Central Engineering Services (Private) Ltd - 2024

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Services (Private) Ltd ("Company") for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 provisions of the National Audit Act No. 19 of 2018. 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 Company as at 31 December 2024, and of its financial performance and its 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 misstatement, whether due to fraud or error.

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

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

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

1.4 Audit Scope (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 Company'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 Company'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 Company 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 Company, and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	As per paragraph 51 of Sri Lanka Accounting Standard 16, the company had continued to use property, plant, and equipment with a total cost of Rs. 883.88 million that had been fully depreciated as of 31 December 2024, without reassessing their useful economic life.	It has been planned to revalue the assets based on the change in estimated useful life and the assets are planned to be assessed appropriately by category.	In accordance with Sri Lanka Accounting Standards, the useful economic life of assets should be reviewed annually.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Although transactions occurred between the company's inter-units should be reconciled and corrected during the preparation of the final financial statements to ensure fair presentation, trade payables, retention	Those items will be further examined and properly accounted in the following year.	Transactions and balances occurred between the company's base offices and divisions

	payables, and trade receivables amounting to Rs.64.85 million, Rs.28.42 million, and Rs.26.54 million respectively, had been recorded by the company's own name.		should be adjusted when preparing the financial statements.
(b)	By recording the internal transactions of Rs.27.71 million occurred between the company's base offices under other income, income was overstated by the same amount.	It will be properly accounted in the following year.	Transactions and balances occurred between the company's base offices and divisions should be adjusted during the preparation of financial statements.
(c)	According to the annual stock and asset verification conducted in January 2024, it was revealed that there were excesses in lot of stock and asset items belonging to the Galle and Matara project units in the Southern Province, that disposed fixed assets still existed in the Enterprise Resource Planning (ERP) system, and that there were shortages in several asset items. However, the financial value of these excesses and shortages had not been included in the financial statements after adjusting in the system.	The relevant items will be accounted for in the future, subject to the approval of the Board of Directors.	The financial value of the excesses and shortages should be identified and adjusted within the ERP system.
(d)	The Asset disposal gain of Rs.2.74 million reported under other income for the year under review included Rs.1.69 million of excess depreciation relating to the disposal of prior years, resulting the other income for the year being overstated by same amount.	Since this adjustment is a very small amount relative to the total depreciation expense, it has been adjusted in the relevant year.	Asset disposal gains not related to the year under review should be accounted under prior year adjustments.

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs. Million	As per corresponding Record Rs. Million	Difference Rs. Million	Management Comment	Recommendation
Trade Creditors	62.16	53.20	8.96	The variance arising when accounting for the parent company will be corrected in the future.	Actions should be taken to record the correct values after reconciling the balances receivable from and payable to related parties.
Mobilization Advance Payable	2,242.95	2,239.57	3.37	The variance arising when accounting for the parent company will be corrected in the future.	Actions should be taken to record the correct values after reconciling the balances receivable from and payable to related parties.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	The total debtor balance as at 31, December 2024, amounted to Rs.3, 049.96 million, out of that Rs. 313.43 million and Rs.152.85 million were outstanding for the period of 03 to 05 years and more than 5 years, respectively, but no action had been taken to recover those balances.	Necessary actions will be taken to recover the balances from the debtors.	Effective actions should be taken to promptly recover outstanding debtor balances.

	Audit Issue	Management Comment	Recommendation
(b)	As at 31, December 2024, the retention receivable balance was Rs.3,051.27 million. Out of this, Rs.514.87 million and Rs.490.75 million were remained unrecovered for 3 to 5 years and more than 5 years, and no action had been taken to recover these amounts.	Necessary actions will be taken to recover retention receivable balances.	Outstanding retention balances should be promptly recovered in accordance with the contract agreements.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	Out of the creditor balance of Rs.1,671.90 million as at 31 December 2024, Rs.400 million had not been settled within the period of 2 to 5 years.	Necessary actions will be taken to recover the money due from debtors, and payments to creditors will be made as funds are received.	Outstanding payables should be promptly settled to ensure the uninterrupted continuation of operations.
(b)	Out of the retention payables balance of Rs.875.45 million as at 31 December 2024, Rs. 434.44 million and Rs.189.67 million remained unsettled for the period from 2 to 5 years and more than 5 years.	Necessary actions will be taken to recover the money due from debtors, and payments to creditors will be made as funds are received.	Appropriate actions should be introduced to enable the prompt settlement of retention payable balances.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
Even though the Company has to be paid an amount Rs. 1,569.40 million to the parent company Central Engineering Consulting Bureau (CECB) as at 31 December 2024, Proper and updated agreements had not been maintained between the two parties in this regard	Due to the adverse economic conditions prevailed in the country impacting to project cash flows significantly and as a result of that intercompany current account balances have been increased. A process will	Clear agreements should be established for transactions between the company and the bureau, and immediate steps should be taken to disclose and settle relevant outstanding balances.

