Central Engineering Services (Private) Limited - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Services (Private) Limited ("Company") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

Entities are required to "devise and maintain" a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management's general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management's general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The following observation is made in this connection.

Audit Issue	Management Comment	Recommendation
An accurate and timely coding system is essential for property, plant, and equipment in order to ensure that the entire PPE has been accounted for, adequately safeguarded, and to detect missing items. However, the Company had not properly coded its fixed assets and those codes were not included in the fixed asset register as enable to identify the value of the PPE costing Rs. 1,298.18 million shown in the financial statements are corrected and carried out the annual assets verification accordingly.	At present the Company is developing a new coding system using the ERP system. That system will be introduced within this year.	A proper coding system is needed when developing the ERP system and to ensure accurate and adequate controls over PPE.

1.5.2 Non-Compliance with Sri Lanka Accounting Standards (SLFRS/LKAS)

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Credit balances of debtors and debit balances of mobilization advances aggregating Rs. 44.46 million and Rs. 34.69 million respectively had been offset against the debit and credit balances of such accounts in 30 instances in contrary to paragraph 32 of Sri Lanka Accounting Standard **(LKAS) 1 – Presentation of Financial Statements**. As a result, the current assets and current liabilities had been understated by similar amounts.	Out of Rs. 44.46 million and Rs. 38.38 million had been arisen due to reporting error and the balance amount of Rs. 6 million had been arisen due to over payments made by clients erroneously. Debit balances in mobilization advances had been arisen due to over recovery of advances from bills and erroneous way of recovering mobilization advances.	Actions need to be taken to correct the debtor balances and mobilization advance balances by making proper accounting treatments on credit balances and debit balances respectively.
In the meantime, credit balances aggregating Rs. 1.64 million included to the unsettled advance payment schedule of Anuradhapura Base Office of the Company had been offset against the debit balances of that account due to incorrect entries made when purchase of goods by exceeding the advances obtained. As a result, the current assets and liabilities in the financial statements had been understated by same amount.	This error has happened due to error done in the process of entering GRN to ERP system. That balance need to be transferred to Creditors. Store Keepers were advised to rectify the errors in the future.	Actions need to be taken to transfer the credit balances of unsettled advance payment under creditors.

(b) The Company has pledged most of its short-term investments against the bank guarantees obtained by way of bid bonds, advance bonds, performance bonds, etc. when undertaking the construction works from the clients. However, the Company had failed to value and disclose such pledged amount at the reporting date in the financial statements as per the provisions in paragraph 14 of **SLFRS 07- Financial Instruments: Disclosure and paragraph 37(a) of LKAS 39- Financial Instruments: Recognition and Measurement.** According to the information made available for audit, the values of said bank guarantees obtained as at 08 September 2021 was Rs. 954.85 million.	It will be disclosed in the next financial year onwards.	Action should be taken to comply with Sri Lanka Accounting Standards by disclosing the pledged amount in the financial statements.
(c) According to note 2.3.6 of the financial statements, it was stated that the Company reviews annually the estimated useful lives of PPE based on the factors such as business plan and strategies, the expected level of usage, and future development. However, fully depreciated assets approximately costing Rs.301.68 million are being continuously used by the Company without reassessing the useful economical lifetime of those assets as per the provisions in paragraph 51 of **LKAS 16 – Property, Plant and Equipment** and rectifying the estimation error and showing the accurate carrying value in the financial statements as per the LKAS 8.	As per the Standard, we are applying cost model for initial and subsequent recognition of property, plant & equipment. Therefore, revaluation model is not applying by the Company and record at cost. Further in the year of 2020, we have revalued the Motor vehicles and revalued amount has been taken to accounts.	The Company should reassess the useful economic lifetime of fully depreciated assets as per the provisions in the LKAS 16 and estimation error should be rectified as per the LKAS 8.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) It was revealed that the Polonnaruwa Base of the Company had computed their depreciation by overstating Rs. 1,01 million. Hence, the profit for the year under review had been understated by that amount.	Pre-fabricated House Rs.10.08 million was purchased in 2012. Hence, this asset has to be depreciated fully by 2020. Since it is fully depreciated in financial statements of 2020.	When applying the straight-line method for providing depreciation to a particular asset, the equal amount of depreciation to be provided over the useful economic lifetime of such assets.
(b) A difference of Rs. 161.38 million was observed between the amounts payable (retention and trade payables) shown by the mother company i.e. Central Engineering Consultancy Bureau (CECB) and the corresponding amount shown by the Company as receivable from the CECB in their financial statements for the year under review.	Retention Receivable – Total difference is Rs. 574,401. We will check the differences and correct the differences in the future if the error happened in our side. CECB Creditor- This will be corrected in 2021.	Actions need to be taken to correct financial statements accordingly.
(c) The Company has recognized NBT amounting to Rs. 1.12 million relating to the previous period as expenditure of the year 2020. Hence, the profit for the year had been understated while overstating the retained earnings by said amount.	The supplier payments related to the year 2019 had been recorded in creditor ledger as a payable and debit entry had been recorded in the expenditure & NBT payable account. That NBT expenditure has been recorded as expenditure in 2020.	Company should implement a strength internal control over recording the transactions in accounting system to verify the accuracy of the accounting entries made for.

