

Engineering Council, Sri Lanka - 2019

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Engineering Council , Sri Lanka 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, including a summary of significant accounting policies, 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 Financial Act No. 38 of 1971 . My comments and observations which I consider should be report 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 accompanying financial statements give a true and fair view of the financial position of the Council as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards .

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility, 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 Public Sector Accounting Standards, and for such internal control as management determine 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 Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Council or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, the Council 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.

1.4 Auditor's Responsibility on the Audit of 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 skepticism 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, misrepresentations, or the override of internal control.
- Obtained 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 internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Concluded on the appropriateness of the Management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Council'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. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluated the 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 Council and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Council has complied with applicable written law, or other general or special directions issued by the governing body of the Council;
- Whether it has performed according to its powers, functions and duties; and
- Whether the resources 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 Accounting Deficiencies

Audit Observations

(a) Although the membership fee for the year 2020 had not been received in the year under review, a sum of Rs. 3,730,320 had been stated in the financial statements as receivables and receipts in advance.

Comments of the Management

The notes were made to calculate the VAT included in the registration fees received for the year 2020, at the end of the year 2019 and also since that amount was not a revenue for the year 2019, because that amount had to be paid to the Inland

Recommendation

Accounting should be done in accordance with the Periodic Concept and the Realization Concept .

Revenue Department and because the eligibility of the Council to pay VAT was to be abolished at the beginning of 2020 as well.

(b) Even though it had been revealed in the financial statements that the amortization of fixed assets amounting to Rs.3,140,000 received as government grants is identified as per revenue approach, the value of amortization was deducted from fixed assets and capital contributions and stated in financial statements in contrary to accounting principles without identifying the amortization pertaining to the year under review as revenue.

Actions will be taken to correct in future financial statements.

Financial statements should be prepared in accordance with Public Sector Accounting Standards.

(c) Although the tax payable and receivable as per the Value Added Tax Reports for the third and fourth quarters of the year under review were Rs.383,682 and Rs.668,366 respectively, the balance tax payable was Rs.1,548,811 as stated in the financial statements without adjusting relevant tax payables and receivables.

The tax payable has been paid after the balance sheet date and entered in the tax report and handed over to the Inland Revenue Department and a copy of it has been submitted for audit.

The Value-added Tax Receivables and Payables should be accurately included in the financial statements

1.5.3 Unauthorized Transactions

Audit Observations	Comments of the Management	Recommendation
<p>The Director General of the Department of Management Services had approved 09 staff for 08 posts in the Engineering Council. Having created 03 posts which were not approved but not recruited for the approved posts and a sum of Rs.621,387 had been paid as salaries and allowances for that. Even though the recruitment procedures for the posts have been approved. Even though the Schemes of Recruitment for the posts had been approved, any employee had not been recruited to the permanent staff.</p>	<p>The recruitment procedure for posts approved by the Director General of the Department of Management Services had been sent to the Engineering Council by the letter dated 31 October 2019. However, Instructions had been given to suspend all the recruitments of the institutions furthermore by the Letter of the Secretary to the Treasury dated 20 November 2019. An office for the Engineering Council was ceremonially opened on 17 September 2019 . Employees such as Coordinating Officer, IT Coordinating Officer and Financial Manager - Acting Officer have been recruited on contract basis to commence and carry on the work of the office in accordance with the powers vested to the Board of Engineers under Section 22 of the Act until the employees are recruited according to the approved Scheme of Recruitment.</p>	<p>The recruitment should be done as per the recommendations of the Department of Management Services and recruitment and salary payments should not be made for unapproved posts.</p>

2. Financial Review

2.1 Financial Results

The operating result for the year was a surplus of Rs.13,611,000 and the inaugural year of the Engineering Council Sri Lanka was the year under review. The higher value of revenue from registration fees as compared to the operating expenses of the Council had caused this surplus.