Chairman

Sri Lanka Bureau of Foreign Employment

Auditor General's Report in terms of section 12 of the National Audit Act No.19 of 2018 on Financial Statements and other Legal and Regulatory Requirements of the Sri Lanka Bureau of Foreign Employment for the year ended on the 31 st day of December 2018.

1. Financial Statements

1.1 Qualified Opinion

The audit of financial statements of the Sri Lanka Bureau of Foreign Employment for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 this report, the financial statements give a true and fair view of the financial position of the Bureau as at 31 December 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

The following shortcomings were observed,

(A) Although an amount of Rs. 2,615,836 which was the balance of total money charged for purchase of Air Ticket from the laborers seeking oversea employment, should have been repaid to them, it had erroneously been taken as the revenue to the Bureau without making such repayment. Accordingly, the revenue of the bureau was overvalued by the aforesaid amount.

(B) According to the computerized accounting system of the Bureau, although the foreign exchange benefit included in the ledger accounts is Rs.176,892,642, but in the financial performance statement it had been accounted as Rs.167,445,298.Accordingly, the profit for the year had been over reported byRs.9,447,344.

(c) Following discrepancies were observed between the tax expenditure shown in the financial statements for the year reviewed and in the calculations made on the same, during the audit.

I. Income tax expenditure shown in financial statements was Rs.337, 642,312 but Income Tax Expenditure as per the calculations made during Audit was Rs.476,881,608 and accordingly the tax expenditure of Rs.139,239,296 was underrepresented for the year.

II. A discrepancy of Rs.30, 587,569 was observed between the tax expenditure shown in the financial statements and the calculations made during the audit relating to the acquisition and withdrawal of fixed assets.

(D) In respect of intangible assets, when the Value is depicted, an amount of Rs. 30,000 which is the amortized value of the assets during the year reviewed of the Foreign Employment Agency, the subsidiary agency, had not been adjusted in Financial Statements.

(E) According to the notes on financial statements, it had been stated that the investment, which is retained until maturity, is measured on an effective interest rate basis. However, interest calculated on the coupon interest rate had been identified as investment income.

F) 10 Fixed Deposits of the Bureau with a total of 328,071,264 were deposited as collateral under various loan schemes with financial institutions and those were not disclosed in the financial statements.

(G) With regard to the capital grant of Rs. 691,161,789 received from the General Treasury for construction of 03 Training Centers, it was instructed to treat it as Grant Investment Capital as per the instructions No. PED / Capital / 2017-1 dated 21st January 2019 of the Department of Public Enterprises. Accordingly, adjustments were made to the financial statements but no action had been taken to reflect it in accounting records. Necessary disclosures have not been made as per paragraphs 134 and 135 of the Sri Lanka Accounting Standards No. 01 as to whether the grant is identified as cash or relevant assets.

(H) Although Accounting in respect of investments retained from January 1, 2018 until maturity, should be done following SLFRS 09, Financial statements state that SLFRS 07 and LKAS 32, 39 have been followed for the same

(I) Although approval of the Board of Directors to pay a fine of Rs. . 6,261,168 payable to Employees' Trust Fund was received after the reporting period but before submission of Financial Statement, necessary adjustment had not been done in the Financial Statement in accordance with the Sri Lanka Accounting Standards No. 10.

(J) The Bureau had maintained a Planned Asset with respect to the Long Term Service Benefit Fund and its balance, at the end of 2017, was Rs.151,637,722. Said amount had been reduced to 137,976,269 in 2018, without the approval of the Board of Directors. Further, this asset had not been isolated from the investment of the bureau and no judgments had been made in the Financial Statements. Accordingly, it was observed that these assets have not been maintained as per the Sri Lanka Accounting Standards No. 19 (LKAS 19) for the purpose of maintaining assets in respect of a Long Term Benefit Fund.

(k) According to paragraph 23 of Article 21 of Sri Lanka Accounting Standards, although the balance of accounts relating to transactions made using foreign exchange should be converted based on the final exchange rate, Bureau has not acted accordingly, in respect of the forward payment of the foreign exchange gain of Rs. 11,024,393 the total amount calculated by the Bureau's accounting system.

(L) The Bureau had not submitted relevant source documents and detailed schedules for Rs. 1,702,912, that is stated as the amount receivable for the purchase of air tickets for workers going abroad for employment is in the Financial Statement, had not been submitted to the for audit.

(M) The amount to be paid to the Ministry of Foreign Employment for the years 2017 and 2018 is Rs.929,361 and Rs.812,593,respectively, and the balance of Rs. 1,035,830 to be paid to the Western Provincial Council in the year 2018 had been shown in the schedule pertaining to the Air Ticket Liability Account, was also mentioned but relevant evidence had not been submitted to the audit to ascertain the purpose for which these payments were made.