1.5.4 Documentary Evidences not made available for Audit

Audit Issue	Management Comment	Recommendation
(a) According to the available information, it was revealed that the Company has entered into a long-term lease agreement with the Urban Development Authority (UDA) during the previous year in order to obtain a land located in Rathnapura District for an amount of Rs.15.42 million. Although the Company has shown this amount as leasehold land, the Company had not completed signing process of the lease agreement even up to the date of this report.	Please note there is a delay from Urban Development Authority to issue the Lease Agreement. We have done all the required payments, correspondents and already sent reminder letters.	The lease agreement or any other documentary evidence should be made available for audit to ascertain the value and ownership of the leasehold property.
(b) A sum of Rs. 3,744,376 was shown as accrual since 2017 as per the schedule prepared by the Central Base of the Company and this amount to be paid to a third party with regard to change of filters in vehicles used for road projects. However, supporting documents for the above payable were not made available for audit. Therefore, it could not be ensure the accuracy and reliability of this payable.	As per the record all the due amount had been made and this is an additional entry posted to the system. It will be cleared in the financial year 2021.	Actions should be taken to ignore the additional entries from the books of accounts or to submit supporting document for the entries made for.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Out of debtor balances aggregating to Rs.4,175.71 million as at 31 December 2020, debtors amounting to Rs. 375.42 million were outstanding for over 3 years and out of that debtor, amounts aggregating to Rs. 116.82 million had remained outstanding for over 5 years without being recovered. In the meantime, debtor aggregating to Rs. 397.88 million which relates to completed projects had not been recovered even up to 31 December 2020.	There is only 0.59% increase of debtors in 2020 compared to 2019 and recovered Rs.99 million from debtor balance over 5 years in 2021.	Effective actions should be taken to recover the outstanding balances without further delay.
(b)	Retention receivable as at 31 December 2020 was amounting to Rs. 2.672,63 million. Out of that a sum of Rs. 358.81 million and Rs. 293.24 million relating to completed projects were outstanding from 3 to 5 years and over 5 years respectively and had remained without being taken proper recovery actions by responsible officers.	Mainly, our clients are government Ministries, Departments and other State-Owned Enterprises. Due to the adverse economic condition prevailed in the country; there is a delay in receiving retention money. However, we are in the process of scrutinizing long outstanding retention receivables and, debtors and retention collection unit also has been implemented in Head Office to improve this process.	Effective action should be taken to recover the outstanding balances without any delay.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Creditors and retention payables as at 31 December 2020 were amounting to Rs.2,439.05 million and Rs. 693.30 million respectively. According to the age analysis provided for audit, the creditors amounting to Rs. 261.98 million and retention payables amounting to Rs. 230.52 million shown under current liabilities had remained in the accounts from 2 to 5 years without being settled.	Our suppliers are giving less than 1-year credit periods in most of the times. Hence, all the creditors are initially considered as current liabilities with the intention of settling within one year. Without collecting that money from our clients there is no possible way to settle these outstanding amounts as credit terms agreed with the suppliers.	Action should be taken to settle all possible long outstanding creditors' balances without delay and to treat others as income.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
According to Guideline 5.4.4 (iii) of the Procurement Guidelines the mobilization advances received shall be fully settled before the project works reached to 90 per cent complete level. Nevertheless, such advances received amounting to Rs.222.95 million with regard to fully completed and 90 per cent completed construction projects belongs to 05 Base Offices of the Company had remained in the accounts as at 31 December 2020 without being settled. These balances had remained in the accounts even up to the date of this report. Further, the reasons for these unsettled balances had not been provided to audit.	Bills were not certified as at 31.12.2020 for the amounts of Rs. 81,324,245 and mobilization advance already settled in 2021 for the amount of Rs. 23,511,130.	Action should be taken to get settled the advances without delay.