and the management of the two institutions had not taken any effective actions to settle this balance.	be undertaken to review long-term balances payable to the parent company to identify a method for capitalizing those balances.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Sections 38(1)(c) and 38(2) of National Audit Act, No. 19 of 2018	Chief Accounting Officers and Accounting Officers should ensure that an effective internal control system is established and maintained for the financial management of each entity. The effectiveness of this system should be reviewed periodically, and necessary modifications should be made to ensure its continued efficiency. Furthermore, this review should be done in writing and even though a copy of that should be provided to the Auditor General, action had not been taken accordingly.	Since 01 January 2018 an ERP control system has been maintained for the financial management of the institution, and a review of its effectiveness will be conducted.	Actions should be taken to carry out a written review of internal controls and submit a copy of that to the Auditor General in accordance with the provisions of the Audit Act.
(b)	Public Enterprises Circular No. 01/2021 dated 16 November 2021 on Operational			

	Manual for Corporate Governance for State-Owned Enterprises			
(i)	Paragraph 4.3(iii)	Although the company should maintain a proper inventory management system to manage all stock receipts and issues, the Enterprise Resource Planning (ERP) system used by the company does not have the capability to generate proper age analysis report. As a result, it was not possible to identify obsolete, slow-moving, and non-moving items.	Although the ERP system cannot provide an inventory age analysis, during the annual inventory verification, all obsolete inventory will be observed by an independent party and necessary action will be taken.	The company should take necessary actions to implement a proper inventory management system (ERP) for inventory management without delay.
(ii)	Paragraph 3.2 & 3.4	Although the company should have an approved scheme of recruitment and a recruitment and promotion plan before recruitment of staff for various positions, such a procedure and plan had not been prepared and approved by the company as of 31 March 2025.	It has been submitted for the approval of the Department of Management Services.	The scheme of recruitment and promotion should be prepared and actions should be taken to obtain approval for it promptly.
(iii)	Paragraph 5.4.4 (iii) of 2006 Government Procurement Guidelines	Although the advance payments made to contractors should have been fully recovered before making 90 percentage of the contract payments, as at 31 December 2024, advances totaling Rs. 376.67 million related to 16 projects completed	These balances remain due to reasons such as non-certification of final bills, entering to the mutual project terminations, and	Actions should be taken to recover the mobilization advances as per the referred guidelines and the relevant bill

	between 90% and 100% under 06 base offices had not been settled.	temporary suspension of projects, and will be settled with the client in the future.	certification process should be completed without delay.

2 Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 664.09 million and the corresponding profit in the preceding year amounted to Rs.302.70 million. Therefore an improvement amounting to Rs. 361.39 million of the financial result was observed. The reasons for the improvement was mainly due to increase in contract income of Rs. 1,869.22 million, rental income and landscaping income of Rs. 2.30 million and Rs.26.92 million respectively compared to the previous year.

2.2 Trend Analysis of major Income and Expenditure items

Description	Value of current year Rs. Million	Value of preceding year Rs. Million	Difference Increase / (Decrease) Rs. Million	percentage (%)
Revenue				
Construction & Consultancy Revenue	8,724.15	6,854.08	1,870.07	27
Finance Income	481.29	701.36	(220.07)	31
Expenses				
Cost of Sales	7,666.06	6,383.50	1,282.56	20
Selling and distribution Expenses	1.99	14.96	(12.97)	87
Finance Expense	7.76	15.36	7.60	49

2.3 Ratio Analysis

During the year under review, the gross profit margin was 12.13 percent, representing an increase of 77 percent compared to the previous year. Furthermore, by utilizing total assets of Rs. 15,081 million, the company earned a pre-tax profit of Rs. 664 million in the year under review. According to that a return on total assets was 4.4 percent. However, management had not taken steps to develop and implement a strategic plan on how to maximize the use of resources to further maximize operating profits in the forthcoming period.

