

**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 2022 comprising the statement of financial position as at 31 December 2022 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, Engineering Council, Sri Lanka Act, No. 4 of 2017 and the Finance 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 2022 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 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 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 Scope of the Audit (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.
- 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 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 the Council on 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.
- Evaluate 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 the Council has performed according to its powers, functions and duties; and
- Whether the resources of the Council 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 Public Sector Accounting Standards**

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Arrangements had not been made to recognize all registration fees of the Council on accrual basis in terms of Sri Lanka Public Sector Accounting Standards 10 and only a receivable of Rs. 845,000 had been shown as registration fees receivable from Institution of Engineers Sri Lanka (IESL). As a result of the details of registered members of the Institution of Engineers Sri Lanka (IESL) and the Institution of Incorporated Engineers' Sri Lanka (IIESL) were not submitted to audit, the stated registration fee income of Rs.18, 434,000 could not be satisfactorily vouched.	Only a sum of Rs. 845,000 to be received from the Institution of Engineers Sri Lanka has been shown as registration fees receivable in the financial statements during the year under review because of the money receivable from other institutions had already been received. Since the registration with the Engineering Council is not a legal requirement, the Council is unable to refer for that.	Revenue should be recognized on an accrual basis in accordance with the provisions of Sri Lanka Public Sector Accounting Standards 10.
(b) It had not been disclosed about emoluments and other allowances paid by the Council to related parties in terms of Paragraph 34	Actions will be taken in the future in accordance with Paragraph 34 of Sri Lanka Public Sector Accounting	Necessary disclosures should be made in accordance

of Sri Lanka Public Sector Accounting Standards 14.	Standards 14.	with the provisions of Sri Lanka Public Sector Accounting Standards 14.
(c) Inclusion of a reconciliation between budgeted figures and actual figures in the financial statements or reasons for quantitative differences remained between budgeted figures and actual figures had not been explained.	Since the preparation of the Budget for the year 2022 had delayed it was not possible to get an approval for that. Since there was no approved Budget, it was impossible to perform this process.	Budgeted information should be disclosed in accordance with the provisions of Sri Lanka Public Sector Accounting Standards 15.
(d) It had not been disclosed about the nine cases that were filed by external parties against the Council by notes to the financial statements in terms of Sri Lanka Public Sector Accounting Standards 8.	Actions will be taken in the future in accordance with Sri Lanka Public Sector Accounting Standards No. 8. However, the Council will not have to pay any compensation in relation to these cases.	Contingent liabilities should be disclosed in accordance with the provisions of Sri Lanka Public Sector Accounting Standards 8.

### 1.5.2 Accounting Deficiencies

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Provisions had not been made for employee gratuity liability in terms of requirement of Payment of Gratuity Act No. 12 of 1983	Actions are being taken to overcome this shortcoming in future.	Provisions should be made for the payment of employee gratuity.
(b) The total of telephone charges and bonuses paid during the year 2023 amounted to Rs.76,416 in relation to the year under review had not been shown as balances payable in the financial statements of the year under review.	The telephone bills for December 2022 were received in January 2023. The approval of the Council for payment of bonus was received in the Council Meeting in January 2023. Therefore, it was impossible to show them under the payable values in the	Actions should be taken to identify and account for all expenses relating to the year.

financial statements of the year under review.

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

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Engineering Council, Sri Lanka Act, No. 4 of 2017	(i) Section 12 (d) Although the investigations should be conducted on matters related to professional misconduct of engineering practitioners, it had not been checked whether the engineers are working according to the Code of Professional Ethics which was introduced to be followed by the practitioners, engaged in the engineering profession.	Laws and rules for taking actions in relation to professional misconducts of engineering practitioners have been Gazetted. The internal procedure required for that is being prepared by now.	Measures should be taken in respect of Professional Misconduct of Engineering Practitioners as per the provisions of Engineering Council, Sri Lanka Act, No.4 of 2017.
(ii) Section 14 (1)	Unless registered with the Engineering Council, Sri Lanka as an engineering practitioner, the practitioners should not engage in activities related to the engineering profession. Even though a number of 25,781 practitioners as 19,825 and 5,956	Eligible candidates who are the members of the Institution of Engineers Sri Lanka (IESL) and the Institution of Incorporated Engineers' Sri Lanka (IIESL) can apply for registration with the Sri Lanka Engineering Council in terms of Sections 15(1) and (2) of the Engineering Council,	Actions should be taken in accordance with the provisions of the Engineering Council, Sri Lanka Act.

of Institution of Engineers Sri Lanka (IESL) and the Institution of Incorporated Engineers' Sri Lanka (IIESL) respectively had registered at the end of the year under review, only 17,680 professionals were had been registered in the Engineering Council. Accordingly, although over 8,100 engineering practitioners are engaged in the engineering profession without being registered with the Engineering Council, Sri Lanka, a mechanism to identify those persons had not been formulated and implemented and to make aware the related parties pertaining to that.

