Central Engineering Consultancy Bureau and its Subsidiary - 2019

1.1 Qualified Opinion

The audit of the consolidated financial statements of the Central Engineering Consultancy Bureau ("the Bureau") and its Subsidiary ("the Group") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report. The financial statements of the Subsidiary i.e. Central Engineering Services (Private) Limited were also audited by me.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying consolidated financial statements give a true and fair view of the financial position of the Bureau and the Group as at 31 December 2019 and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report. I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, 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 Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bureau's and Group's financial reporting process.

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

1.4 Auditor’s Responsibilities for the Audit of the 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.

- Obtain 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 Bureau’s and Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude 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 Group’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. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, 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 Bureau and the Group and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Bureau and Group has complied with applicable written law, or other general or special directions issued by the governing body of the Bureau and Group;

- Whether the Bureau and Group has performed according to its powers, functions and duties; and

- Whether the resources of the Bureau and Group 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 Consolidation

The Qualified Opinion on the financial statements of the Subsidiary for the year ended 31 December 2019 had been expressed by me mainly based on the non-compliances with Sri Lanka accounting standards including following matters.

Audit Issue	Management Comment	Recommendation
(a) It was not possible to observe the physical inventories counting at the end of the year and even not satisfied alternative methods to verify the availability of inventory held as at 31 December 2019 valued at Rs. 727,114,715 due to absence of proper stock verification reports or any independent confirmations.	Annual stock verification is handling by independent team which appointed by the Chairman. To ensure the independence, any employee of a same Base Office cannot appoint to the verification team of the same Base. At the next time hopes to inform the government auditors to oversee the verification process.	Physical inventories counting at the end of each reporting period should be carried out in terms of provisions in LKAS 2 in order to satisfactorily verify the availability of physical inventory held at the end of each reporting period with the participation of independent observer. Further, action to be taken to show the physically verified stock balance in the financial statements instead of being shown the ledger balance.

(b) Fully depreciated assets approximately costing Rs. 639,329,113 are being continuously used by the Company without reassessing the useful economic lifetime of those assets and accounted them accordingly.	As per Accounting Standards, we are applying cost model for initial and subsequent recognition of property, plant & equipment. Therefore revaluation model are not applying by the Company and record at cost. However, as per the LKAS 16 we have disclosed the details of fully depreciated assets held at 31 December 2019. Then this issue will be solved.	Action to be taken to reassess the useful economic lifetime of the fully depreciated assets in accordance to the provisions in Section 51 of LKAS 16.
(c) The value of Rs. 110,084,729 shown under trade debtors consists of an amount receivable from the Central Engineering Consultancy Bureau However, it had not been shown as payable to the Company in the financial statements of the Bureau. In addition to that, as per the financial statements of the Company, the debtor balances amounting to Rs. 513,455,828 are shown as receivable from the Bureau. However, as per the financial statements of the Bureau it was shown as Rs. 382,181,782 as at the end of the reporting period. Hence, there was a different of Rs. 131,274,046 between those two balances.	There are some errors in recording transactions. We will check and correct the entries in 2020	The corresponding values shown in the records of the Mother Organization should be agreed with those values shown in the records of the Company.
(d) Lease agreement entered into between the Company and Urban Development Authority with regard to the value of leasehold property amounting to Rs. 15,175,926 shown in the financial statements for the year under review had not been presented for audit.	There is a delay from Urban Development Authority to issue the Lease Agreement.	The lease agreement should be made available for audit in order to prove the ownership of this asset.

1.5.2 Basis for Qualified Opinion of the Bureau

The Qualified Opinions on the financial statements of the Bureau for the year ended 31 December 2019 had been expressed by me based on the following observations.