I conducted the audit in accordance with the Sri Lanka Audit Standards (SLAS).My responsibility under these audit standards is further explained in the section titled Auditor's Responsibility with regard to financial publication audit, in this report.

1.3 Responsibilities of management and controlling parties in respect of financial statements

It is the responsibility of the management to prepare these financial statements in accordance with the Sri Lanka Accounting Standards and to make reasonable submissions to determine the internal controls required to prepare financial statements without quantitative or misleading statements that occur due to frauds and errors.

In preparing financial statements, it is the responsibility of management to determine the continuity of the Bureau, and to maintain accountability and disclosure of matters relating to the continued existence of the Bureau unless the management intends to liquidate the Bureau and discontinue operations when there is no other option.

Responsibility in relation to Financial Reporting Process of the Bureau is held by the Governing Parties.

In accordance with Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Bureau shall maintain proper books and records on its income, expenditure, assets and liabilities in order to be able to prepare annual and periodical financial statements.

1.4 Responsibility of the Auditor in relation to Auditing of financial statements

It is my objective to provide a reasonable confirmation that there are no quantitative misrepresentations due to financial statements, frauds and errors as a whole and to issue an auditor's report that includes my opinion. Though fair certification is a high level of certification, auditing in accordance with Sri Lanka Audit Standards does not always guarantee that it will detect quantitative misrepresentations .Fraud and errors, individually or collectively, can lead to quantitative misrepresentations and it is expected that this affects the economic decisions made by users based on these financial statements.

Auditing was conducted by me accordance with Sri Lanka Audit Standards with professional judgment and confidence and further;

- It is the base to my opinion that obtaining adequate and appropriate audit evidence to avoid the risks posed by fraud or error by designing appropriate audit procedures in time to identify and assess the risks of quantitative misrepresentations in financial statements due to fraud or errors. The effects of fraud are far greater than the effects of quantitative misrepresentations, which can lead to fraud, misrepresentation, forgery, intentional evasion, or evasion of internal controls.

- Although the Bureau gained an understanding of internal control in order to plan appropriate audit procedures from time to time, it does not intend to express an opinion on the effectiveness of internal control.

- The fairness of the accounting policies and accounting estimates adopted and the appropriateness of the associated disclosures made by management were evaluated.

- The relevance of using the basis of the continuity of the institution for accounting was determined on the basis of the audit evidence obtained as to whether there is quantitative uncertainty about the continuity of the Bureau due to events or circumstances. In case I conclude that there is sufficient uncertainty, my audit report should focus on the disclosures in the financial statements, and if those disclosures are insufficient, I should modify my opinion. However, continued existence may end on future events or circumstances.

- Submission, structure and content of the financial statements that includes disclosures, were evaluated and the transactions and events on which they were based were evaluated to be appropriately and reasonably included in the financial statements.

- Controlling partner were also made aware on significant Audit Findings, key internal control weaknesses and other associated facts during my Audit.

2. Report on other legal and regulatory requirements

None of the following statements came to my notice, based on the procedures adopted and the evidence obtained and restricting to the quantitative facts,

- In accordance with the requirement of Section 12 (d) of the National Audit Act No. 19 of 2018, a member of the Board of Control of the Bureau may be directly or otherwise in other manner involved in any agreement involving the Bureau.

- In accordance with the requirement set out in the Section 12 (e) of the National Audit Act No. 19 of 2018, other than the following observations, acted non-compliance to the other general or special directives issued by the Board of Directors of the Bureau relating to a written law.

Reference to Rules / Orders	Description
(A) Foreign Employment Bureau Act No. 21 of 1985	
I. Section 52(1)	Although a cess tax of 5% could be levied on every commission received by a licensee, the Bureau had decided to only to charge a cess tax of Rs. 5,000/= for each female migrant worker, irrespective of the commission receive from foreign masters (Employer)
II. Section 42(2)	Without passing a Resolution within the Bureau and contrary to the objectives of establishing the Workers' Welfare Fund, a total of Rs. 499,473,516 salaries and allowances of the employees of the Bureau had been paid from this fund. In addition, 5% of the annual general expenditure of the Bureau amounting a sum of Rs. 12,018,115 had been credited to this fund.

