issued in the year 2016 but had not been acted accordingly.
- Should be acted according to the circular provisions.
- (c) Public Finance Circular No. 02/2015 of 10 July 2015 Action had not been taken to dispose of 09 vehicles costing Rs. 14,176,542, as per the circular, for which decision had been made to dispose in the year 2012 and the vehicle disposal procedure, in terms of the circular, had not been carried out annually.
- Vehicle disposal process is in progress.
- As per circular instructions, management should pay special attention to ensure that the Bureau does not incur any loss due to devalue because of unsafe parking of vehicles.
- (e) Paragraph 3.1 of Circular No. 30/2016 dated 29 December 2016 Fuel inspection had not been carried out for 22 vehicles owned by the Bureau from the date of purchase.
- Even though fuel consumption tests have been started, the fuel tests could not be completed as planned due to the corona pandemic threat.
- All vehicles owned by the Bureau should be inspected for fuel consumption in accordance with the circular instructions and the daily running

records should be balanced accordingly.

- (f) Public Enterprises Circular No. 4/2016 dated 19 October 2019. Even though the maximum monthly rent for vehicles rented for a Working Director should be limited to Rs. 135,000, the monthly rent of the vehicle given to the Working Director of the Bureau was Rs. 158,400. Accordingly, a total sum of Rs. 208,800 had been overpaid for 12 months
- Payment of the Jeep, which was assigned to the Working Director, had been approved by the Board of Directors in July 2018
- Should be acted according to the circular.

2. Financial Review

2.1 Financial Results

As per the financial statement presented, the financial result of the Group and the Bureau in the year under review amounted to a profit of Rs. 1,046,634,438 and Rs.1,049,650,220 respectively and the corresponding profit in the preceding year amounted to Rs. 1,532,003,056 and Rs. 1,525,354,276. Accordingly, a deterioration amounting to Rs.485,368,618 and Rs.475,704,056 of the financial result of the Group and the Bureau were observed.

2.2 Trend Analysis of Major Income and Expenditure Items

The decrease in the income of recruitment compared to the previous year by Rs.133,210,208 had been the major reason for the decrease in the income of the Bureau by 10 percent during the year under review. In comparison to the previous year, the revenue of foreign missions had decrease by Rs. 91,265,304 and the expenditure had increased by Rs. 223,261,020. Increase in the staff cost by Rs. 166,883,001, publicity expenditure by Rs. 4,183,444 business promotion expenditure by Rs. 23,100,873 and operating expenses by Rs. 9,454,002 had mainly attributed to this.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendations
Due to non-reinvestment of 6 matured Treasury Bonds valued for Rs. 3,611,950,163 on the same day during the year 2019, the Bureau had lost Rs. 5,466,192 in revenue.	The relevant investment has not been made on the due date as it has taken a considerable time to obtain the approval of the Chairman. Accordingly, the fact stated in the audit inquiry is correct.	Management should focus on identifying the officials responsible for the lost revenue and necessary action should be taken.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendations
According to the Memorandum of Understanding between the Government of Sri Lanka and the Government of South Korea, the Air Ticket Unit operated by the Bureau on the Cabinet Approval for the reservation of air tickets for workers referring to Korea for employment had earned an income of RS. 13,369,380 in the period from 2011 to 2018.	After completing the relevant internal audit inquiry, the report was submitted on 06 September 2019 and the final report had been prepared on 10 July 2020 following the instructions given on 26 February 2020. As per the instructions given by me on 02 August 2020, charge sheets have been issued to the accused officer and action has been taken to ask facts for plead not guilty from the other officers.	A formal investigation should be conducted into this incident and necessary disciplinary action should be taken against the responsible officers and a transparent process should be put in place for migrants migrating to Korea to purchase tickets at reasonable price.
Due to a financial fraud done by an officer in that unit, he was interdicted and the unit was closed since 2019. However, he was re-employed on 16 July 2020 after considering an appeal filed by the suspended officer without taking any disciplinary action against him.		