1.5.2.1 Non-Compliance with Sri Lanka Accounting Standards

Reference to particular Standard	Management Comment	Recommendation
(a) **SLFRS 07 – Financial Instruments: Disclosure and LKAS 39- Financial Instruments: Recognition and Measurement** According to the Memorandum of Understanding (MOU) entered into between the Bureau and Bank of Ceylon on 12 December 2018, a sum of Rs.25,000,000 has been deposited in a fixed deposit account for 5 years period from 14 May 2019 to 14 May 2024 as a pledged amount against a concessionary loan scheme for the permanent staff of the Bureau. Further, as per the MOU the Bureau shall pay 40 per cent of interest component on total outstanding loans given under this scheme. However, the Bureau had not disclosed the pledged amount of Rs.25,000,000 in the financial statements for the year under review.	Noted and action will be taken to disclose it in the Financial Statements for the year 2020.	The values and nature of the assets pledged against a liability should be disclosed in the financial statements.
(b) **LKAS 16 – Property, Plant and Equipment**		
(i) According to the financial statements for the year 2019, the fully depreciated assets approximately costing Rs. 277,925,772 are being continuously used by the Bureau without reassessing the useful economic lifetime of those assets and accounted them accordingly as per Section 51 of the Standard.	As CECB's fixed assets have been scattered over the island and there is a practical difficulty in implementing this process shortly. However, initial steps have already been taken in this regard.	Action to be taken to reassess the useful economic lifetime of the fully depreciated assets which are continuously used by the Bureau and accounted them in accordance to the provisions in Section 51 of the LKAS 16.
(ii) The Bureau had computed the depreciation for furniture and fittings,	We have initiated the process of verifying physical existence of all	The Depreciation should be computed by ensuring

construction instruments and equipment, office equipment, plant and machinery, containers, computers etc. based on the values shown in the general ledgers without being considered the actual existence of those assets as per the assets verification conducted by each Base of the Bureau. Further, the Bureau had not maintained a centralized assets register to ensure the existence of the assets which shown in the general ledger of the Bureau. Hence, the accuracy of the cost of such assets to the value of Rs.753,833,844 shown in the financial statements and depreciation of Rs. 65,336,596 provided on those assets for the year under review could not be reliably ascertained in audit.	fixed assets as a part of assignment mentioned above. Further, centralized Fixed Asset Register is available and it will be updated on completion of above process.	the physical existence of fixed assets which shown in the general ledger. Further, an updated centralized fixed assets register should be maintained as enable to conduct Annual Boards of Survey and reliably assess the cost of those assets.

1.5.2.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The balances of Rs.313,384,477 and Rs.324,327,489 relating to 82 completed projects were continuously shown as due from customers and due to customers respectively without make proper adjustments in the accounts. It was further observed that the Bureau had not engaged any construction activities since the year 2014. Hence, appearing of these balances in the accounts is questioned in audit.	Once the STC approvals receive, the contract sum can be adjusted. Further, in some cases the final bills were not issued until end of 2019 even though the projects have been completed and handed over to the clients. In the meantime, the clients had failed to certify the bills of several completed projects yet. Once the clients certify the final bills, the contract sums can be adjusted based on the certified values.	Effective and proper work plan should be introduced without further delay to clear the long outstanding balances with regard to completed projects and to make proper adjustments in the accounts by preparing an age analysis.
(b) The Bureau had omitted a payable amount of Rs. 105,912,266 from its financial statements which was shown under debtors in the financial statements of its Subsidiary. In addition to that, a balance of Rs. 311,528,934 payable to its Subsidiary had been reported as Rs. 391,372,535 by the Subsidiary in its financial statements. Therefore, the	Some creditors have not been recorded by the Bureau by oversight and some other balances are available under different object codes. These will be corrected in 2020.	The corresponding values shown as receivable in the records of the Subsidiary should be agreed with those values shown as payable in the records of the Bureau and those amounts to be brought

accuracy of the payables to the Subsidiary could not be ensured in audit.		to the financial statements without being omitted.
(c) An amount of Rs.1,600,196,674 (2018 - Rs.1,588,871,721) was shown as amount due from related companies and out of that a sum of Rs.693,923,629 or 43 per cent was remained unrecovered from the Subsidiary for over 05 years.	Currently we are in the process of reviewing long outstanding balances and proposal for settlement plan will be negotiated with CESL (Subsidiary).	A settlement procedure should be introduced by the management.

1.5.2.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
An unexplained difference of Rs. 37,955,749 was observed between the Value Added Tax payable shown in the financial statements for the year under review and the corresponding amounts shown in the detailed schedules prepared by the Bases and Divisions of the Bureau as at 31 December 2019.	Action has already taken to scrutinize the differences between VAT control accounts and VAT schedules. Some differences have been already identified and submitted to the Board and approval has already been granted for write off /back. Other differences shall also analyse and action will be taken to clear the accounts early.	Attention to be paid to reconcile the ledgers balances with schedules before preparing the financial statements.

