

Central Engineering Consultancy Bureau – 2015

The audit of financial statements of the Central Engineering Consultancy Bureau (CECB) and the consolidated financial statements of the CECB and its Subsidiary for the year ended 31 December 2015 comprising the statements of financial position as at 31 December 2015 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 (2) of the State Industrial Corporation Act, No. 49 of 1957. My comments and observations which I consider should be published with the annual report of the CECB in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the CECB’s preparation and fair presentation of the financial statements 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 CECB’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraphs 2.2 and 2.3 of this report.

2. Financial Statements

2.1 Audit Opinion

(a) Qualified Opinion – Group

In my opinion except for the effects of the matters described in paragraphs 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Central Engineering Consultancy Bureau and its Subsidiary as at 31 December 2015 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

(b) Qualified Opinion – CECB

In my opinion, except for the effects of the matters described in paragraph 2.3 of this report, the financial statements give a true and fair view of the financial position of the Central Engineering Consultancy Bureau as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Group Financial Statements

A suspense account balance of Rs. 41,901 had been shown in the group financial statements for the year under review 2015 without being identified and adjusted in the accounts.

2.3 Comments on Financial Statements of the CECB

2.3.1 Accounting Deficiencies

The following observations are made.

- (a) The CECB had not considered the amounts in payment certificates / certified bills in ascertaining the year end debtor balances relating to 09 Projects and as a result, the real position of the debtor balances of those Projects had been understated and overstated by Rs. 15,944,859 and Rs. 17,021,023 respectively in the financial statements for the year under review.

- (b) Unrecovered mobilization advances aggregating Rs. 285,307,117 had remained in the accounts in relation to 48 Projects of the Construction Division which had been fully completed as at 31 December 2015. This balance was abnormal in its nature because the mobilization advance had been fully recovered before the project arrived at 90 per cent completion stage as per the Section 03 of Conditions of Contract, Clause No.14.2 (b) of Standard Bidding Document No. ICTAD/SBD/02 issued by the Institute for Construction Training and Development.
- (c) Adjusted contract sum of Rs.1,807,996,165 in relation to fully completed six construction projects bearing No. D1726, D1691, D1721, D1758, D884 and D1597 had not been taken into accounts in ascertaining the contract revenue of the year under review. As a result, the construction revenue shown in the financial statements had been understated by Rs. 83,009,985.
- (d) Mobilization advance balance of Rs. 2,162,929 and Rs. 5,356,240 had been fully recovered according to the invoice No.31 and No. 27 of the project bearing No.871 and the consultancy project bearing No.C-880 respectively. However, these amounts had been shown as receivables in the financial statements as at 31 December 2015. Hence, the mobilizations advance receivables shown in the financial statements had been overstated by that amounts. Further, the mobilization advance of Rs. 3,641,916 relating to invoice No.29 had been taken twice to the financial statements for the year under review. Therefore, the debtor balance shown in the financial statements had been overstated by Rs. 3,641,916.
- (e) As reported in my previous year audit reports, assets valued at Rs. 3,601 million had been received to the CECB from then Ministry of Economic Development as capital grant to carry out the road projects in the year 2012. However, a sum of Rs.250 million had been recovered by then Ministry of Economic Development from the contract payments payable to the CECB in 2013. Moreover, without carrying out any professional valuation of those assets and ignoring the grant of Rs. 3,351 million, the CECB had accounted them at a value of Rs.250 million.
- (f) Three invoices valued at Rs. 5,367,016 and consultancy income of Rs. 1,221,047 in relating to consultancy project bearing No-C-880 and No- C-1189 respectively had not been taken to the financial statements of the year 2015.
- (g) In ascertaining the debtor balance of the consultancy projects, the invoice value of Rs.144,463,477 had been considered instead of being taken the certified bills value of Rs.128,049,658 and as such, the debtor balance shown in the financial statements had been overstated by Rs. 16,413,819.
- (h) Seven vehicles shown under the fixed assets in the financial statements of a Base Office as at the end of the year 2015 had been again shown in the financial statements of another Base Office. Therefore, the accuracy of the fixed assets balance shown in the financial statements for the year 2015 could not be related upon in the audit.

2.3.2 Unexplained Differences

A difference of Rs. 2,002,841 between the stock balance of the Jawatta Base Office shown in the financial statements for the year under review and the physical stock verification balance of that office was observed in audit.

2.3.3 Accounts Receivable and Payable

The following observations are made.

- (a) Construction Division debtor balance of Rs. 528,611,508 with respect of 202 Projects of 11 Base Offices had remained outstanding for more than four years as at 31 December 2015 without being recovered. It was further observed that those balances had remained outstanding even as at 30 October 2016 without being taken any recovery action.
- (b) Outstanding debtor balance of Rs. 34,287,514 relating to 51 projects had remained unrecovered as per the Consultancy Division's financial statements over a period of more than four years as at 31 December 2015 and those balance had not been recovered even as at 31May 2016.
- (c) Unsettled Mobilization advances aggregating Rs, 1,188,982 in relation to fully completed four consultancy projects of Water Resources Unit had remained for more than 5 years in the financial statements as at 31 December 2015.

2.3.4 Lack of Evidence for Audit

The following observations are made.

