Central Engineering Services (Private) Limited – 2018

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Services (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 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 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 Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 Audit Scope

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 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 Non-Compliance with Sri Lanka Accounting Standard

Reference to the Standard	Management Comment	Recommendation
In contrary to the provision in the Sri Lanka Accounting Standard on Presentation of Financial Statements (LKAS 1), credit balances of debtors and advances aggregating Rs.12,447,930 had been offset against the debit balances of such accounts and debit balances of sundry creditors, mobilization advances, retention payables and miscellaneous income aggregating Rs.29,645,212 had been offset against the credit balances of such accounts during the year under review. As a result, the current assets, current liabilities and miscellaneous income shown in the financial	**Advances-** After settling the total amount of advance via progress payments, these debit balances will be set off against credit Balances. Thereby the settled suppliers will be removed from the list. These advance amounts have been given to the suppliers by holding Advance Bonds and Performa bonds. When prepare advance schedule, erroneously we couldn’t show net balance of each advances. Thereby debit balances and credit balances are available for one supplier. **Debtors -** Debtor Account includes credit balance of Rs.435, 677.24 excess received from Central Engineering consultancy Bureau for Design and build Contract for Conversion of Gym Area in to Class rooms and other requirements (BD135). The excess received amount settled off with receivable balance in from CECB debtors. And it should be deducted from one of CECB debtor balance. Further in A’pura Base, the Performa Invoice accounted for	Currents assets and current liabilities should be shown separately without being offset each other

statements had been understated by Rs.12,447,930, Rs.17,589,685 and Rs.12,055,527 respectively.

the purpose of finalization of accounts and later lesser amount certified from the client. After adjusting certified value to the accounts debtor negative amount appearing.

Sundry Creditor – General Answer for all bases Debit balances shown in Sundry Creditor's schedule was erroneous presentation.

Mobilization Advance – major issue found in MKDP base. The reason for Debit balances in mobilization advance summary for client is that, there are some instances where GA has been billed the invoices incorrectly; thereby they have over deducted mobilization amounts in the invoices. However there some invoices where mob balance total is not recovered by the client although the project is over and handed over to the client, most of these issues are already solved by us and the client and the remaining balances are to be cleared in the final account preparation in 2020.

Retention Payable – General answer for all bases Debit balances shown in Retention Payable's schedule was erroneous presentation.

Miscellaneous Income

LKAS 1, Presentation of Financial Statements, section 34 & 35 is allows to present net basis gains and losses arising from a group of similar transactions, for example, foreign exchange gains and losses or gains, losses arising on financial instruments held for trading income other than main source of Income

Of the company. However, an entity presents such gains and losses separately if they are material.

Therefore we presented Other income sources separately net basis in financial statements. Therefore there is no any issue in presentation of miscellaneous income in financial statements.

1.5.2 Accounting Policies

Audit Observations	Comments of the Management	Recommendation
Some of the Base Offices of the Company had computed their interest income on accrual basis while some were computed on cash basis. Hence, it was observed that the Company does not have a firm policy for the computation of interest income on its investments.	No clear and direct comment given for this audit issue	As per the provision in the Sri Lanka Accounting Standard No.1, Interest income should be recognized on accrual basis.

1.5.3 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
Nine Base Offices of the Company had not applied the applicable rate of depreciation which set out in Note 2.3.6 to the financial statements when computing the depreciation for tools & instruments. Hence, the depreciation for the year under review had been overstated by Rs. 24,555,621.	Except Head office, other Bases (South, North & Central Province) have been used 25% depreciation rate instead of 20% shown in policy statements for the year depreciation calculation. Therefore for the year depreciation is above the 5% of actual rate.	The Company should adhere to the accounting policies set out in Notes to the financial statements.

1.5.4 Documentary Evidences not made available for Audit

Audit Observations	Comments of the Management	Recommendation
A long outstanding balance which had been gradually increased during the past years amounting to Rs. 1,588,871,721 had been shown as due to related companies without been settled as at 31 December 2018. However, a detailed schedule and the	The financial statements of CESL included Inter Company Payable balance of Rs. 1,588,871,721 as at 31st December 2018. This balance is equal to the balance shown in CECB financial statement which submitted to Auditor General for audit. To reconcile intercompany balance shown in both entity financial statement, need take detail	The Company should take immediate actions to prepare the detail schedule together with an age analysis.

reasons for non-settlement of such balance had not been presented for audit.	intercompany balances section wise. Otherwise base to base reconciliation will not give clear idea.