1.5.2.4 Suspense Accounts

Audit Issue	Management Comment	Recommendation
Twelve items of account aggregating Rs. 14,687,379 had continuously brought to the financial statements since for more than five years as unidentified balances without being taken fruitful actions to identify and clear this amount after conducting a proper investigation.	Action will be taken to scrutinize these balances and make necessary adjustments early. Please note that, there are both receivables & payables and hence the net impact is Rs 7,693,985/- and not Rs 14,687,379 as mentioned in the query.	Fruitful action to be taken to clear this suspense nature balances from the books of account without any delay.

1.5.2.5 Documentary Evidences not made available for Audit

Item	Management Comment	Recommendation
(a) No Confirmation or Documentary Evidence made available for audit to ensure the existence of a bank balance amounting to Rs. 2,464,500 belongs to the Central Base of the Bureau.	No Comment	Confirmation or any other documentary evidence should be submitted for audit to satisfactorily verify the actual existence of bank balances.
(b) The accuracy of the amounts of Rs.10,663,936 and Rs. 6,036,067 included in the financial statements of the East Base of the Bureau as sundry creditors and retention payable respectively could not be ascertained in audit due to non-submission of detailed schedules for those balances.	No Comment	All details schedules should be submitted for audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) The total trade debtor balance as at 31 December 2019 was Rs.6,522,955,552. Out of these, sums aggregating Rs. 1,959,938,392 and Rs. 1,351,038,777 were outstanding for more than 03 years and 05 years respectively as at 31 December 2019 and those balances were not recovered even up to the date of this report.	Rs. 1,351 Mn of trade debtors was due for more than 5 years and Rs 1,959 Mn were between 3-5 years as referred in the audit query, and it was 21% and 30% respectively compared to total debtors as at 31.12.2019 (ie. Rs. 6,522 Mn). For these long debts adequate provisions for Bad and Doubtful debts of Rs. 1,887 Mn have been made in the Financial Statements, which is 29% of total trade debtors.	Outstanding balances should be recovered without any delay.
(b) It was a reasonable doubt in audit about the recoverability of retention receivables with regard to completed or abundant projects amounting to Rs. 732,414,526 and Rs.489,531,173 which were outstanding for over	Mainly, our clients are government Ministries, Departments and other State-Owned Enterprises. Balances pertaining to long outstanding debtors such as Retention will be released by client with debtor settlements. However, we are in the	A proper mechanism should be introduced to recover the retention receivables relating to projects which completed long ago without further delay.

03 years and 05 years respectively as at 31 December 2019. Further, these balances remained unchanged even up to the date of this report.	process scrutinizing of long outstanding retention receivables and action will be taken accordingly.	
(c) As per the age analysis furnished to audit, receivables such as mobilisation advances paid, deposits, other advances and sundry debtors etc. aggregating Rs. 414,258,947 and Rs.19,932,930 were outstanding for more than 03 years and 05 years respectively as at 31 December 2019. Nevertheless, the responsible officers had not taken prompt actions to recover theses long outstanding balances in time.	Total mobilization advances referred in the query were amounts paid to CESL and it is very unlikely to impair. Other amount of Rs 12 mn for advances, deposits and sundry debtors referred in the query is very insignificant in value compared to total trade receivables.	After examine the possibility for recoverability of these balances, a proper action to be taken to recover or clear these long outstanding balances.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
a) Mobilization advances received amounting to Rs. 19,889,526 with regard to fully completed and suspended construction projects of 02 Base Offices had remained in the accounts as at 31 December 2019 without being settled. It was further observed that the Bureau had failed to conduct a follow-up procedure in order to identify the possibility for settlement of these advances.	The projects are already completed or suspended & the balance remained in accounts for longer period and we have already submitted a paper to the Board to get approval for write back the balance amount. However the Board has instructed to review the balances by a committee with Treasury representative.	Actions to be taken to settle the all possible long outstanding mobilization advances without delay and to treat others as income
b) According to the age analysis made available for audit, creditors amounting to Rs.358,779,468 and Rs.586,044,360 and retention payables amounting to Rs.680,283,735 and Rs.83,390,570 had remained unsettled between 3 to 5 years and over five years respectively.	**Creditors /Retention Payables** More than 90% of the creditors and retentions are comprised of amounts payable for subsidiary (CESL). The correspondent debtor & retention receivables have also been accounted for external clients on the same projects and all these projects are continued for a long period.	Creditors should be settled within the stipulated time period and actions should be taken to release the amounts which can be released and others to treat as income

