## Central Engineering Consultancy Bureau – 2016

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The audit of financial statements of the Central Engineering Consultancy Bureau ("the Bureau") and the consolidated financial statements of the Bureau and its Subsidiary (the Group) for the year ended 31 December 2016 comprising the statements of financial position as at 31 December 2016 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 Bureau in terms of Section 14(2)(c) of the Finance Act, appear in this report.

### 1:2 Management's Responsibility for the Financial Statements

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal controls 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

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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 judgment, 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 Bureau'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 Bureau'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.

### 1.4 Basis for Qualified Opinion

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

## 2. Financial Statements

### 2.1 Opinion

#### (a) Qualified Opinion - Group

In my opinion, except for the effects of the matters described in paragraph 2.2 and 2.3 of this report, the consolidated financial statements give a true and fair view of the financial position of the Bureau and its Subsidiary as at 31 December 2016 and their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

#### (b) Qualified Opinion - Bureau

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 Bureau as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2. Comments on the Financial Statements of the Group

The Audited financial statements of the Central Engineering Services (Private) Limited, which is a fully owned Subsidiary of the Bureau had been taken for preparation of the consolidated financial statements of the Group. An unqualified audit opinion on the financial statements of the Subsidiary had been expressed by me on 03 April 2018.

The following observation is made on the financial statements of the Group.

Differences aggregating Rs.555,548 was observed between the cost of sales shown in the consolidated financial statements and the corresponding values shown in the respective schedules.

### 2.3 Comments on the Financial Statements of the Bureau

#### 2.3.1 Accounting Policies

Consultancy revenue relating to the internal jobs of the Consultancy Division of the Bureau had been recorded on cash basis without being recorded on accrual basis. Hence, the consultancy income of the year under review shown in the financial statements had been understated by Rs.10,003,303.

**2.3.2 Accounting Deficiencies**
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The following observations are made.

**(a)** Unrecovered mobilization advances aggregating Rs.56,657,977 had remained in the accounts in relation to 20 Projects of the Construction Division although these projects were fully completed as at 31 December 2016. However, according to Section 03 of Conditions of the Contract and Clause No.14.2 (b) of Standard Bidding Documents No. ICTAD/SBD/02 issued by then Institute for Construction Training and Development the mobilization advances should be fully recovered before the project arrived at 90 per cent completion stage.

**(b)** Credit balances of Rs.23,747,725 and Rs.2,733,200 relating to Northern Base Office had been set off against the balances of retention and mobilization advance receivable respectively. Therefore, the retention and mobilization advance receivables shown in the financial statements for the year under review had been understated by similar amounts.

**(c)** Abnormal debit and credit balance of Rs.4,974,379 and Rs.5,338,969 respectively relating to the Engineering Procurement Construction Division of UVA Base Office had been included in the creditor and debtor balances respectively shown in the financial statements for the year under review. Hence, creditor debtor balances shown in the financial statements had been understated by those amount.

**(d)** A sum of Rs.21,853,962 paid on behalf of consultancy income of a Consultancy Project (bearing No .C 802-40) to the General Hospital Karapitiya on December 2015 had been erroneously taken to the financial statements as revenue for the year 2016. Therefore, the revenue for the year under review had been overstated by that amount.

**(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, out of this a sum of Rs.250 million had been recovered by then Ministry of Economic Development as a contract payment 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 Bureau had accounted them as Rs.250 million.

**2.3.3 Lack of Evidence for Audit**
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Three Base Offices of Sabaragamuwa, North Central and Northern Province had not been submitted the detail schedules for sundry debtors aggregating Rs.2,554,283 shown in the financial statements for the year under review.

## 2.4 Accounts Receivable and Payable

The following observations are made.

**(a)** Debtor balances of Rs.727,952,222 in relating to 249 Projects of 10 Base Offices had remained outstanding for more than four years as at 31 December 2016 and it was not recovered even as at 31 December 2017.

**(b)** Advances amounting to Rs.2,710,426 had remained outstanding without being settled for more than three years as at 31 December 2016 and those balances even unrecovered as at 31 December 2017.

**(c)** The outstanding debtor balance of Rs. 162,604,471 relating to 95 projects had remained unrecovered by the Consultancy Division of the Bureau for over five years as at the date of audit on 31 December 2017.

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

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

(a) A copy of the Draft Annual Report to be submitted together with the financial statements for the year under review to the Auditor General as per Section 14(1) of the Finance Act, No.38 of 1971, had not presented accordingly.