1.7 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
The Company shown a balance of Rs. 1,652.54 million as payable to the parent Company i.e. Central Engineering Consultancy Bureau (CECB) as at 31 December 2020 and this amount included vehicle hiring charge, value of fixed assets and stock transferred and temporary loans etc. However, there is no proper and updated agreement between the parties with regard to these transactions and it was further noticed that this balance continuously increased since year 2017 onwards without being taken any effective action to clear this balance. Further, the Company had not calculated any interest on this payable balance even up to the date of this report. In the meantime, there was a difference of Rs. 2.67 million were observed between this payable balance shown in movement schedules and the financial Statements, and a reconciliation had not submitted for the balance of Rs. 85.01 million.	Intercompany current account balances have increased due to adverse condition prevailed in the country which badly affects to the cash flow of the projects. Further, the Company is in the process of reviewing long outstanding balances to identify a way of capitalizing the balance negotiation with CECB by a way of issue of shares.	Actions should be taken to have a clear agreement between the Company and the Parent Company and to control the continuous increase of related party payable balance.

1.8 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. 02/20218 of 14 November 2018	A sum of Rs. 2,291.21 million had been invested in short term investment sources such as call deposits and fixed deposits etc. without obtaining the required approvals.	The Board has delegated the authority to open fixed/ call deposits account to COE sections by themselves with the aim to get a maximum benefit from short term excess funds immediately.	The Board should take the ultimate responsibility of investment decisions and should provide the supporting evidence for those approvals to annual audit.
(b) Paragraph 4.2.5 of the Public Enterprise Circular No.PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance.	Although it is required to present inventory age analysis to the Board meeting on monthly basis for their review and discussions, the Company is not in a position to generate an inventory aging report from their ERP system. Therefore, this Company is facing difficulties in identifying slow moving, non – moving and obsolete items based on the inventory aging.	It is very rear to have slow moving or obsolete items due to BOQ based procurement. If there are any unnecessary stocks it can be identified in that process and necessary actions are taking with necessary approval.	Action to be taken to upgrade the system parameters to generate the inventory aging report from ERP system itself to verify the accuracy, existence and completeness of inventory as at reporting date.
(c) Section 03 of the Public Administration Circular No. 30/2016 of 29 December 2016.	The consumption of fuel must be re-tested after a period of 12 months from each fuel test or after running a distance of 25,000 Km or after carrying out a major repaired to the engine whichever occurs first. However, the Company had conducted this test during the period from 2016 to 2020 only for 12 vehicles out of 82 vehicles of the Company.	Normally Fuel test is done at the point of purchase of a vehicle & when there is an engine repair. All the vehicles have allocated to sections and if there is a request from that section to retest the fuel, it will be done accordingly. This request is done when there is excess or deficit when balancing DRC.	The consumption of fuel must be tested periodically as per the provisions in said Circular in order to ensure the economical use of fuel consumption.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs. 62.45 million as against the operating profit of Rs. 55.55 million recorded in the preceding year. Therefore, a deterioration amounting to Rs.118.00 million of the financial result was observed. The reasons attributed for the deterioration are decrease of construction revenue by 36 per cent and other income by 33 per cent as compared to the previous accounting period.