3.3 Transactions of Contentious Nature

Audit Observation	Comments of the Management	Recommendations
<p>(a) Supply contracts valued for Rs. 29,252,225 had been entered into supply of uniforms to the staff of the Bureau, a shirt at a cost of Rs. 2,675 each and a sari at a cost of Rs. 5,425 each, in the year 2020.</p>		
<p>(i) The paragraphs 4.2.1, 4.2.2 and 4.2.3 of the Procurement Guidelines had not been complied and an expert on the subject had not been appointed to the Technical Evaluation Committee contrary to paragraph 2.8.4 of the Procurement Guideline.</p>	<p>The Officers of the Bureau have 25 years of experience in this field and the Technical Evaluation Committee has been appointed in 2019 accordingly.</p>	<p>Management should also take action to pay attention on the continuing complaints about uniforms provided annually by the Bureau and the information furnished by the audit.</p>
<p>(ii) Also contrary to paragraph 5.6 of the Procurement Guidelines, sari design was given as specification targeting one supplier and specifications for the other shirts and pants fabric had not been prepared.</p>	<p>The Chairman of the Bureau has set the design for the relevant saris at no cost.</p>	<p>An inquiry should be held into the non-transparency of the procurement process and regarding the improper preparation of technical specifications had not been brought to the notice of the Procurement Committee and the Technical Evaluation Committee.</p>
<p>(iii) Bids were not opened in accordance with Procurement Guidelines 6.3.6. Bid evaluation had not been done in accordance with the accepted bid evaluation principles as per paragraph 7.9.2 of the Procurement Guide Manual and the lowest</p>	<p>The samples provided were sent for laboratory testing only after receiving the sari stock. By the time the report was received, sari had been distributed to the officers. Since no payment had been made to this supplier yet, a decision can be made in</p>	<p>As the reply itself states that the wrong procedures have been followed, a formal inquiry should be conducted and action should be taken to cover the loss incurred by the Bureau in not</p>

bid for the sari was rejected without making any reason and the highest bid was recommended. Accordingly, A difference of Rs.11,912,150 was observed between the minimum price and the recommended price.

negotiation with the purchasing uniforms at a reasonable price.

(iv) Even though it was stated that 60 percent cotton and 40 percent silk should be used for uniform saris, no such specification was given for shirts. A sample test conducted by a government-recognized laboratory confirmed that 52 percent contained cotton and 42 percent polyester, and that men's uniforms were made of 100 percent polyester yarn.

In the delivery of uniforms, 08 complaints received regarding discrepancies with the sample and those have been returned to the supplier and other shirts have been obtained instead. The uniforms which were not in the required standard given to the officers were returned to the supplier by the officers their selves and get changed.

Management should note that it is not correct to allow officers to replace only returned uniforms when the entire contract has to be canceled due to the supply of substandard uniforms.

(b) In addition to the officers nominated by the International Labor Organization (ILO) to participate to the workshop held in 2019 to update the Sri Lanka Mission Procedure Manual, four female officers, including a female officer on probationary period, were selected and participated without any proper procedure. In violation of Sections 10.1 and 10.4 of Chapter XV of the Establishments Code, a sum of Rs. 1,931,139 had been incurred in this regard.

The selection of officers was done on the basis of the duty requirement and the skills of the officers with the approval of the Chairman. The approval of the Minister in charge of leaving the country is obtained by the Ministry. Letters containing such approval will not be received by the Bureau and only the approval of the Ministry will be received by the Bureau.

It was observed that the expected objective of deploying additional staff was not met as they were deployed considering the urgent requirement, as the manual had not been prepared by the audit date of March 2021. Management should pay attention to the participation of the officers on the formal approval and in accordance with the provisions of the Establishments Code and to achieve the intended objectives.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Observation	Comments of the Management	Recommendations
It was revealed in the audit test that 22 motorcycles valued at Rs. 4,055,663 Purchased in the year 2012 to allocate for the training centers of the Bureau were idle or underutilized without using for intended duties.	Efforts are being made to make maximum use of these motorcycles.	Necessary action should be taken to use the motorcycle to fulfill the purpose of purchase.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation	Management Comment	Recommendation
Even though the financial statements should be submitted to the Auditor General within 60 days from 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 until 10 August 2020	Submission of accounts has been delayed due to shortcomings in the computerized accounting system.	Management attention should be focused on timely submission of financial statements in next year.