(b) According to the provisions in the Internal Circular No. CB/FIN/A-1278 dated 07 October 2004; the cash advances should be settled within 14 days. However, advance payments had been settled after one month without incurred any expenditure of the Special Project Unit of the Bureau. Further, two officers had not been settled their cash advances within the period of two and half years.

## 3 Financial Review

### 3.1 Financial Results

According to the financial statements presented, the operations of the Bureau and the Group for the year under review had resulted in a pre-tax net profit of Rs.815,819,952 and Rs.926,043,990 respectively for the year under review as compared with the corresponding pre-tax net profit of Rs.582,045,143 and Rs.699,657,689 respectively for the preceding year, thus indicating an improvement of Rs.233,774,809 and Rs.226,386,301 or 40.1 per cent and 32.35 per cent respectively in the financial results for the year under review. Increase of consultancy revenue, other income and finance income of the Group and the Bureau as compared with the previous year was the main reason attributed for these improvements.

## 3.2 Analytical Financial Review

### 3.2.1 Profitability

The following observations are made.

**(a)** The Bureau had earned a pre – tax net profit of Rs.815 million during the year under review by utilizing its staff strength of 1,350 and total assets base of Rs.18,433 million. Hence, the profit represented 4.42 per cent of the total assets of the Bureau.

**(b)** Operating profit margin and net profit margin of the year under review was 11.16 per cent and 7.89 per cent respectively and as compared with the previous year, these margins had been slightly decreased by 0.61 per cent and increased by 2.46 per cent respectively.

## 4. Operating Review

### 4.1 Performance

According to the Action Plan of the Bureau, the Consultancy Division and the Construction Division had failed to achieve their setout targets relating to the activities such as industrial waste water investigation, testing and analysis works, non-destructive method concrete testing etc.

### 4.2 Ideal Bank Balances

The following observations are made

(a) Even though the Consultancy Service for Maldives Tsunami Construction Project had been fully completed in July 2014, a balance of Rs. 8,047,501 (MVR 856,016.91) had remained in a current account of the bank account maintaining in the Maldives Bank without being utilized for any purpose.

(b) A sum of Rs.2,514,979 had been remained in three Current Accounts maintaining by the International Division of the Bureau without being used for any transaction during the year under review.

### 4.3 Human Resource Management

A Consultant had been appointed on assignment basis for a period of 01 September to 31 December 2014 with a monthly allowance of Rs. 75,000. The main purpose of this appointment was to prepare a Scheme of Recruitments and Promotions (SOR) for the Bureau. However, it had not been prepared within the assignment period. Subsequently, the contract period had been extended up to 07 December 2016 and a monthly allowance of Rs.100,000 was paid for this period.

## 4.4 Transactions of Contentious Nature

The following observations are made.

**(a)** The Bureau pays Nation Building Tax (NBT) and Value Added Tax (VAT) on cash basis. However, the Bureau had not received approval to pay these taxes on cash basis even as at the end of the year 2016 from Commissioner General of Inland Revenue.

**(b)** Official Residencies at Sarana Road, Colombo 07 had been handed over to the outside parties by the Bureau during last 3 to 13 years. However, no rental had been received from those parties even up to the year under review. Further, it was observed that, electricity, and water charges for these residencies had been also paid by the Bureau without being recovered from the occupants.

**(c)** Board of Directors of the Bureau had approved several incentive schemes to its staff without obtaining prior approval from the General Treasury. Total amount of such incentives paid in the year 2016 was Rs. 391,732,587.

## 5. Accountability and Good Governance

### 5.1 Submissions of Financial Statements

Annual accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, the Bureau had submitted the financial statements for the under review to the Auditor General on 16 October 2017. Further, the amended financial statements for the year 2016 had been submitted only on 23 February 2018.

### 5.2 Budgetary Control

Significant variances were observed between the budgeted and actual figures, thus indicating that the budget had not been made use of as an effective instrument in 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 Bureau from time to time. Special attention is needed in respect of the following areas of control.

| | Areas | Observations |
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| **(a)** | Accounts Payable and Receivable | Balance of payable and receivable had remained for more than four years without confirming by the respective parties. |
| **(b)** | Assets Management | Assets received from then Ministry of Economic Development for the road projects had not been fairly valued and brought to the financial statements even as at the end of the year under review. |
| **(c)** | Inventory Control and Stock Management | Inventory and returnable stocks at sites had not been valued and brought to the financial statements. |
| **(d)** | Accounting | Actual works done relating to Internal Jobs of the Consultancy Division had not been valued and taken to the financial statements. |