1.5.5 Accounts Receivable and Payable

1.5.6 Receivables

	Audit Observations	Comments of the Management	Recommendation
(a)	Debtor aggregating Rs.271,054,607 had been outstanding from 3 to 4 years as at 30 June 2019. Further, debtor balances of Rs.240,638,735 relating to completed projects had not been recovered for more than 02 years as at 30 June 2019.	Recovery action is in progress to collect long outstanding balances from the client.	Immediate action should be taken to recover the outstanding balances.
(b)	Retention receivable as at 31 December 2018, was amounting to Rs.2,125,606,192. Out of that a sum of Rs.175,635,390 and Rs.1,737,437 relating to completed projects were outstanding from 3 to 5 years and over 5 years respectively without being taken proper recovery actions.	Each COE section is responsible for recovery of outstanding balances; however in every senior management meeting this issue is discussed by the senior management and takes necessary action to recover these outstanding.	Immediate action should be taken to recover the retention receivables.

1.5.7 Payables

	Audit Observation	Comments of the Management	Recommendation
(a)	Creditors and retention payables as at 31 December 2018 were amounting to Rs.2,521,116,255 and Rs.494,475,831 respectively. According to the age analysis provided for audit, the creditors amounting to Rs.156,742,320 and retention payables amounting to Rs.21,621,871 had remained in the accounts between the period from 2 to 5 years without being settled.	Due to lack of fund available in particular project or client, there are balances to be paid to the suppliers and subcontractors. Therefore agreed with your observation and we will take necessary action to collect funds from client and pay outstanding balances immediately.	Immediate actions should be taken to settle the payable balances.
(b)	Mobilization advances received amounting to Rs.229,710,197 with regard to fully completed construction projects of 07 Base Offices had remained in the accounts as at 31 December 2018 without being settled.	This issue is mainly due to following reasons. - Some projects discontinued before complete the task. - Non availability of final bills though the projects are completed. - In some instances errors were made when treating the Mob advances.	Immediate actions should be taken to settle the outstanding mobilization advances.

1.5.8 Advances

Audit Observations	Comments of the Management	Recommendation
The advances (sub-imprests) obtained should be settled immediately after the completion of the purposes for which it was granted. However, purchase advances aggregating Rs. 129,754,256 granted to various parties by the Base Offices had not been settled even as at 31 December 2018 and out of that a sum of Rs. 43,027,772 relating 06 Base Offices had not been settled even though the outstanding periods ranging from 01 to 22 months. In the meantime, advances	Most of them were taken for as advance payments to subcontractors and advances should be included in mobilization advances paid to contractors. If so this issue will not rise. There were unsettled advance as you observed in Anuradhapura base office. Due to practical difficulty those were shown as unsettled. Eg: due to quality	Should be adhered to the provisions in the Financial Regulations 371 as amended by Public Finance Circular No. 03/2015 of 14 July 2015 and Delegation of Financial Authority of the Company.

aggregating Rs.2,518,899 granted in 28 instances by the Base Office of North Central had been settled after delaying 01 to 23 months.	issues in works done or goods supplied by subcontractor, advances are shown as unsettled.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Financial Regulations 262 (2) of the Government of the Democratic Socialist Republic of Sri Lanka	All vouchers paid and their supporting documents should be stamped with the "PAID" stamp which should bear the date of payment as recorded in the cash book. However, according to the audit test check it was revealed that the Base Office of North Central Province had not complied this requirement in respect of payments amounting to Rs. 2,831,053 made in 7 instances during the year under review.	Accept your observation and corrective action has been taken.	Effective actions should be taken to mitigate the risk of double payment.
(b)	Paragraph 4.2.5 of the Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance.	Age analysis of stocks and statements identifying slow moving and obsolete stocks had not been reviewed by the Board on a monthly basis.	Material items are purchased based on BOQ and there are no such nonmoving material items. Annually through verification we identify nonmoving items. However nonmoving items are very rare due to purchase based on BOQ.	Action should be taken to identify the slow moving and obsolete stocks as at the end of each year.
(c)	Guideline 4.2.1 of the	The Company had not prepared a Master	Master procurement plan has been prepared	The Company should prepare a