- (a) Age analysis with regard to retention money receivables, deposits, advances and pre payments aggregating Rs. 4,621,437,551 had not been submitted to audit. Therefore, the reliability of these balances could not be ascertained in audit.
- (b) Retention money payable to sub-contractors amounting to Rs. 1,185,323,365 had been taken to the financial statements for the year 2015. Nevertheless, the Base Offices had not been maintained a register for this purpose by showing the amounts payable to the sub-contractors. Further, a schedule for retention money payable had not been submitted to audit. Therefore, the accuracy and the reliability of the retention money payables shown in the financial statements could not be relied upon in audit.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules and Regulations etc.	Non-compliance
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| (a) Section 14(1) of the Finance Act, No.38 of 1971 | A copy of the Draft Annual Report for the year under review had not been submitted along with the financial statements to the Auditor General. |
| (b) Public Enterprises Department Circular No. 95 of 04 June 1994 | Various allowances such as, retaining allowance, personal allowance and professional allowance etc. had been paid to the permanent and contract base employees of the CECB without the approval of the General Treasury. Total amount so paid as such allowance in the year 2015 was Rs. 139,720,462. |

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the CECB and the Group for the year under review had resulted in a pre-tax net profit of Rs. 595,972,241 and Rs.713,584,787 respectively for the year under review as compared with the corresponding pre-tax net profit of Rs. 552,433,247 and Rs. 684,223,033 respectively for the preceding year, thus indicating an improvement of Rs. 43,538,994 and Rs. 29,361,754 or 07.9 per cent and 4.3 per cent respectively in the financial results for the year under review.

Increase of finance income of the CECB and the Group for the year under review by Rs.4,772,839 and Rs. 14,315,016 and decrease of operating expenditure by Rs. 260,617,259 and Rs.152,299,283 respectively as compared with the preceding year were the main reasons attributed for these improvements in the financial results.

However, the revenue of the CECB and the Group for the year under review had decreased by Rs.2,549,226,637 and Rs.1,977,945,700 respectively as compared with the preceding year.

The value addition of the CECB for the year under review was Rs. 2,171 million and when analyzing the value addition for the preceding 04 years, that indicating a gradually improvement except in the year 2013.

3.2 Analytical Financial Review

The following observations are made.

- (a) The CECB had earned a pre – tax net profit of Rs.596 million during the year under review by utilizing its staff strength of 1,350 and total assets base of Rs. 16,607 million. Hence, the profit represented 3.58 per cent of the total assets of the CECB.
- (b) Operating profit margin and net profit margin of the year under review was 4.9 per cent and 3.7 per cent respectively and as compared with the previous year, these profit margins had been slightly increased by 0.7 per cent and 0.63 per cent respectively.

4. Performance Review

4.1 Performance

The following observations are made.

- (a) According to the Action Plan of the CECB, the Consultancy Division and the Construction Division had failed to achieve their two targets set out in the Action Plan prepared for the year under review.
- (b) The Consultancy Division of the CECB had been fully equipped with all necessary physical and human resources to serve the nation in all types of engineering consultancies. However, at present CECB had mainly focused on construction works rather than consultancy in contrary to the objectives of establishing the CECB.

4.2 Management Weaknesses

The contribution to the Employee Provident Fund (EPF) and Employee Trust Fund (ETF) had been calculated by the CECB without taking the cost of living allowances for the period of 2006-2011. Therefore, a sum of Rs. 79,520,536 had been additionally paid by the CECB as a portion of employee contribution including the 50 per cent surcharge during the year under review.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) The CECB pays Nation Building Tax (NBT) and Value Added Tax (VAT) on cash basis. However, the CECB had not received approval to pay NBT and VAT on cash basis yet from the Commissioner General of Inland Revenue as per the provisions in the Nation Building Tax Act, No. 09 of 2009 and Value Added Tax Act, No. 14 of 2002.

- (b) The CECB had paid cash advances to the Central Engineering Services Private Limited (CESL) in view of purchase of vehicles for the utilization of Base Offices of the CECB. Subsequently, the CESL had purchased the vehicles and rented out to the CECB by utilizing these advances. The above cash advances to be settled by the CESL from the hiring income receivable from the CECB within five years with 10 per cent management fee added to the hiring charges. Further, the ownership of these vehicles at the end of five years had remained under the CESL.

4.4 Irregular Transactions

Value Added Tax (VAT) aggregating Rs. 3,956,356 had been paid by the CECB to 22 contractors without examining the validity of VAT registration numbers and VAT invoices at the time of the payments were made. Subsequently it was found that the VAT numbers and names indicated by the contractors were inactive.

4.5 Identified Losses

The following observations are made.

- (a) Loss of Rs. 158,737,294 had been incurred by the CECB during the year under review in respect of 31 construction contract works undertaken due to poor performance in contract administration.
- (b) The contract value of the Project bearing No.1353 approved by the Standard Technical Committee was Rs. 27,112,744. However, the actual cost incurred for that project was Rs. 37,523,409. Hence, the loss sustained to the CECB on that project was Rs.10,410,665.

4.6 Human Resources Management

The approved and actual cadre of the CECB as at 31 December 2015 was 1,350 and 1,471 respectively. As the recruitments had been done by exceeding the approved cadre in all employee categories by 121, a proper cadre management was not observed.

4.7 Underutilization of Funds

The following observations are made.

- (a) A sum of Rs. 80,325,947 had remained in a bank current account for more than two months as at 31 December 2015 which was opened for a Broad Land Project under the water resources unit without being utilized for any purpose.
- (b) Even though the consultancy service for Maldives Tsunami Construction Project for Harbor Rehabilitation had been fully completed in July 2014, a current account balance of Rs. 8,047,501 (MVR 856,016.91) had remained in a bank without any return to the CECB.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances were observed between the budgeted and actual figures, thus indicating that the budget had not been made use as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the CECB from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems or Controls -----	Observations -----
(a) Accounts Payable and Receivable	Balances of payable and receivable had remained for more than four years without confirming by the respective parties.
(b) Inventory Control and Stock Management	Inventory and stock at sites as at the financial position date had not been brought to the financial statements.
(c) Invoicing	Actual work done relating to the construction contracts had not been taken to the financial statements.