2.2 Trend Analysis of major Income and Expenditure items

Description	For the year ended 31 December 2020	For the year ended 31 December 2019	Variance {Favorable/ (Adverse)}	Percentage
	Rs. Mn.	Rs. Mn.	Rs. Mn.	(%)
Construction Revenue	6,694.1	10,474.7	(3,780.6)	36
Hiring Income	20.2	38.2	(18)	47
Asphalt Gain/(Loss)	(16.8)	4.2	(21)	500
Finance Income	148.0	191.7	(43.7)	23
Finance Cost	15.2	40.4	25.2	62.3

The attention of the management to be paid to increase main revenue source of construction income as well as the increasing finance income by efficiently utilizing financial resources of the Company. As well as management should give high attention to mitigate the operating loss of Asphalt/Crusher Plant.

2.3 Ratio Analysis

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

Ratios	2020	2019	2018
Profitability Ratios			
Gross Profit Ratio (GP) (%)	9.29	7.05	7.03
Operating Profit Ratio (%)	-0.9	0.53	0.60
Return on Assets (ROA) (%)	0.56	1.63	1.37
Liquidity Ratios			
Current Assets Ratio (Number of times)	1:1.2	1:1.2	1:1.5
Quick Assets Ratio (Number of times)	1:1.1	1:1.1	1:1.0

The following observations are made in this regard.

(a) The Company had earned a pre-tax net profit of Rs.70 million during the year under review by utilizing its total assets base of Rs. 12,558 million. Hence, the average rate of return on total assets was only 0.56 per cent. When compared to this ratio with last two years it was far below in the year under review. Therefore, the management requires having a strategic plan how they can utilize their resources to maximize the operating profit in future periods.

(b) Although it was expected to maintain the net profit margin at a rate of 2.18 per cent in the year under review, the Company has unable to achieve it.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) According to the information provided for audit, the Company has sustained a gross loss of Rs.973.3 million, Rs. 722.8 million and Rs. 724.2 million by the end of the years 2020, 2019 and 2018 respectively from its completed construction projects. Further, a loss of Rs. 43.03 million was reported from 04 ongoing projects of the year under review. Details are shown below.	Projects were ended up with losses due to following reasons. The Company had to face huge delays in projects and it will exceed allowed overhead cost for the project. -The Company had failed in making budgets (BOQ) in many instances and it will affect to increase the loss. -The Company had allocated material cost among projects in inaccurate way and those will be corrected in future periods. -Disagreements between client and company with regards to work done also affect to the loss of the projects.	The Company should take effective measures to mitigate the losses of construction projects.

(i) Projects completed with significant loss

Name of the Base Office	Number of Projects			Project Loss		
	2020	2019	2018	2020	2019	2018
				Rs. Mn.	Rs. Mn.	Rs. Mn.
South East	-	6	-	-	45.9	-
WP2	5	8	8	7.6	13.6	88.1
WP1	-	4	4	-	6.2	7
Central	14	6	13	41.1	22.2	36.3
North	1	1	2	32.8	29.7	45.7
Sabaragamuwa	-	1	2	-	1.8	11
South	21	15	15	176	169.2	103.2
Uva	5	2	18	30.8	8.6	63.8
North Central	84	72	66	406	315.3	255.5
MKDP	54	35	22	279	110.3	77.6
Eastern	-	-	4	-	-	36
	184	**150**	**154**	**973.3**	**722.8**	**724.2**

(ii) Loss incurred by ongoing Projects

Name of the Base Office	Number of Projects	Contract Amount	Cumulative Cost	Project Loss	Stage of Completion
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		Rs. Mn.	Rs. Mn.	Rs. Mn.	%
Uva	02	35.09	46.2	11.11	91
Jawatta -2	02	331.02	362.94	31.92	99
Total	**04**	**366.11**	**409.14**	**43.03**	

The following observations are also made in this regard.

(i) Out of the above 184 fully completed projects, 84 projects, 54 projects and 21 projects were completed with the total operational loss of Rs. 406.0 million, Rs. 279.0 million and Rs. 176.0 million by the Anuradhapura, Polannaruwa (NKDP) and South Base Offices respectively. These represent 40 per cent, 20 per cent and 18.5 per cent of the total loss respectively.