Government Procurement Guidelines	Procurement Plan for the year under review	by CESL for procure Fixed Assets in the year 2018. Preparation of separate procurement plans by considering every project is not practical since projects are receiving throughout the year.	Master Procurement Plan by asses the relative advantages of centralized versus decentralized procurements, packaging/slicing of contracts and size of the package of works etc.

1.7 Cash Management

Audit Observation	Comments of the Management	Recommendation
Temporary and permanent overdraft facility of Rs. 200 million had been obtained by three Base Offices during the year under review even though there were favorable cash balances amounting to Rs. 1,985,105,933 in other Base Offices of the Company throughout the year. However, the management of the Company had not paid their attention to utilized the excess cash by transferring required cash among the Bases in a proper way instead of allowing for obtain bank overdraft. As a result, the Company had incurred an overdraft interest amounting to Rs. 9,836,364 during the year under review.	Though we have 1.9 billion worth of Fixed Deposits, more than 95% of it have been pledge to banks to take bid bond, advance bond & performance bonds. Therefore the invested in fixed deposits mainly due to bond purpose and those are pledged. In future we will take necessary action to have proper internal fund transferring methods to overcome this kind of things.	The Management of the Company should pay their attention to utilize the excess cash effectively.

1.8 Non -compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
The Company had computed its liability for Economic Service Charge (ESC) only by taking the turnover of Northern Base without being taken the entire turnover of the Company. As a result, ESC amounting to Rs. 53,712,647 had been underpaid to the Department of Inland Revenue during the period of 01 January to 31 December 2018.	Considering all factors, the Company didn't pay all ESC liability due to mainly the cash flow issues and tax management as well. In future, we will try to maintain ESC payment that will equal to total ESC liability of the company. However in 2019, we are following the Inland Revenue act and paid more than 12 million for 1st quarter of 2019.	The Company should adherent to the provisions in the Inland Revenue Act.

2. Financial Review

2.1 Financial Results

According to the Financial Statements presented the operating results for the year under review amounted to a pre-tax net profit of Rs.173.09 million and the corresponding pre-tax net profit in the preceding year amounted to Rs.158.39 million. Therefore, an improvement of Rs.14.07 million of the financial results was observed. Decrease of Cost of Sales by Rs.1,209.61 million as against the decrease of revenue by Rs.1,105.54 was the main reason for this improvement in the financial results.

2.2 Trend Analysis of Major Income and Expenditure Items.

Description	For the year ended 31 December 2018	For the year ended 31 December 2017	Variance {Favorable/ (Adverse)}	Percentage
	Rs.	Rs.	Rs.	(%)
Revenue	11,189,114,164	12,294,651,635	(1,105,537,471)	9
Hiring Income	58,207,817	16,375,557	41,832,260	255
Miscellaneous Income	27,401,200	63,995,420	(36,594,220)	57
Finance Income	150,173,742	129,450,403	20,723,339	16
Depreciation	165,689,241	153,038,109	(12,651,132)	8
Salaries & Wages and Employee Benefit	500,954,449	365,636,297	(135,318,152)	37
Over Time, Incentive and Other Allowance	59,445,878	61,118,895	1,673,017	3
Finance Cost	44,240,151	16,589,596	(27,650,555)	167

2.3 Ratio Analysis

According to the information made available, some important accounting ratios of the CESL for the year under review and the preceding year are given below.

Ratios	2018	2017
Profitability Ratios		
Gross Profit Ratio (GP) (%)	7.03	5.55
Operating Profit Ratio (%)	0.60	0.37
Return on Assets (ROA) (%)	1.37	1.28
Liquidity Ratios		
Current Assets Ratio (Number of times)	1:1.5	1:1.1
Quick Assets Ratio (Number of times)	1:03	1:1.06

The following observations are made in this regard.

