

C.W.E. Construction & Engineering (Private) Limited – 2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the C.W.E. Construction & Engineering (Private) Limited (Company) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of profit and loss and other comprehensive income, 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. My comments and observations which I consider should be reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion Section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion on the significance of the matters described in paragraph 1.5 of this report.

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 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 scepticism 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 Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(i). Interest income on call deposit amounting to Rs.2,537,424 and Rs.720,000 for the period from 17 December 2012 to 31 December 2017 and for the year under review respectively had not been accounted. As a result retained earnings as at 31 December 2017 had been understated by Rs.2,537,424 and loss for the year under review had been overstated by Rs.720,000.	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	Every income should be accounted
(ii). Administration income amounting to Rs.6,945,702 had been accounted as Rs.7,520,396. As a result, administration income had been overstated by Rs.574,694.	-do-	Income should be accounted correctly.
(iii). National Building Tax (NBT) payable for the quarter ended 31 March 2018 amounting to Rs.3,042,709 had been credited to NBT expense account and debited to NBT payable account. Hence NBT expense and the balance	-do-	Payables should be accounted correctly.

of NBT payable had been understated by Rs.6,085,418.

- (iv) Trade creditors had been understated by Rs.1, 393,889 due to minus balances included in the balance of trade creditors as at 31 December 2018. Issues referred will be checked and corrected in the preparation of accounts for the next year. Creditor balances shown as negative balances should be analyzed and the accurate balances should be shown in the financial statements.

1.5.2 Unreconciled Control Accounts or Records

Item	as per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Revenue	236,156,668	231,523,417	4,633,251	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	The revenue shown in the financial statements should be tallied with the corresponding record.

1.5.3 Suspense Accounts

Item	Amount Rs.	Period in suspense	Management Comment	Recommendation
Bank balance	278,519	2 years and 8 months	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	Unreconciled differences should be cleared.

1.5.4 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
The current liabilities exceeded the current assets of the Company as at 31 December 2018 by Rs.9,060,749. Hence, the liquidity position of the Company was not in a healthy condition.	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	The Company should maintain an asset position capable of meeting its liabilities.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
(i). Revenue	236,156,668	Invoices , Construction register , Bills of Quantities , contract agreements	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	Written evidence to confirm the value should be maintained.
(ii). Expenditure	225,576,523	Invoices, Construction register , Bills of Quantities and work done reports	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	-do-
(iii). Payable	261,268,951	Invoices, contract agreements and work done reports goods received notes, Bills of Quantities	-do-	-do-
(iv). Receivable	197,640,330	Payment vouchers and invoices	-do-	-do-

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Actions had not been taken to recover receivable balances aggregating to Rs.4,818,061 carried forward from the year 2016.	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	Actions should be taken to recover receivable balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED/12 dated 02 June 2003.			
i. Section 5.1	The Corporate Plan had not been prepared by the Company since year 2012	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	Actions should be taken as per provisions of the Circular
ii. Section 5.2.5	The annual budget had not been prepared and forwarded to the Department of Public Enterprises, General Treasury and Auditor General.	Issues you have referred will be checked and corrected in the preparation of accounts for the next year.	Actions should be taken as per provisions of the Circular
iii. Section 7.4.1	An Audit Committee had not been established by the Company.	-do-	-do-
iv. Section 9.2	Cadre for the Company had not been prepared and approved.	-do-	-do-
(b) Public Finance Circular No. 01/2014 dated 17 February 2014.	An Action Plan had not been prepared by the Company for the year under review.	-do-	-do-
(c) Audit and Management Circular DMA/2009(1) dated 09 June 2009.	An Internal Audit Unit had not been established by the Company.	-do-	-do-

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 9,123,914 and the corresponding loss in the preceding year amounted to Rs. 2,410,505. Therefore a deterioration amounting to Rs. 6,713,409 of the financial result was observed. The reasons for the deterioration are the decrease of net revenue by Rs. 4,234,282 and the increase of administrative and establishment expenses by Rs.2,047,694.