

Central Engineering Consultancy Bureau – 2017

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 2017 comprising the statements of financial position as at 31 December 2017 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 Auditors’ 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 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 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 paragraph 2.2 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 of this report, the consolidated financial statements give a true and fair view of the financial position of the CECB and its Subsidiary as at 31 December 2017 and its 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 2.2 of this report, the financial statements give a true and fair view of the financial position of the CECB as at 31 December 2017 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

2.2.1 Sri Lanka Accounting Standards

(a) SLFRS 7- Financial Instruments Disclosures

The carrying amount of the each category of financial assets and liabilities had not been disclosed in the statement of financial position.

(b) LKAS 01 - Preparation of Financial Statements

According to the Standard, the entity had not disclosed accounting policy for current and non-current classification.

(c) LKAS 12 – Income Taxes

According to the Paragraph 81 (g) of the Standard, the amount of deferred tax assets and liabilities recognized in the statement of financial position for each period in respect of each type of temporary difference, each type of unused tax losses and unused tax credits shall be disclosed. However, the CECB had not disclosed in terms of the Provisions of the Standard.

(d) LKAS 32- Financial Instrument Presentation

According to the Standard, prepayments of the entity neither receive cash or any other financial asset nor have the right to receive the same. Hence, prepaid expenses cannot be treated as financial asset. However, prepayments amounting to Rs. 7,544,502 as at 31 December 2017 had been treated as financial assets.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The credit balance of debtors, retention receivables and mobilization advances aggregating to Rs.11,433,011 in relating to 02 Base Offices had been set-off against respective debit balance. Therefore the trade and other receivables had been understated by that amount. Similarly, the debit balance of creditors amounting to Rs.23,419,945 had been set-off against the creditors of the Battaramulla Base Office. Therefore, trade and other payables had been understated by that amount.
- (b) Fixed Assets valued at Rs.3,351 million received from then Ministry of Economic Development as capital grant to carry out the road projects in the year 2012 had not been accounted as property plant and equipment and Government grant. However, in responding to previous year report, it was mentioned that “an action has already been taken to revalue the plant and machineries as at 01 January 2017 and incorporate the value accordingly. However, CECB had not taken action to revalue those assets at the end of the year 2017.

2.2.3 Accounts Receivable and Payable

Receivables and payables aggregating to Rs.1,703,121,917 and Rs.642,350,707 respectively in two divisions had remained outstanding without being settled for more than four years and a receivable balance amounting to Rs.2,119,986 of the International Division had remained outstanding for more than two years as at 31 December 2017.

2.2.4 Unidentified Differences

A difference of Rs.17,095,967 was observed in amounts due to customer between the balance shown in the financial Statements of Central Province Engineering Procurement Construction Division and the detailed schedules given by the CECB.

2.2.5 Lack of Evidence for Audit

Confirmations were not made available to audit relating to the debtors and creditors aggregating to Rs.8,475,707,071 and Rs.5,338,238,467 respectively shown in the financial statements as at 31 December 2017.

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 after tax net profit of Rs.401,305,256 and Rs.522,183,174 respectively for the year under review as compared with the corresponding after tax net profit of Rs.439,663,403 and Rs.524,220,763 respectively for the preceding year, thus indicating a deterioration of Rs.38,358,147 and Rs.2,037,589 respectively in the financial results for the year under review. The decrease of other income by Rs.93,171,190 and the increase of administration expenditure by Rs.116,615,298 as compared with previous year were the main reasons attributed for this deterioration of the CECB.

In analyzing financial results of the year under review and preceding four years, the after tax net profit of Rs.328,222,120 in the year 2013 had become an after tax net profit of Rs.401,305,256 in the year 2017. After adjusting the Employees emoluments, depreciation and taxation, the value addition of the CECB was Rs.2,356 million for the year under review. The value addition of the preceding year was Rs.2006 million.

3.2 Analytical Financial Review

The following observations are made.

- (a) The CECB had earned a pre – tax net profit of Rs.756 million during the year under review by utilizing its staff strength of 1,350 and total assets base of Rs. 21,856 million. Hence, the Return on Total Assets was 3.46 per cent for the year under review.
- (b) Operating profit margin and net profit margin of the year under review was 3.4 per cent and 3.04 per cent respectively and as compared with the previous year, these profit margins had been decreased by 2.5 per cent and 1.2 per cent respectively.

4. Performance Review

4.1 Performance

According to the Annual Action Plan of the CECB, cooperate goals of the International Division such as maximizing customer satisfaction, confidence and expecting to undertake infrastructure development and water resource development in the East African Region had not been achieved during the year under review.

4.2 Transactions of Contentious Nature

The following observations are made.

- (a) Three official residences had been handed over to the three Members of Parliament and they had not paid the monthly rental during the preceding year. Further, It was observed that, Out of them, one member had not paid monthly rental from the year 2004.
- (b) Board of Directors of the CECB had approved several incentive schemes to its staff without getting prior approval of the General Treasury. Total amount of such incentive paid in the year 2017 was Rs.67,027,249.

5. Accountability and Good Governance

5.1 Procurements and Contract Administration

5.1.1 Procurements

The following observations are made.

- (a) According to the Delegation of Financial Authority of the CECB for the procurements over Rs. 2 million, Competitive Bidding Method should be applied. However, the Head Office had applied Shopping Method for 6 procurements which exceeded the above limit.
- (b) According to the Supplementary No.32 to the Procurement Manual, for the Procurements carried out under Direct Contract Method no payments should be made for Committee Members. However, the CECB had paid Rs.53,000 as procurement Committee fees and Rs.16,000 as Technical Evaluation Committee Fees contrary to the Procurement Guideline.
- (c) Unrecovered mobilization advances aggregating to Rs.22,067,146 had remained in the accounts in relation to 13 No's Projects of the Engineering Procurement Construction Division which had been fully completed as at 31 December 2017. That balance was abnormal in its nature because the mobilization advance had not been fully recovered before the project arrived at 90 per cent completion stage as per the Section 03 of Conditions of Contract and Clause No.14.2 (b) of Standard Bidding Document No. ICTAD/SBD/02 issued by the Construction Industry Development Authority.

5.2 Budgetary Control

Significant variances ranging from 44 per cent to 137 per cent were observed between the budgeted and actual income items 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 Central Engineering Consultancy Bureau from time to time. Special attention is needed in respect of the following areas of control.

Areas of Control	Observation
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(a) Accounting	Inventory and returnable stock at sites as at 31 December 2017 had not been brought to the financial statements

- (b)** Assets Management Fixed Assets received from the Ministry had not been accounted.
- (c)** Income Management .
Actual work done relating to the Consultancy services had not been taken to the financial statements.