	Audit Issue	Management Comment	Recommendation
	Further, accrued expenses amounting to Rs.13,324,743 had remained outstanding for over one year without being settled.	Therefore, above mentioned creditors & retentions will only be settled once debtors & retention are recovered from external clients back to back. **Accrued expenses** Currently engaged in reviewing those balances and action will be taken accordingly.	
c)	A sum of Rs. 872,100,313 had been shown in the statement of financial position as at 31 December 2019 as income tax payable. Out of this, amounts aggregating Rs.441,249,851 and Rs. 151,337,445 had not been remitted to the Department of Inland Revenue for more than 03 years and 05 years respectively. It was further observed that, this practice is contravene to the provisions in the Inland Revenue Act, No. 10 of 2006 and the amendments made to thereof.	The Bureau's liquidity position has been adversely affected during the past few years due to long outstanding trade receivables. Most of our clients are government ministries, departments, and other state-owned enterprises and CECB's recovery action on collection on accounts receivables is highly limited as the matter is beyond our control. The continued liquidity problems of Bureau led to late settlement of above tax liability. Despite of financial constraints, the Bureau has settled Rs.162mn of the total income tax liability during the year 2019.	The Bureau should comply with the provisions in the Inland Revenue Act and immediate actions to be taken to remit the income tax which payable to the Commissioner General of Inland Revenue in order to avoid the surcharges on delayed payments.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
Advances given for various purposes totaling Rs.6,741,300 had not been settled or recovered for more than three years as at 31 December 2019 as per the provision in Financial Regulation 371 as amended by Public Finance Circular No. 03/2015 of 14 July 2015 and Delegation of Financial Authority of the Bureau	Action has already taken to scrutinize this balance and necessary steps will be taken to clear accounts.	Attention to be paid to comply with the provisions in the Financial Regulations 371 as amended by Public Finance Circular No. 03/2015 of 14 July 2015 and Delegation of Financial Authority of the Bureau.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Sections 10 and 11 of the Finance Act, No. 38 of 1971 and Public Enterprises Circular No. 02/2018 of 14 November 2018.	(i) The Bureau had not paid a sum of Rs.203,898,903 remaining out of the net surplus revenue to the Consolidated Fund after performing a solvency test as requested. Meanwhile, only a sum of Rs.25 million out of the retained earnings amounting to Rs. 5,640 million as at 31 December 2019 had been remitted to the General Treasury although they have expected Rs. 75 million returned for the year.	CECB is a self-financing organization, engaged in constancy & construction projects. Financial Statements are prepared on accrual basis and profits reported are not always in the form of cash. Further, please note that, there's a total trade receivables balance of Rs. 8 bn and Trade payable balance of Rs. 11 bn as at 31.12.2019. And also, we need adequate working capital for operations. Hence, there's no surplus funds available to remit to the Treasury	Net surplus of the Bureau after the appropriations should be remitted to the Consolidated Fund.
	(ii) A sum of Rs. 3,173,687,610 had been invested in short term and long term investment sources such as call deposits and fixed deposits etc. without obtaining the required approvals.	Although the CECB is a government body covered by finance Act and financial regulations, it is an organisation relating to Consultancy & construction industry operating in a highly competitive market. Most of instances funds are being received as mobilization advances which are invested in short term investments mainly in the form of fixed or call deposits and will be subsequently utilized for the required purpose. As this is a process taking place very frequently it is not practically possible to obtain approval from government authorities in each and every time.	The approval of the appropriate Minister after obtaining the concurrence of the Minister of Finance should be taken before make investments.

