

Central Engineering Services (Pvt) Limited - 2015

The audit of the financial statements of the Central Engineering Services (Pvt) Ltd (“the Company”) for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

This report is issued in terms of provisions in Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka

1.2 Board’s Responsibility for the Financial Statements

Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor’s Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the Central Engineering Services (Pvt) Ltd as at December 2015, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

Cost of sales shown in the financial statements had been overstated by the Rs.2,224,434, due to the inventory balance of the East Base Office had been taken twice to the accounts..

2.2.2 Unexplained Differences

According to the financial statements the depreciation for fixed assets (Head Office) was Rs.44,033,592. However, it was shown in the schedule as Rs.45,514,877. The reasons for difference of Rs. 1,481,285 had not been explained to Audit.

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

Instances of non-compliance observed in audit are analyzed and shown below.

Reference to Laws, Rules Regulations etc.	Non-compliance
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(a) Public Enterprises Circular No. PED/12 of 02 June 2003.

(i) Section 4:2:2

Even though the Board meeting should be held in every month, only 07 Board meetings were held during the year 2015.

(ii) Section 5:2

An Annual Budget for the year 2015 had not been prepared by the Company.

(iii) Section 7:4:2

Even though the Senior Management Committee meeting should be held headed by the Chairman/CEO and should meet five days prior to the Board meeting. However, Senior Management Committee was not met during the year 2015.

(b) Guideline 4:2:1 of the National Procurement Agency Circular No. 08 of 25 January 2006

A Master Procurement Plan for the year 2015 had not been prepared by the Company.

3. Financial Review

3.1 Financial Results

According to the financial statements presented the operations of the Company for the year under review had resulted in a pre-tax net profit of Rs.106,271,865 as compared with the corresponding pre-tax net profit of Rs.132,874,402 for the preceding year, thus indicating a deterioration of Rs.26,602,537 or 20 per cent in the financial results. Increase of administration expenditure by Rs.237,985,165 during the year under review as compared with the previous year was the main reason attributed for this deterioration in the financial results.

3.2 Analytical Financial Review

According to the financial statements of the Base Offices of the Company for the year 2015, the following three Base Offices were running at a loss during the year under review.

<u>Name of the Base Office</u>	<u>Loss for the year</u> <u>Rs.</u>
Polonnaruwa	1,796,503
Uva	14,468,497
Southern	2,046,790

3.3 Management Weakness

The following observations are made.

- (a) Cancelled cheques worth Rs. 2,654,978 had been shown in the financial statements for the year under review without taking any action.
- (b) The Base Office has not taken action to invest its excess money around rupees one million in an income earning source which held in a bank current account throughout the year under review.

4. Accountability and Good Governance

4.1 Corporate Plan

The Company had not prepared a Corporate Plan for medium term to focus strategic view of the Company.

4:2 Submissions of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the annual accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, the Company had submitted its financial statements for the

year under review to the Auditor General only on 14 June 2016 after delaying approximately 105 days. Further, the amended financial statements for the year 2015 had been submitted only on 18 January 2017.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of controls.

Control Areas	Observations
(a) Control over Debtors and Receivables	The Company had not taken adequate actions to recover the balances of debtors and receivables.
(b) Financial Management	Favourable balances in the bank current accounts had been allow idling for a long period.