(a) The Company had earned a pre-tax net profit of Rs.173 million during the year under review by utilizing its total assets base of Rs. 12,617 million. Hence, the return on total assets was only 1.37 per cent and it was only 1.28 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 7.03 per cent and 1.55 per cent respectively and as compared with the previous year, the gross profit margins had increased by 1.48 per cent while net profit margin had slightly increased by 0.26 per cent. Although it was expected to maintain the net profit margin at a rate of 2.18 per cent in the year under review, it was not achieved

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
According to the information provided for audit, the Company has sustained a gross loss of Rs.724,162,239 from 154 completed construction projects during the year under review which implemented by nine Base Offices of the Company due to inefficiencies in bidding procedures and implementations, while a further loss of Rs.189,886,903 was reported from 22 on-going projects in the year under review. Details are shown below.	Those projects were delayed due to adverse weather condition, shortage of construction materials, design changers and other simultaneous delays occurred during the construction period. But Price escalation amount did not approved by the clients. Due to those reasons losses were occurred on projects.	The Company should take effective measures to mitigate the losses of the Company.

(a) Projects completed with significant loss

Name of the Base Office	Number of Projects	Contract Amount	Cumulative Cost	Project Loss
		Rs. Mn.	Rs. Mn.	Rs. Mn.
East	04	171	207	(36)
WP2	08	1,295.4	1,383.6	(88.1)
WP1	04	45.5	52.5	(7)
Central	13	392	428.3	(36.3)
North	02	404.5	450.2	(45.7)
Sabaragamuwa	02	107.7	118.7	(11)
South	15	961.2	1,064.4	(103.2)
Uva	18	479	542.8	(63.7)
North Central	66	48.3	2,462	(255)
MKDP	22	1,267.9	1,345.6	(77.6)
	154	**5,172**	**8,055**	**(724)**

Out of the above projects, 43 per cent of the projects were belongs to the North Central (Anuradapura) Base of the Company and the net loss incurred by this Base up to 31 December 2018 was approximately Rs. 255 million.

(b) Projects running at with Loss

Name of the Base Office	Number of Projects	Contract Amount	Cumulative Cost As at 31.12.2018	Project Loss
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		Rs.Mn.	**Rs.Mn**	**Rs.Mn.**
East	02	185.7	214.6	28.9
WP2	02	280.9	312.3	31.4
Central	04	317.5	348.2	30.7
South	05	385.6	420.1	34.5
Uva	03	60.2	71.3	11.1
North Central	06	298.6	351.7	53.1
Total	**22**	**1,528.6**	**1,718.4**	**189.8**

Out of the above loss making projects, 06 projects with a loss of Rs.53 million are being carried out by the North Central (Anuradhapura) Base of the Company.

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
The Company had invested an amount aggregating Rs. 1,985,105,933 in short term investment sources. during the year under review and earned a	Agreed with the observation, we will take necessary action to improve operating profit of the company in future.	The Management of the Company should pay their attention to utilize their human and physical resources effectively.

net interest income of Rs.105,933,591 on such investments. However, the net income earned from operating activities (in the normal course of business) during the year under review was only Rs. 67,156,916. Hence, the net interest income earned during the year is much higher than the income earned from operating activities of the Company. Further, this net interest income is representing 61.2 per cent of the profit before tax of the year under review.

3.3 Transactions of Contentious Nature

Audit Observation	**Comments of the Management**	**Recommendation**
Once the projects work undertaken by the Company is completed, there should not be a due from customers or due to customers. However, the balances of Rs.399,194,489 and Rs.13,331,669 relating to completed projects were shown as due from customers and due to customers respectively in the accounts. Further, the age analysis with regard to these outstanding balances had not been provided for audit.	Though shown in revenue sheet as projects 100% completed, there may be final bill certification issue, extra work certification issue, mob recovery issue like wise. Therefore we can't assure that 100% completed projects must have shown zero due from or due to balance.	Immediate actions should be taken to clear these long outstanding balances.

