

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 2019 comprising the statement of financial position as at 31 December 2019 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 report 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 paragraph 1.5 on this 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.4, 633,891 received for the period from 17 December 2012 to 31 December 2018 had been accounted as the interest income for the year under review. As a result profit for the year under review had been overstated and retained earnings as at 31 December 2018 had been understated by the same amount.	Issue referred will be checked and corrected in the preparation of accounts for the next year.	Income received for previous years should not be accounted as the income for the year under review.
(ii). Although Nation Building Tax for the year under review according to the calculation of the audit was Rs.6,337,156 , it had been shown in the financial statements as Rs.6,577,246. Hence a difference of Rs.240,090 was observed.	-do-	Expenses should be accounted correctly.
(iii). An amount of Rs.4, 869,066 paid to a creditor had been erroneously debited to the advance for coolers account. Hence the balance of trade creditors and the balance of advance for coolers had been overstated by the same amount.	-do-	Payments should be accounted to the relevant account.
(iv). An amount of Rs. 334,000 had been paid to a creditor as an amount due for the purchase of Coolers made on the invoice no. CWE 413. However, it was not confirmed that such a purchase under the said invoice number had been made during the year under review.	-do-	Payables should be made after confirming the matter that a purchase had been actually made.

(v). Trade creditors had been understated by Rs.1, 036,479 due to minus balances included in the trade creditors balance as at 31 December 2019.	-do-	Creditor balances shown as negative balances should be analyzed and the accurate balances should be shown in the financial statements.
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1.5.2 Suspense Accounts

Item	Amount Rs.	Period in suspense	Management Comment	Recommendation
Bank balance	278,519	3 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.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence available	not Management Comment	Recommendation
(i). Revenue	308,162,492	Invoices , Construction register , Bills of Quantities , Contract agreements and work done reports	Issue 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	234,998,466	Invoices,	-do-	-do-
(iii). Payable	274,074,671	Invoices, contract agreements and work done reports	-do-	-do-
(iv). Receivable	258,476,325	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.	Issue 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 Non-compliance Laws, Rules Regulations etc.	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	Issue referred will be checked and corrected in the preparation of accounts for the next year.
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.	-do-
iii. Section 7.4.1	An Audit Committee had not been established by the Company.	-do-
iv. Section 9.2	Cadre for the Company had not been prepared and approved.	-do-

(b) Public Finance An Action Plan had not been prepared by the Company for the year under review. -do- -do-
Circular No. 01/2014 dated 17 February 2014.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 570,924 and the corresponding loss in the preceding year amounted to Rs. 9,123,914. Therefore an improvement amounting to Rs. 9,694,838 of the financial result was observed. The main reason for the improvement is the increase of net revenue by Rs. 9,206,343.