(b)Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance.			
i Paragraph 8.8	Approval of the Board had not been obtained annually for the delegation of authority, including limits of expenditure and such delegation of authority has not been updated and approved by the Board at the beginning of each year.	Present Delegation of Financial Authority has been reviewed and updated statement has been submitted for the Board and approval has been granted. And noted to comply in future to get approval annually.	Approval of the Board should be obtained for the delegation of authority, including limits of expenditure.
ii Paragraph 9.3.1	Although there should have an approved Scheme of Recruitments and Promotions in the Bureau, such scheme had not prepared and approved for the post of middle level and top level management even as at 30 June 2020.	Bureau submitted the SOR for the level of MM 1-1 for Management Service Department on 04.04.2019, incorporating with MSD comments for their approval Furthermore, revised SOR from MM level to HM level will be submitted to the MSD after obtaining the approval for the revised Bureau Cadre.	The Bureau should have an approved Scheme of Recruitments and Promotions for all level of the approved cadre.
(c)Guideline 4.2 of the Government Procurement Guidelines 2006	The Bureau had failed to prepare a Master Procurement Plan and Procurement Time Schedule for the procurement activities envisaged at least for a period of three years.	Budgets are generally prepared for the subsequent year considering the projects in hand and new projects expected in line with Government economic policies. Accordingly, Procurement Plans are prepared based on Budgets only for the respective year. Hence, it is not practical to prepare Procurement Plans and Time Schedule for the procurement activities for a period of three years.	Special Cabinet approval should be obtained to deviate from the Government Procurement Guidelines. Otherwise, the Bureau should comply with those Guidelines.
(d) Chapter X of the Administrative Codes of the Bureau	(i) Although the water and electricity bills of the official quarters should be paid by the residents, at the audit test check it was	Water and electricity bills of the A2, A5, and D4 quarters were paid by the Bureau. Further, the expenses were paid as per the Board Decisions given in Board Paper 3762 dated 29.11.2018.	Actions to be taken to adhere with the provisions in the Administrative Codes of the Bureau.

revealed that the Water and Electricity Bills approximately Rs.1,804,846 with regard to 05 quarters located in Sarana Mawatha and 08 official quarters obtained on rental basis had been paid by the Bureau in the year under review contrary to the provisions in the Administrative Codes of the Bureau.	Furthermore, Head of Units are advised to get reimbursed the utility bill cost from the resident employees who are resided in base office official quarters.	
(ii) It was observed that an official quarter (D-4) had been used by the then Secretary to the Ministry of Mahaweli Development and Environment from January 2015 to May 2019 and no rental had been recovered from him. In addition, water bills, electricity bills and television service bills approximately Rs.900,000 had been also paid by the Bureau without being recovered from him even up to 30 June 2020.	Eng. Nihal Rupasinghe, former Chairman of the Bureau occupied the D - 4 Official Quarters from, January 2015 to July 2015 as the Secretary to the Ministry of Mahaweli Development and Environment and July 2015 to November 2019 as the Secretary to the Ministry of Megapolis and Western Development. Eng. Nihal Rupasinghe retired on 09.06.2019. However, D – 4 Official Quarters was allocated to Eng. Nihal Rupasinghe when he was serving as the Bureau Chairman and as Secretary for the two Ministries. All the utility bills (water and electricity) were paid by the Bureau D – 4 Official Residence has been converted for a Circuit Bungalow with effect from 01.03.2020 and monthly water and electricity bills shall be settled by the Bureau and a fee will be charged from officers occupying the Circuit Bungalow.	Reasonable rental together with amount paid for water, electricity and television service bills should be recovered from the outside parties who occupied in the official quarters of the Bureau after obtaining valuation report from the Government Valuer.
(iii) Even though there is no provision for providing official	The two official residences which were obtained on rental basis for the officers, in Rajagiriya has	Actions to be taken on none adherence with the provisions

	quarters for the officers who working at the Head Office of the Bureau, two official residences were obtained from private parties on rental basis for these officers and an amount of Rs.2,760,000 had been paid as rental by the Bureau during the year under review.	been discontinued and Rs. 2000 has been deducted from the resident officers.	in the Administrative Codes of the Bureau.
(f) Paragraph II of the Management Services Circular No. 03/2018 of 18 July 2018	Fifty eight officers had been recruited for 09 posts without obtaining prior approvals from the Department of Management Services of General Treasury.	Mr. D. Mabopitiya, DGM (Finance) and Mr. G.I. Athuraliya, Internal Auditor were recruited to the permanent cadre of the Bureau through open advertisements and with the approval of the Board of Directors and the line Ministry to fulfill urgent CECB service requirements. The other staff were recruited to the Bureau prior to the Circular No. 03/2018 of 18.07.2018 issued by Secretary, Ministry of Treasury, Finance and Mass Media on Staff Recruitments, Salary and Allowance payments to the staff of state Institutions.	Prior approvals from the Department of Management Services of General Treasury should be obtained before making recruitment to any post.