(ii) The management should take effective actions in order to minimize and mitigate these type of heavy losses by identifying the reasons and the persons who directly or indirectly responsible for these losses, hence, this ay directly affect to going concern of this Company.

(iii) If the Company could have able to mitigate the project's loss of Rs.973.3 million incurred during the year under review, the operating loss of Rs. 62.4 million reported as at the end of the year would be an operating profit of Rs. 910.9 million.

(iv) The Company is unable to complete most of the projects on the agreed contract period. At the test audit check it was revealed that there was a considerable delay in completing the project works by the North Base of the Company ranging between 100 days to 280 days. This will also lead to increase the cost and loss of the projects.

Those projects were delayed due to delays of design details. This will exceed allowed overhead factor for the project. Further, tendering the material prices are increased approximately two times than quoted bid price.

The Company should take effective measures to mitigate the losses of construction projects.

(b) A sum of Rs. 6.3 million was spent for the construction of a Technology Park at the Sri Lanka Planetarium premises for celebration of Dr. A.N.S. Kulasinghe's 100th birthday ceremony.

The Company had made payments for supply, construction and instalments of equipment for this park (excluding procurement) directly to the officers of the Company on the basis of the certification of the bills by the officers concern without obtaining work completion certificates from a suitable independent party to ensure that the equipment which supply and installed in the above park was properly installed in line with the required standard. Further, cost of procurement and instalments incurred for some of the items in the above park were very high and remained impractical as compared to the current market prices. Therefore, there was a serious problem in the audit of the accuracy and transparency of the expenditure incurred for the construction of this park.

In the meantime, our physical inspection revealed that the park had been constructed and declared opened without any formal agreement with the relevant party and since there was no preparation for the maintenance of the park, some equipment in the park had become unusable and perishable condition within less than a year period. Due to the above reasons, none of the objectives of constructing this park had been achieved and the cost of Rs. 6.37 million incurred for the above park had become fruitless.

The CSR project is completed by the CECB & CESL as a half sponsorship project and as its nature, no requirement of certification from independent parties or a consultant. It was done as a design & building project with high quality supervision and officially handed over on 04.09.2020. At the handing over, we have trained two nominated officers by the Planetarium on functioning of all instruments. Other than that we have provided 300 numbers of printed leaflets to the client to distribute among the school children visiting the Planetarium. Further, it was included all staff salaries and allowances of the officers involved with the project.

This project is completed on a request of the client with the approvals Board of Director. Further, we have already informed in written to the ministry, we will be attending on any defects for five years' period from the date of handing over on their request.

These type of CSR projects should be carried out in a transparent way in order to obtain financially most advantageous and to provide qualitatively the best services to the general public.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) The Company had earned a net interest income of Rs.132.85 million on short-term investment of Rs. 2,291.21 million invested in Repo, savings account and fixed deposits etc. as at the end of the year under review. If the Company is not earned this much of interest income during the year under review, the profit before tax of Rs. 70.40 million shown in the financial statements would have been an operating loss of Rs.62.45 million and this net interest income is represent 188.7 per cent of the profit before tax of the year under review.	The company is taking actions to improve operating performance but due to some adverse conditions affected to the construction industry such as inflation, import restrictions, Covid-19 pandemic etc. our operating results were diminishing. Our interest income cannot be treated as a result of operational inefficiency. We have to invest in fixed deposits due to various reasons.	The management of the Company should pay attention to utilize its financial, human and other physical resources efficiently in order to enhance the operating income of the Company.
(b) It was observed that 04 Base Offices i.e. Polonnaruwa, Uva, COE South and Anuradhapura of the Company were running at a total net loss of Rs.490.77 million during the year under review. Meanwhile, the Anuradhapura and UVA Base Office has sustained a gross loss of Rs. 163.87 million and Rs. 196.88 million respectively as at 31 December 2020. The following observations are also made in this regard. (i) If these losses not reported in the year under review, the operating loss of the Company amounting to Rs. 62.45 milion would have been an operating profit of Rs. 428.32 million. (ii) Revenue of the Polonnaruwa Base had decreased by Rs. 532,51 million or 45% while the Administration Expense had increased by Rs. 8.55 million or 30% as compared to 2019. **(iii)** Revenue of Anuradhapura Base has decreased by Rs. 658.31 million or 66% in this year as compared to the previous year.	No Comment	The management of the Company should pay attention to utilize its financial, human and other physical resources efficiently in order to mitigate the operating losses of the Company.