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
As a practice, the Base Offices of the Company had procured the construction materials. amounted to Rs. 4,203,562,421 at various rates from several suppliers in time to time without being procured on bulk basis by selecting proper suppliers after determining the entire requirement for the period in consultation with relevant authorities. If the Company could have purchased entire materials requirement for all construction projects from the proper suppliers after making a sound forecasting, the Company would have saved a large amount of public money	We are handling more than 500 projects per annum and those are come under Road, Building, Play Ground, Water Resource Projects, Hydropower Projects etc. however there is no proper method of project receiving and this is unpredictable industry. Because all projects performance are depend on cash flows of the projects and environmental conditions. We purchase material if client pays and industry is based on client cash flow. Therefore there is an inherent issue in this industry to having master procurement plan and do purchasing based on that plan.	The Management of the Company should take effective measures to enhance the transparency of procurement process in order to obtain best services and supplies for the Company.

3.5 Utilization of Resources of Other Organizations

Audit Observation	Comments of the Management	Recommendation
The Company had deployed Two hundred and nine (209) officers of the Central Engineering Consultancy Bureau (CECB) contrary to the Section 9.4 of the Public Enterprises Circular for Good Governance No. PED/12 of 02 June 2003. However, according to the information provided by the CECB only 180 officers were released to the Company as at 31 December 2018.	CESL has been inaugurated as the construction arm of CECB in view of expanding the business horizons. At that time the professionals' knowledge and experience was urgently required to engage in construction activities, carried out by the Company. Without hiring new employees from outside, CESL has utilized the human resources which	Proper approvals should be obtained before deploying other organization human resources.

		was readily available in CECB with necessary approval	

3.6 Human Resources Management

	Audit Observation	Comments of the Management	Recommendation
(a)	Without an approved Scheme of Recruitments and Promotions, the Company had recruited 792 officers for several posts under fixed, fixed term contract, job contract and assignment basis to the Company.	We have taken board approval to follow CECB's SOR and administration procedure for CESL since incorporation of the CESL. However, CESL's SOR has been tabled to board of directors meeting held in 30th July 2019 for approval.	The Company should have an approved Scheme of Recruitments and Promotions, and it should prescribe very clearly the minimum educational and other qualifications required for each posts.
(b)	According to the approved cadre of the Company, there were 145 excess positions as at 31 December 2017. However, required approval had not been obtained from the Department of Management Services, as required by the Management Services Circular No: 03/2018 of 18 July 2018.	We as a construction company, there have been a requirement to utilize staff in new projects and new assignments. Recruiting staff on permanent basis may not be viable since those projects, assignments are mostly short term. Hence, we have utilized staff on Job Contract Basis and assigned them for the urgent Projects requirements. However, based on their performance it has being taking into consideration to recruit them on permanent basis in accordance to the available cadre.	Information on the employees recruited under different categories exceeding the approved cadre of the Company should be submitted to the Department of Management Services for approval.

3.7 **Management of Vehicle Fleet**

Audit Observation	Comments of the Management	Recommendation
According to the information provided for audit 15 vehicles had met with accidents in 23 instances during the year 2018 and Rs.2,159,671 had been incurred for repair of those vehicles. However, no inquiries had been instituted to ascertain extend and causes of the loss and to fix responsibility. Further, preliminary reports and final reports with regard to these vehicle accidents had not been submitted to Auditor General.	When an accident was reported to CESL, The Mechanical Engineer pays special attention on the incident and do the necessary actions. The incident and the damage is documented in the log book of the particular vehicle. Subsequently insurance is claimed about the accident thereby claims are following up closely & repair the vehicle. As a result all the claims recovered from the insurance thereby CESL mitigate the financial loss of these accidents.	The preliminary report should be sent immediately if a delay of more than 7 days is envisaged for making a full report. After inquiry, the full report should be submitted within 3 month from the date of loss.

4. **Budgetary Control**

Audit Observation	Comments of the Management	Recommendation
Significant variances ranging from 9 per cent to 221 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.	It is obvious; anyone cannot predict the next year construction revenue exactly. Main reason is that lack of information regarding upcoming tenders. All other expenditure predicted based on that forecasted revenue. Hence when expected revenue vary	Proper actions should be taken to use the budget as an effective management tool.

all the other direct and overhead expenditure may vary.