2. Financial Review

2.1 Financial Results

The operating results of the Bureau for the year under review amounted to a pre-tax net profit of Rs.339,937,117 and the corresponding pre-tax net profit in the preceding year amounted to Rs.526,192,483 . Therefore, a deterioration of Rs.186,255,366 in the financial results was observed. Decrease of construction revenue by Rs. 1,904,496,154 was the main reason attributed for this deterioration.

2.3 Ratio Analysis

(a) The Bureau had earned a pre-tax net profit of Rs. 339.94 million during the year under review by utilizing its total assets base of Rs. 19,636.61 million. Hence, the return on total assets was only 1,73 per cent and this had been gradually decreased year by year since 2012. Further, this was far below as compared with generally accepted ratio in the similar industry.

(b) Gross profit margin and net profit margin of the year under review had decreased by 3.19 per cent and 2.04 per cent respectively as compared with the previous year. Although it was expected to maintain the net profit margin at a rate of 3.78 per cent in the year under review, it was not achieved.

3. Operating Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
According to the financial statements presented for audit, the value of inventories was shown as Rs.10,741,039. However, as per the ledger balances and information made available for audit, the verified stock balance was only Rs. 7,859,343. Hence, an identified stock loss of Rs. 2,881,695 was observed in audit.	This was an accounting error and already corrected in 2020	Action to be taken to show the physically verified stock balance in the financial statements.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Bureau had failed to take proper actions to recover the course fees amounting to Rs.10,617,637 from 15 officers who breached the bond agreements entered into with the Bureau and these balances were remained outstanding for the period ranging from 01 to 06 years as at 31 December 2019. It was further observed that out of the above amount, a sum of Rs. 6,615,610 had been paid to 07 officers who have gone abroad on no-pay leave during the period of 2005 to 2016.	Board approval has been granted to implement the following recommendations. • Considered under the 2018 Revision of the Obligatory period of service requirements. • Pay the due monetary penalties individually calculated in terms of the norms, terms and conditions of the 2018 Revision according to the Board Paper No 4043.	The Bureau should take legal actions against the officers who breached the bond agreements entered into with the Bureau for the recovery of outstanding course fees paid to those officers.

		• Allow to settle the full amount in not more than three instalments before 31st December 2020 • For the delayed course fee up to making payment of course fees to CECB shall be imposed Treasury Bill rate of the Central Bank shall be considered for the calculation

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
a) Since the Bureau had not engaged any construction activities at present, the Bureau had earned only a consultancy income of Rs.2,419,848,294 in the year under review by deploying approximately 1,360 employees including 476 engineers.	As per our analysis there is no such decrease in income earned per Engineer attached to consultancy projects.	After establishment of the Subsidiary, the Bureau had not engaged any construction activities at present. Hence, the Bureau should reconsider the necessity for deployment of around 1,300 employees including 457 engineers to earn only the consultancy income of approximately Rs.2,420 million.
b) An interest income of Rs.314.40 million earned in the year under review on the investment of Rs. 3,173.69 million made in short term and long term investment sources which is not main business activity of the Bureau had been represented 92.5 per cent (2018 – 68.18 per cent) of the pre-tax net profit for the year under review.	We receive mobilization advances and they are effectively utilized in short term deposits until they are used for intended purpose. (Mobilization Advances as at 2019 is 4.1 Billion). When most of the projects are received it is required to secure FDs against Mobilization advance and performance guarantees.	The Management of the Bureau should pay its attention to efficiently utilize its financial, human and other physical resources in order to enhance the operating income of the Bureau.
c) Twenty three construction works valued at Rs. 18,762 million to be completed before the year 2019 which consultancy services provided by the Bureau had not been completed even up to the date of audit on 30 June 2019 and these projects were delayed the period ranging from 01 to 04 years.	Reasons for the delays are due to poor cash flows of the clients, unforeseen foundation condition encountered during the construction period, contractor's financial issues, change in scope etc. And they are beyond the control of the CECB.	As a consultant it is the responsibility of the Bureau to ensure the completion of projects works within the stipulated time period by taking appropriate actions with regard to any significant delay.