(c)	A loss of Rs. 24.18 million was reported under the operation of Asphalt/Crusher Plant during the year under review by 02 Bases (Polonnaruwa and Uva) of the Company.	No Comment	The management of the Company should pay its attention to operate the Asphalt/Crusher Plant in a profitable manner.

3.3 Transections of Contentious Nature

	Audit Issue	Management Comment	Recommendation
(a)	The balances of due from customers and due to customers as at 31 December 2020 were amounting to Rs. 1,599.05 million and 1,929.33 million respectively. However, once the projects works undertaken by the Company are completed, there should not have due from customers or due to customers. Beside that fact, the balances of Rs. 325.05 million relating to 50 completed projects were shown as due from customers and due to customers without take proper actions to clear these account balances. It was further observed that this issue has been arisen mainly due to not having a proper and timely billing system.	Due to and due from amounts from fully completed projects arise due to non-certification of final bills of the client. If the final bills are not certified by the client, we cannot recognize in to the final accounts as cumulative work done. Thereby these amount arises.	Effective and proper work plan should be introduced without further delay to clear the long outstanding balances with regard to completed projects and to make proper adjustments in the accounts by preparing an age analysis.
(b)	All payments on Value Added Tax (VAT) are made by the Head Office on cash basis, based on the schedules submitted by relevant Base Offices of the Company as at the end of each month. However, accrual concept is being used for accounting those VAT payments. As a result, a difference of Rs. 26.49 million was observed between the transaction recorded on cash basis and accrual basis. Further, the Company had not maintained a monthly reconciliation process to reconcile this discrepancy, and not having these, it may lead to over/under VAT payments to the Department of Inland Revenue.	This happened due to two different methods we used to do VAT payment and record VAT in general ledger. We are in the process of developing a schedule via ERP system to show the reconciliation between cash basis and accrual basis balance. At present it is difficult to reconcile manually due to large number of transactions available in the ledger.	Attention to be paid to reconcile the ledgers balances with schedules before preparing the financial statements.

3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) Although there should have an approved Scheme of Recruitments and Promotions in the Company before recruitment of staff for the various posts to the Company, such scheme had not prepared and approved even up to 30 June 2021. It was further revealed that the Company has recruited 20 employees for the posts which are not in the approved Cadre and further 32 employees had recruited exceeding the approved cadre.	At present, 12 employees who are not in approved cadre have been employed in CESL on Job Contract basis. At present there are only 10 Charge Hands are in the company exceeding to the approved cadre. Those craftsmen were recruited in order to fulfill the mandatory requirements of CIDA to upgrade into the CS2 status. Arrangements have been made to obtain the relevant approval for these 10 employees.	Action should be taken to recruit and promote staff for the company in accordance with approved cadre to adhere with the circular provisions and public enterprise guidelines.

3.5 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
According to the information provided for audit most of the vehicles had met with accidents in 60 instances during the period from 01 January 2019 to 31 July 2021 and insurance claims with regard to only 57 vehicle accidents have been forwarded to the respective insurance company. However, the details such as number of vehicles met with accidents, value of insurance claims recovered, cost of repairs etc. had not been provided for audit, while no inquiries had been instituted to ascertain causes for losses and against the persons responsible for these losses. Further, preliminary reports and final reports with regard to investigation of vehicle accidents had not been submitted to Auditor General.	The repairs relevant to vehicle accidents forwarded to a garage with the insurance claims. All the bills relevant to repair is claimed from insurance company by the garage itself. Hence there is no cost incurred by the company with this regard. In some few incidents, company has paid the excess amount of repair cost by considering the insurance policy. Company will form a committee to assess the magnitude of damage, reasons and responsible parties etc. In future, this committee will periodically issue their recommendations and final report will be produce to the Auditor General.	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 to the Auditor General within 3 months from the date of accident/loss.