

Central Engineering Services (Private) Limited – 2017

The audit of financial statements of the Central Engineering Services (Private) Limited (“the Company”) for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 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 controls as the Board determine 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 risk 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 (Private) Ltd as at 31 December 2017, and of 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 following:

- a) The basis of opinion, 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 and,
 - The financial statements of the Company comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

2.2 Accounts Receivable and Payable

The following observations are made.

- (a) According to the information made available for audit, the debtor balance of Rs.31.35 million and Rs.3,879.05 million relating to 10 Base Offices had remained outstanding for more than three years and one to three years respectively as at 31 December 2017 without being recovered.
- (b) Outstanding Retention Money aggregating Rs.29,676,316 relating to 12 Projects had remained unrecovered by the Anuradhapura Base Office over a period of four years as at 31 December 2017.
- (c) Unsettled Mobilization Advances totaling Rs. 31,269,667 with regard to a fully completed construction project of South Base Office had remained in the accounts as at 31 December 2017 for more than 4 years without being settled.

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

Instances of non-compliance observed with the following Laws, Rules, Regulations and Management Decisions are given below.

**Reference to Laws, Rules, Regulations
and Management Decisions etc.**

Non-compliance

(a) Public Enterprises Circulars
No. PED 25 of 29 July 2004

A sum of Rs. 1,111.07 million had been invested in short term investment sources such as call deposits, short- term deposits, treasury bills, fixed deposits etc. without obtaining the required approvals as mentioned in these Circulars.

(b) Public Enterprises Circular
No. PED/12 of 02 June 2003
on Public Enterprises
Guidelines for Good
Governance.

(i) Paragraph 4.2.5

Age analysis of debtors, creditors, and stocks and statements identifying slow moving and obsolete stocks had not been reviewed by the Board on a monthly basis.

(ii) Paragraph 5.1.3

Updated Corporate Plan approved by the Board together with the updated Annual Budget had not been forwarded to the Line Ministry, Department of Public Enterprises and the Auditor General as requested.

(c) Guideline 4.2.1 of the
Government Procurement
Guidelines

The Company had not prepared a Mater Procurement Plan for the year under review.

3. Financial Review

3.1 Financial results

According to the financial statements presented, the financial results of the Company for the year under review had resulted in a pre-tax net profit of Rs.158,390,770 as compared with the corresponding pre-tax net profit of Rs.110,224,038 for the preceding year, thus indicating an improvement of Rs.48,166,732 in the year under review as compared with the preceding year. Increase of net finance income by Rs.56,801,791 was the main reason attributed for this improvement.

3.2 Analytical Financial Review

The following observations are made.

(a) The Company had earned a pre-tax net profit of Rs.158 million during the year under review by utilizing its total assets base of Rs. 12,345 million. Hence, the return on total assets was only 1.28 per cent and it was only 1.11 per cent in previous year, thus indicating

that the return on total assets 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 were 5.55 per cent and 1.29 per cent respectively and as compared with the previous year, the gross profit margins had decreased by 1.6 per cent while net profit margin had increased by 0.02 per cent. Although it was expected to maintain the net profit margin at a rate of 2.9 per cent in the year under review, it was not achieved.

4. Operating Review

4.1 Performance

The following observations are made.

- (a) According to the revenue recognition statement of the Company, 817 construction contracts valued at Rs 75,959. million had been transferred to the Company by the Central Engineering Consultancy Bureau (CECB) as at 31 December 2017. However, agreements for 20 construction projects had not been entered between the parties. Further, Board approvals had not been obtained for 04 construction projects valued at Rs. 62.95 million and letters of awarding had not been received from the CECB for 09 construction projects valued at Rs. 1,592.36 million.
- (b) A loss of Rs.7,954,812 was sustained by the Badulla Base Office under manufacturing and sales of Asphalt during the year under review.
- (c) The Company had not prepared an Action Plan in line with the Corporate Plan by setting out the targets to be achieved and assigning the responsibility to the officers as enable to achieve those targets.
- (d) As a practice, the Base Offices of the Company had purchased the materials for construction projects at various rates from several suppliers without preparing a Master or Detailed Procurement Plan. If the Company could have purchased entire materials required for all the projects from a particular supplier after preparing a Master or Detailed Procurement Plan, the Company would have served a considerable amount of public money.

4.2 Transactions of Contentious Nature

Six laptop computers and 10 mobile phones to the total value of Rs.2,134,400 had been purchased and issued to an Engineer of the Department of Sports Development on the requests made by him by utilizing the provision made for the construction of Proposed Provincial Level Sports Complex at Rathnapura without a specific financial provision provided for this purpose. Further, the present positions of these items were not reported to audit.

4.3 Human Resources Management

According to the approved cadre of the Company, there were 77 excess positions as at 31 December 2017. However, required approval from the Department of Management Services had not been obtained in this regard.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances ranging from 25 per cent to 154 per cent were observed between the budgeted and actual figures, thus indicating that the budget had not been made use of as an effective instrument in management control.

5.2 Procurements and Contract Administration

The following observations are made.

- (a) According to the Delegation of Financial Authority of the Company and Supplementary 33 to the Procurement Manual, the Company should be followed National Competitive Bidding (NCB) method when value of procurement exceeded Rs. 10 million. However, in contrary to this provision the Company had invited bids from selected suppliers in procurement of following goods and works.

Name of the Base Office	Description of Procurement	Value
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		Rs.
Kattubedda	Supply and Installation of Piped Medical Gas System	20,869,297
Jawatta	Supplying, Fabricating and Fixing of Aluminum Doors and Windows	16,367,059
	Supply of Reinforcement Bars	86,000,000
	Supply of "H" Iron	33,708,522
	Supply of Sheet Pile	69,391,300
	Supply of Sheet Pile, Driving and Extraction	19,835,000
	Water Proofing Works	17,580,000
	Pre Boring and Driving of Available Steel Sheet Piles	15,480,000

- (b) Although minimum seven days should be granted to the bidders for submission of their bids under National Shopping Method in terms of Guideline 6.2.2 of the Procurement Guidelines, the Katubedda Base Office had granted only one or two days for submission of bids with regard to Procurements worth Rs.1,984,793 made during the year under review.
- (c) The Jawaththa Base Office had followed direct contracting procedures in inviting quotations for procurement of following works/goods without any exceptional circumstance as mentioned in Guideline 3.5.1 of the Procurement Guidelines. Details are shown below.

Description of Procurement	Name of Contractor	Value of Contract
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		Rs.
Supply of Aluminum Profiles	Alumex PLC	6,409,137
Fixing of Sun Louver	Excel Enterprises	1,890,000
Fixing of Sun Louver	Shantha Aluminum Designers	817,760

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.

Areas of Systems and Controls

Observations

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| (a) Inventory Control and Stock Management | Attention to be made to value and bought the all inventory items and stock items at sites to the financial statements as at the end of each financial year. |
| (b) Control over Fixed Assets | Action to be taken to revalue the usable assets and dispose un-usable assets which were fully depreciated. |
| (c) Contract Administration | Failed to comply with the provisions in the Procurement Guidelines and related Circulars. |