d) Thirty one construction projects were completed with a total loss of Rs.197,137,979 by the Bureau in the year under review and out of that 14 Projects which were sub contracted to the Subsidiary of the Bureau had been completed with a loss of Rs. 52,278,277.	Main agreements with CECB and Clients are applied back to back in the agreements between CECB and CESL. However losses shown in mentioned projects due to various reasons such as original contract sum not adjusted to final bill until client approve/certify final bill/extra work/variation ,unexpected cost incurred due to changes in design, rework, change in ministries, changes in taxes etc. As such these losses have to be borne by both parties. However, in future we will closely monitor the projects to avoid the losses.	Fruitful actions should be taken by the Bureau to mitigate these loses in the future.
e) Five regional Base Offices and Divisions of the Bureau had continuously running at operating loss for over last several years and the losses sustained during the year under review and in the previous two years was totaled to Rs. 142 million. In addition to the above, another 05 Base offices (EPC and Consultancy) of the Bureau namely Jawaththa, Sabragamuwa, DHQC, NRM&LS and South East were also running with a loss of Rs. 35.87 million during the year under review.	We had to incur some additional cost like NBT as well as, we could only obtain few new jobs with lower margin which was not sufficient to cover the fixed overhead of the Base Offices.	Bureau should pay its attention to efficiently utilize its financial, human and other physical resources in order to enhance the operating income of the Bases of the Bureau.

3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
a) Although the Bureau is fully equipped with all necessary physical and human resources to perform in all types of constructions works and engineering consultancies, at present the Bureau is subcontracting all the constructions works undertaken by itself to its Subsidiary (the CESL) after retaining a profit margin of 2.5 per cent on contract prices.	CESL formed as a fully owned subsidiary of CECB to carry out construction work of EPC with the instructions of COPE and also as CECB cannot bid for construction works according to our incorporation documents. Further, CECB enters into agreements with clients for construction works and CECB only assign the work to its	Actions should be taken to include this matter in the contract agreements when entering into contract agreements with the clients.

Accordingly, 47 project works to the total value of Rs.4,552.64 million had been subcontracted to its Subsidiary after retaining a profit of Rs.135.62 million during the year under review. However, as per the audit test check it was revealed that while entering into contract agreements with the clients, the Bureau had not disclosed this procedure in the contract agreements	subsidiary CESL. Therefore, it is not a subcontracting process and it is an assignment. Hence especially it was not mentioned in the Clients agreement. However, with this transition, clients were informed that construction works were carried out by CESL. And by now clients are awarding construction jobs directly to CESL while assigning Design works to CECB.	
b) Six official residences located at Sarana Mawatha had been provided to three Members of Parliament, then Secretary to the Ministry of Megapolis & Western Development (Retired on 09 June 2019), the Director General of the Mahaweli Authority and then Secretary to the Ministry of Mahaweli Development and Environment since the year 2004. However, no agreement had been entered into between the Bureau and respective parties in this connection and no rental had been recovered from Secretary to the Ministry of Megapolis & Western Development, the Director General of the Mahaweli Authority and the Secretary to the Ministry of Mahaweli Development and Environment. As a result of these irregular activities, at least an amount equal to 12.5 per cent of the salary of the above officers had been lost to the Bureau. Further, according to the information made available for audit only Rs. 741,154 was recovered from 03 Members of Parliament as rental for the year under review.	Noted to take action in future.	The provisions in Chapter X of the Administrative Codes of the Bureau should be strictly followed in this connection.
(c) Although there were 03 Circuit Bungalows located at Kothmale, Randanigala and Plonnaruwa, a register for officers who occupied in those bungalows and other required	As per the instruction given by His Excellency President Maithripala Sirisena, the Circuit bungalow in Polonnaruwa was renovated (Repair and refurnish) in 2019. Rental income	A register for officers who occupied in those bungalows should be maintained and other required

procedure for the allocation of these Bungalows had not been maintained and implemented by the Bureau. As a result, a sum of Rs. 50,750 only had been earned as hiring income from 02 Circuit Bungalows out of above three Bungalows during the year under review.	was null during the year 2019. After COVID19 (From April 2020), Circuit Bungalow is used as staff accommodation.	procedure for the allocation of these Bungalows to be introduced and implemented without delay.
(e)The Board of Directors had granted the approval on 21 October 2019 to paid the funeral expenses amounting to Rs.613,360 of late working director of the Bureau. Out of the above, a cheque worth Rs. 138,360 was written to the name of the Bureau. Although this expenditure is not a legitimate cost relating to the activities of the Bureau, this was shown under the administrative expenses in contrary to the Public Enterprises Circular No. PED 12 of 02 June 2003.	Payment was made with the approval of the Board and noted to comply with the Public Enterprises Circular No. PED 12 of 02 June 2003 in future.	The Bureau should comply with prevailing rules and regulations in order to avoid in involving of these types of irregular transections.

