

Central Engineering Services (Pvt) Limited - 2016

The audit of the financial statements of the Central Engineering Services (Pvt) Limited (“the Company”) for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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.

1.2 Board’s Responsibility for the Financial Statements

The 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 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.1.1 Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act, No.07 of 2007, I state the followings:

- a. The basis of opinion and scope and limitations of the audit are as stated above.
- b. In my opinion :

I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company

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The financial statements of the Company comply with the requirements of Section 151 of the Companies Act, No. 07 of 2007.

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.110,224,038 as compared with the corresponding pre-tax net profit of Rs.117,612,550 for the preceding year. Hence, a deterioration Rs.7,388,512 in the financial results was observed. Increase of administration expenditure by Rs.180,059,936 during the year under review was the main reason attributed for this deterioration in the financial results for the year under review.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) According to the revenue recognition statement of the Company, 683 construction contracts valued at Rs.8,697,350,179 had been sub-contracted to the Company by the Central Engineering Consultancy Bureau (CECB) as at 31 December 2016. However, only 639 sub-contract agreements were furnished to audit in this regard and 44 agreements valued at Rs.2,397,469 were not submitted to audit.
- (b) A loss of Rs.369,988,706 had been sustained by the Base offices such as, Southern, Baththaramulla, Anuradhapura, Uva, Jawaththa, Central Province and Polonnaruwa during the year under review due to exceeding the expenditure than the revenue received from 72 fully completed construction projects.

5. Accountability and Good Governance

5:1 Submission of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No PED 12 dated 02 June 2003 annual accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, the Company had submitted the financial statements to the Auditor General only on 04 September 2017 by delaying three months. Subsequently the revised financial statements had been submitted only on 06 March 2018.

5.2 Procurement Management

According to Guidelines 6.2 and 6.2.2 of the Procurement Guidelines, minimum seven days should be granted to the bidders for submission of their bids under the National Shopping Method. However, Base Offices such as Jawaththa Project and 05 other Projects of Battaramulla had been given only one to three days for submission of bids with regard to procurements worth Rs. 11,119,333 made during the year under review.

6. 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 control.

Control Area	Observations
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(a) Accounts Payable and Receivable	Balances of payable and receivable had remained for more than four years without get confirmed by the respective parties.
(b) Inventory Control and Stock Management	Inventory items and stocks at sites as at the end of the year under review had not been valued and brought to the financial statements.
(c) Invoicing	Actual work done relating to the construction contracts had not been taken to the financial statements.