3 Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Company and the Sri Lanka Hadabima Authority had not entered a formal agreement by the end of the year under review regarding the project to introduce poly tunnel houses at the Pallekele and Kotmale farms, which was jointly undertaken by both parties. However, a joint venture agreement was entered into on 9 April 2025, only for poultry hatchery project. According to the agreement, it was agreed that 70 percent of the net profit would be shared by the company and 30 percent by the Authority under the relevant conditions during the first 6 years. Although Hadabima authority earned a net profit of Rs. 3.56 million as per financial statements for the year ended 31 December 2024, no profit distribution had been made to the company as per the agreement. There had been no disclosure in the financial statements regarding the implementation of this project.	In accordance with the memorandum of understanding established between the company and the Hadabima Authority, accounting should be carried out under SLFRS 11. Under this standard, a valid agreement between the two parties is essential for accounting. Since a formal agreement could not be reached by 9 April 2025 and no valid joint control could be identified as required by the standard. Therefore the amount of Rs. 87.39 million incurred by the company for that project has been reported under work in progress.	Actions should be taken to enter formal agreement between the parties regarding the project, distribute profits accordingly, and disclose in the financial statements.

(b)	The company had paid Rs. 15.43 million as lease rental to the Urban Development Authority in 2019 without entering into a formal agreement to acquire land of 60 perches in the Rathnapura district belonging to the Urban Development Authority on a 30-year lease basis. The building for the Sabaragamuwa base office had been constructed on this land. It was observed that carrying out construction work and making payments without a formal agreement, without considering the legal status, can result in risky and contentious situations.	In order to complete this lease deed to the Urban Development Authority, it must obtain exemption certificates under Section 6 (1) of the Government Land Ordinance for the land plots comprising 348 acres, including this land. It was informed that this lease deed can be completed after the above work is completed.	Actions should be taken to sign the relevant agreement with the Urban Development Authority promptly, since the company has paid the full rent.
(c)	The Rambaken Oya project was initially carried out by CECB and was handed over to the company during the reviewed year. Since this handover process had not been properly completed by the end of the year under review, the value of the assets, including the construction and development activities carried out on that land, had been included in the Bureau's financial statements.	This agricultural project was initially carried out by CECB and cost Rs. 17.28 million was incurred for this project. Accordingly, steps will be taken to record this amount in the company in the year 2025.	The project handover process should be properly completed, and values should be included in the financial statements.

3.2 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	According to the information provided for audit, the company incurred operating losses of Rs. 745.47 million, Rs. 942.90 million and Rs. 667.42 million in 2024, 2023 and 2022 respectively from its fully completed construction projects and total loss of Rs.	Delays in project completion beyond the estimated timeframe, material costs exceeding estimated costs, excessive overhead costs, delays in	Management should take effective measures to prevent cost overruns and ensure adequate profits from

444.49 million was incurred from 35 out of the 203 ongoing construction projects during the year under review. It was observed during the audit that, since the Company had not taken action to identify the factors contributing to these losses and to monitor ongoing construction projects efficiently and effectively, this may affect the Company's going concern.	obtaining approvals for time extensions, pandemic conditions, and delayed payments were caused for this.	construction projects through effective time management.

3.3 Transactions of Contentious Nature

	Audit Issue	Management Comment	Recommendation
(a)	Due to the absence of proper segregation of duties, lack of ERP password confidentiality, and weaknesses in internal controls within the accounts division of the Southern base Office, an officer acting as a store assistant was able to misappropriate a total of Rs. 50.06 million from four company bank accounts between 01 January 2021 and 13 June 2024. This was revealed by a primary investigation committee appointed by the company's Chief Executive Officer. Out of this amount, Rs. 0.44 million had been recovered on three occasions, and balance of Rs. 49.62 million still need to be recovered to the company. However, the company had not taken prompt action to recover this amount or initiate legal and disciplinary actions against the responsible parties.	Regarding this matter, the complaint submitted by the company to the Criminal Investigation Department (CID) on 01 November 2024 led to the first reminder being sent on 28 January 2025. Subsequently, the Criminal Investigation Department scheduled a date to summon the institution, and further actions are currently being undertaken.	Management should take immediate steps to expedite investigations and take formal and disciplinary action to recover losses from the responsible parties.