III. Section 48(C)	Although this fund was to be utilized for the training and familiarizing the migrant workers for employment under Section 48 (c) of the Bureau Act, no funds utilized for the aforesaid purpose during the year reviewed and further only 22% had been spent for welfare of migrant workers from the total expenditure of Rs. 1,308,838,726.
IV.Subsection 3 of Section 17 of Part II of the Act	Accident for the staff of the Bureau to reimburse the Medical Bills and accident cover insurance scheme Compensation Insurance Scheme have been in operation since 1995 on contrary to the objectives of the Bureau Funds, and without formal approval. Full compensation for accident had been paid annually using the Bureau's revenue. A total of Rs. 44,287,888 had been paid to the employees under the scheme as medical assistance during the year reviewed
V.Section 45 (1)	The transactions of the Labor Welfare Fund should be done through a separate bank account and the financial statements should be prepared accordingly. It was observed that there is a discrepancy between Receipts and payments shown in the Welfare Account and receipt & payment in the bank statements as Rs. 886,926,541 and Rs. 594,263,038, respectively. Since separate Financial Statement had been prepared separately, reasons for the discrepancy could not be cleared identified.

(B) Public Administration Circular No. 30/2008	Exceeding the ceiling of 25,000 specified in the Circular, Disaster loans equal to 12 months' gross salary, including cost of living allowance, risk allowance, acting allowance and adjustment allowance paid to employees by the Bureau without approval, Accordingly, at the end of the year reviewed, the Bureau's Disaster Loan Balance was Rs. 325,149,295 and amongst them there were 137 loan balances of over Rs. 500,000 and 04 loan balances of over Rs. 1,000,000.
(C) Section 9.7 of the Public Enterprise Circular No. PED / 12 of 02 June 2003	In addition to the Professional Allowances, Annual Insurance Allowances, Annual Bonus Allowances, Special Bonus Allowances, Transport Allowances, Reimbursement of Debt Interest Reimbursement, Medical Bills Received by the Bureau, Bureau has taken step to pay a total staff allowances of Rs. 86,399,621 under six different ways without approval of the Secretary to the Treasury.
(D) Public Finance Circular No. 02/2015 dated 10th July 2015	The Bureau had not been able to dispose of 15 out of the 27 vehicles recommended for disposal in 2015 as at November 1, 2019, the date of the audit.

- Acting in non-compliance with the powers, roles and functions of the Bureau as required by Section 12 (g) of the National Audit Act No. 19 of 2018.
- Failure to procure and utilize the resources of the Bureau in accordance with the requirements of Section 12 (d) of the National Audit Act No. 19 of 2018 in a timely manner, efficiently and effectively in accordance with the relevant regulations

3. Other audit observations

(A)The Cost of Living Allowance paid to the employees of the Bureau was not taken into account in calculating the Employees Provident Fund for the period from 2006 to January 2016 and the contributions of both the employer and the employee were to be paid by the

Bureau as per the instructions of the Commissioner of Labor. Accordingly, the total loss of Rs. 47,912,231 was incurred by the Bureau.

(B) As at 31 December 2018, 135 Officers had been deployed in the 16 Missions operating under the Bureau. But there was no approved staff or recruitment procedure. Accordingly, it was not possible to identify the qualified staff required for each mission and confirm that the relevant assignments had been made. Further, a formal system for the facilities and allowances provided to the staff had not been prepared and approved. The total salary, allowances and other facilities of those officers during the year reviewed is Rs. 663,811,831 and only Rs. 80,771,306 had been spent on other infrastructure facilities and direct expenditure for the detainees. Accordingly, it was observed that 89% of the total expenditure of the missions had been spent on maintenance of the staff.

(C) Migrant Labor Contributory Fund that has been effective from 1988 and as at 31 December 2018, there was a balance of Rs.7,954,452 by 1,573 migrant workers. However, the total investment and receivables was only Rs. 5,775,029. Accordingly, the Asset Fund did not have sufficient assets to cover the liability. The Bureau did not have any written information explaining the purpose of the fund, and the fund was inactive without proper management of the fund.

(D) As at 31 December 2018, the balance in the fund account for compensation received by the United Nations Compensation Commission for compensation to Sri Lankans employed in the region due to the 1990/1991 Gulf War was Rs. 3,177,557,356. According to the financial statements, the actual amount due to the claimants as at 31 December 2018 was Rs. 251,453,848. It has been nearly 20 years since the Bureau received this compensation, but no action has been taken to settle the excess funds but action had been taken by the Bureau to retain the funds received and invest the same it to earn income.

(E) Under the Housing Loan Scheme for Migrant Workers implemented in collaboration with the Samurdhi Authority of Sri Lanka and the Bureau, the Samurdhi Bank had provided a total amount of Rs. 3557 million amongst 12,078 migrant workers as at 20 September 2018. Of these, Rs. 360.27 million that had been given to 1,573 migrants in contrary to the terms of the loans and without any collateral, has been defaulted by the recipients. By then, the project had become inactive due to non-compliance with the agreement, weaknesses in project implementation and follow-up. Instead of depositing Rs. 100 million in the name of the Bureau in accordance with the above agreement, the Bureau had deposited Rs. 100 million in the Bank of Ceylon in the name of the Samurdhi Authority and so that the Bureau had not receive the relevant interest for the deposit since 2014.