Sri Lanka Act. Since only those engaged in the engineering profession are required to be registered with the Council in terms of Sections 14(1) and (2) of the Act, as it is not a legal requirement for IESL and IIESL Members who are not engaged in such activities to register with the Council, the Council is not able to refer for that. Nevertheless, the instructions have been given to IESL and IIESL institutions to inform and remind the Members several times during the year 2022. Further, when seeking services from an engineering professional, the Official Website of the Council ([www.ecsl.gov.lk](http://www.ecsl.gov.lk)) has provided facilities for the public to know about it.

**(b)** Section 09(2) of the Employees Provident Fund (Amendment) Act No. 01 of 1985

Due to the fact that the Council had considered employees' transport allowances, fuel allowances, telephone allowances, professional allowances and special allowances to calculate earnings while paying

On the payment of contributions to the Fund, salary is considered for calculating earnings in terms of Section 47 of the Employees' Provident Fund (Amendment) Act No. 01 of 1985 and, transport allowance,

Actions should be taken to pay the contribution in accordance with the provisions of Section 09(2) of the Employees' Provident Fund (Amendment) Act

contributions to the Fund, 15 per cent each of respective allowances had been paid as Council contributions and 10 per cent each was collected as the employee's contribution in excess to that and paid to the Fund.

fuel allowance and telephone allowance can be paid along with the salary according to the Public Enterprises Circulars. In addition to that, professional allowance and Rs.5, 000 allowance is also paid by adding to the monthly salary. Therefore, these allowances were considered for calculating earnings when paying contributions to the Employees' Provident Fund.

(c) Section 44 of the Employees' Trust Fund Act No. 46 of 1980

Due to the fact that the Council had considered employees' transport allowances, fuel allowances, telephone allowances, professional allowances and special allowances to calculate earnings while paying contributions to the Fund, 3 per cent each of respective allowances had been paid in excess.

On the payment of contributions to the Fund, salary is considered for calculating earnings in terms of Section 44 of the Employees' Trust Fund Act No. 46 of 1980 and, transport allowance, fuel allowance and telephone allowance can be paid along with the salary according to the Public Enterprises Circulars In addition to that, professional allowance and Rs.5, 000 allowance is also paid by adding to the monthly salary. Therefore, these allowances were considered for calculating earnings

Arrangements should be made to pay the contributions In accordance with the provisions of Section 44 of the Employees' Provident Fund Act No. 46 of 1980.

when paying contributions to the Employees' Trust Fund.

- (d) Sub-section 10.1 of Chapter VIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka
- Although the overtime or similar allowances should not be paid since it is unable to ascertain the time spent on duty and duties performed whilst working from home, a total of Rs.254,503 as 1/20 of the salary of the Information Technology Officer as holiday pay and Rs.45,810 as Employees' Provident Fund Contribution and Employees' Trust Fund Contribution had been paid for performing duties from home for 95 days in weekends and public holidays from January to December 2022 .
- The holiday pay given to Information Technology Officer from January to December 2022 had been paid after performing an effective role under the supervision of the Chairman. The performance of employees is measured by the amount of work they do. Therefore, most of the works has been done using technology so that it does not depend on the location where the employees available.
- It should act in accordance with the terms mentioned in the Establishments Code. Actions should be taken to recover the erroneous payments.

(e) **Financial Regulations of Democratic Socialist Republic of Sri Lanka**

- (i) F.R. 137
- The payment vouchers of the Council had not been approved.
- Payment vouchers containing all payment details have been prepared corresponding to the time.
- Vouchers should be approved in terms of F.R. 137.

(ii) F.R. 225 (1) and (2)	Although the vouchers presented for payment should be accurately and completely prepared in the prescribed forms, vouchers which were used for salary and overtime payments in the Council had been prepared excluding the General 33 and General 35(a) Format respectively.	All details and approvals required for overtime and salaries are processed through an internal system of the organization. There, overtime and salary vouchers have been prepared in corresponding to the time in an efficient manner.	Actions should be taken to prepare the vouchers in accordance with the terms of F.R. 225(1) and (2).
(iii) F.R. 264	Receipts had not been obtained for 20 payment vouchers valued at Rs.531, 805.	Receipts have been obtained for payments made by the Council to outside persons and institutions. A suitable arrangement has already been prepared for other internal payments.	Actions should be taken to obtain receipts in accordance with the terms mentioned in F.R. 264.
(f) Public Enterprise Circular No. PED/01/2021 dated 16 November 2021	(i) Paragraph 2.3 of the Guidelines on Corporate Governance for State owned Enterprises	A Budget had not been prepared for the year under review.	A Budget for the year 2023 has been submitted to the relevant institutions and it is expected to do this continuously.
(ii) Paragraph 6.6 of the Operational Manual	Although the Draft Annual Report should be submitted to the Auditor General along with the Annual Financial Statements, it had not been so done.	Actions are being taken to submit the Draft Annual Performance Report to the Auditor General.	A Draft Annual Performance Report should be submitted with the financial statements in accordance with the circular provisions.