3.5 Ideal and Underutilized Bank Balances

Audit Issue	Management Comment	Recommendation
A sum of Rs.2,567,532 had remained idle in seven non-operative (dormant) bank current accounts since last 03 years without being utilized for any purpose and these balances remained unchanged even up to 30 June 2020.	No comment	Steps to be taken to closed these unnecessary bank accounts and utilized the idle money for the betterment of the organization.

3.6 Procurement Management

Audit Issue	Management Comment	Recommendation
Even though a Procurement Plan had been prepared by the Bureau for procurement of various items of assets to the total estimated value of Rs.233,470,043 during the year under review, only the assets item worth	Capital Budget for 2019 had been prepared and approved in October 2018. Bureau had to strictly restrict or delay budget on other capital assets	Efficient planning of the entire procurement process is vital to ensure timely completion of the activities and to obtain the best market value for it.

Rs.28,342,689 or 12 per cent of the estimated value had been procured in the year under review. Hence, it was observed that the Procurement Plan had been prepared on ad-hock basis without considering the actual requirements of the Bureau.	considering financial constrains in 2019. However, we intend to prepare capital budget precisely as possible in future by means of with the implementation of ERP	

3.7 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) The Bureau has recruited 231 excess employees for 12 posts as compared with the approved cadre of the Bureau and the necessity for these excess recruitments is not cleared in audit. Further, the information of this excess cadre had not been remitted to the Department of Management Services as requested by Management Services Circular No. 03/2018 of 18 July 2018.	The Bureau recruits staff outside the approved cadre mostly on job contracts to service prospective project work requirements.	Information on the employees recruited under different categories exceeding the approved cadre of the Bureau should be submitted to the Department of Management Services for its consideration
(b) In addition to the above the Bureau had outsourced 158 employees from a manpower company during the period from July 2017 to February 2019 and a sum of Rs.98,214,017 had been paid as salaries, overtime and service charges to that Manpower Company during the year 2019 without being assessed and justified the requirement for this recruitment.	The employees hired through manpower by the Bureau is done time to time based on urgent requirement of each project which mainly includes hiring of labour and it is assessed periodically.	The Bureau should reconsider the necessity for deployment of outsourced manpower in addition to 1142 fixed term employees to earn only the consultancy income.

3.8 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
According to the information provided for audit 22 vehicles had met with accidents in 24 instances during the year 2019 and Rs.1,025,508 had been incurred for repair of 17 vehicle accidents. However, cost incurred for repairs of 7 accidents had not been provided for audit. Further, no inquiries had been instituted to ascertain the extent and causes of the loss and to fix responsibility. Meanwhile, preliminary reports and final reports with regard to these vehicle accidents had not been submitted to the Auditor General.	Accidents of the Vehicle fleet have been managed as per the office circular dated 2014.02.10. Present status of cost for the repairs of 8 accidents is provided to audit and noted to report to Auditor General with regard to vehicle accident in future.	The preliminary report should be sent immediately if a delay of more than 7 days is envisaged for making a full report and after inquiry, the full report should be submitted within 3 month from the date of loss.

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4. Accountability and Good Governance

4.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
Updated copies of the Corporate Plan approved by the Board had not been presented to the Auditor General even up to the end of the year under review.	No comment	Updated copies of the Corporate Plan approved by the Board together with the updated Annual Budget should be forwarded to the line Ministry, Department of Public Enterprises, General Treasury and the Auditor General at least 15 days before the commencement of each financial year.

4.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to the Action Plan and the progress report for the year 2019 presented to audit, no progress was reported with regard to 21 targeted activities to the estimated value of Rs. 19,700,000 belongs to 07 Divisions of	Action Plan for the year has been prepared based on the Corporate Plan, taking into account of current political, environment, social and technological factors and the sequence of activities are identified	Action Plan should be prepared on realistic basis in order to achieve the setout targets effectively.

the Bureau. This situation has badly affected to the overall performance of the Bureau.

accordingly. However, due to effect of above mentioned uncontrollable factors all the planned activities cannot be achieved during a year.