(F) The Bureau's Special Investigation Unit was established on a Cabinet decision to control various irregularities in the field of foreign employment and by 31st December 2018, 36 staff including 17 police officers had been attached to its service. During the period of 13 months in 2017 and 2018, when the audit samples were examined, the unit had received 274 complaints regarding frauds amounting to Rs. 108,463,384 promised to provide foreign employment. Since the promise of foreign employment could not be confirmed in writing, the complaints were recorded in the unit and forwarded to the police stations in the relevant areas. However, the audit sample revealed that no follow-up action had been taken on those complaints and that only one of the 20 complaints had been resolved through personal intervention and the other complaints had not been resolved.

(G)The charge of Rs. 10,000/- levied on the Immigrants who refuse to go abroad after obtaining a visa as a fees to be paid to the Employment Agencies had then been increased to 25,000 without a formal method and without the approval of the Board of Directors with effect from 14 February 2017

(D) Although the Bureau is not entitled to earn income by training migrant workers for employment under the Bureau Act, the Bureau had earned a total profit of Rs. 74,985,198 from the year reviewed. The Bureau was able to charge fees exceeding the certain limit as there was no formal system to determine the training fees. The training fee of Rs. 8801 charged for 07 days training at the Pannipitiya Training Center which was tested by a sample survey, had been charged for the 2 days training, as well.

(A) Bureau has not being able to clear the following balance that had been brought forwarded as "Expenditure Payable" in the Financial Statement from a long period even at the end of the year reviewed.

(i) Amount of Rs. 6,640,400 that was recovered as Korean Visa Charges from the migrants in 2015.

(ii) A total sum of Rs. 149,826,492 that is to be refundable from the Fees for registration of Foreign Employment Agencies for year 2015, 2016 and 2017.

(iii) Amount of Rs. 39,060,000 that is payable for the period from 2015 to 2018 to Divisional Secretary of Tangalle as the rent for the land where the Tangalle Training Center was located

(iv) A sum of Rs. 1,776,569 payable from period of 2016, 2017 for the food supplier

(ඕ) A sum of Japan Yen 110,000 which is equivalent to Rs. 176,000, recovered as a security deposit for providing Accommodation for worker welfare division of the Japanese Mission that was closed 4 years ago, has not been recovered and further this has not been reported as "Balance receivable" in the Financial Statements.

(O) A sum of rent of Rs. 67,568,640 receivable from Ministry of Foreign Affairs for establishing and running the Embassy of Oman at the building possessed by the Bureau since 2013, had been removed from the Revenue without the approval of the Board of Directors.

(P) It had been informed to the Audit that Kataragama Holiday Resort that commenced construction in 2016 and scheduled to be completed by April 2017, with the cost of Rs. 119,617,558 had been handed over on 28th August 2019. But, the Holiday Resort remained unutilized even by by date of Audit on 01 November 2019 due to non-availability of adequate water supply to the resort.

Q) On 2nd April 2018, the Bureau had repurchased the Treasury Bonds worth of Rs. 6,817,974 after its maturity but relevant information had not been reflected in relevant accounts. Likewise, an investment income of Rs. 9,571 had been received by the bank account of the bureau, it had been specified in the Financial Statement as Receivable Balance.

(R) Although a sum of money Rs. 23,000,000 transferred from the Account No. 100800442461 maintained with National Savings Bank to establishment branch of Bank of Ceylon No 1650 on 24 December 2018 should have been reflected in the Bank Account on the same day, it was observed that it has taken 07 days. Delayed action had been taken on 02 February 2019 to inquire on this matter. Although the above amount was not credited to the current account, it was disclosed by the daily transaction audit during the period from December 24, 2018 to January 2, 2019 that the account had excess money to settle the payables exceeding by Rs. 43 million It was further observed that the sum of Rs. 23 million had not been credited to the savings account or current account for a period of 07 days and by investing this amount in the short term it would have yielded around Rs 36,000 income to the Bureau upon the current interest rates.

(S) When sending workers to Kuwait and Qatar for employment, the police clearance reports which were supposed to be submitted on the certificate of the Bureau of Foreign Employment were obtained by the employment agencies, certified and forwarded to the Ministry of External Affairs without being brought by the relevant police stations as per the normal procedure. The bureau had certified 35 fake police clearance certificates issued by the Ratnapura Police Station and forwarded them to the Ministry of External Affairs. Further, the Bureau had not taken any action against the employment agency which had submitted such forged certificates and even after the above incident was reported, the Bureau had facilitated the deportation of seven workers who had submitted such forged certificates.