## **2. Financial Review**

### **2.1 Financial Result**

The operating result of the year under review was a surplus of Rs.6,885,000 and, the corresponding surplus of the preceding year was Rs.10,550,000. Accordingly, a deterioration of Rs.3,665,000 was observed in the financial result. Although the interest income of the Council had increased by Rs.2,684,000, increase of salaries and wages and legal fee expenses by Rs.2,455,000, and Rs.3,875,000 respectively had mainly attributed to this deterioration.

## **3. Operational Review**

### **3.1 Management Inefficiencies**

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Although the Employees' Provident Fund contribution should be paid to the Fund before the end of the following month, a surcharge of Rs.179,838 was paid during the year under review due to failure of payment of Employees' Provident Fund contribution for the period from October 2019 to December 2020 before the due date on behalf of two officers in the service of the Council.	The activities of Engineering Council, Sri Lanka have been commenced in August 2018 and an office for that was received in September 2019. There, two officers have been appointed temporarily in October 2019 to start the works of the Council and since the two employees were not paid the Employee Provident Fund, the Provident Fund Board had informed that a surcharge of Rs.179, 838 should be paid while paying the contributions. The surcharge has been paid during the year under review.	Arrangements should be made to pay the dues on time in accordance with the provisions of the Employees Provident Fund Act.

### **3.2 Transactions on Contentious Nature**

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Although 5 years of experience in an MM level position is required for the post of Chief Information Technology Officer under Salary Scale HM 1-3 as per the Scheme of Recruitment	The post of Chief Information Technology Officer was raised from MM 1-1 to HM 1-3 by the letter dated 27 June 2022 of the Department of	Actions should be taken as per the orders of Director General of Management Services.

approved by Department of Management Services, the officer holding the position of Chief Information Technology Officer under the Salary Scale MM 1-1 who had completed one year of qualification at that level had been appointed on 28 November 2022 by the Board of Directors to attend to duties of the post of Chief Information Technology Officer under Salary Scale HM 1-3. A total of 461,598 had been paid as Rs.391, 184, Rs.58, 678 and Rs.11, 736 respectively as attend to duties allowances, Employees' Provident Fund contribution and Employees' Trust Fund contribution for that purpose. Further, a transport allowance of Rs.540, 000 as Rs.40, 000 each from January to June 2022 and Rs. 50,000 From July to December 2022 and fuel allowance of Rs. 263,804 as Rs.42, 550 each had been paid to the Chief Information Technology Officer who was holding a post under Salary Scale No. MM 1-1 in contrary to Public enterprises Circular No. 01/2015(ii) dated 14 January 2022.

Management Services and the instructions were given to absorb it.

Although the post of Chief Information Technology Officer had been converted to Salary Scale HM 1-3, an officer belonging to Salary Scale MM 1-1 is working there at present. Although the officer had fulfilled all the educational qualifications required for the Salary Scale HM 1-3 and additionally the professional qualifications, the absorption is impossible as the experience of 15 years has not been completed. However, the officer is performing the duties of the Council related to HM 1-3 Salary Scale very efficiently.

Accordingly, it was decided by the Council to appoint the Chief Information Technology Officer to act in a post to Salary Scale HM 1-3 as "Attend to Duties of a Post" in terms of Section 13:5 of Chapter II of the Establishments Code according to the powers conferred by Section 22 of the Engineering Council, Sri Lanka Act.

The remuneration pertaining to that had been paid computing as per Sections 12:3, 12:5:1 of

Arrangements should be made to recover the payments made erroneously.

Chapter VII of the Establishments Code and official allowances required to perform the duties of HM 1-3 post were also paid in accordance with Section 119 of Chapter IX of the Gazette of the Democratic Socialist Republic of Sri Lanka No. 1589/30 dated 20 February 2009 and the Employees' Provident Fund contribution and Employees' Provident Fund contribution pertaining to that were also paid.

- (b) Even though 10 per cent of the officer and 15 per cent of the Council had been paid for the Employees' Provident Fund, approval had not been obtained from the Employees' Provident Fund for that, in terms of Section 11 of the Employees' Provident Fund Act No. 15 of 1958. Although the contribution of the Council to the Fund was 15 per cent, it had been stated as 12 per cent in Note 6.1 of the financial statements.
- It has been decided by the Council to pay contributions to the Employee Provident Fund as 10% from the officer and 15% from the Council in terms of Section 22(2) (d) of the Engineering Council, Act and actions will be taken in the future to inform the Employee Provident Board that 10% of the officers and 15% of the Council will be paid in terms of Section 11 of the Employees' Provident Fund Act.
- Actions should be taken in terms of Section 11 of the Employees' Provident Fund Act No. 15 of 1958.