Central Engineering Consultancy Bureau and its Subsidiary - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Consultancy Bureau ("the Bureau") and the Consolidated Financial Statement of the Bureau and its Subsidiary ("the Group") for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or 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 and Finance Act No. 38 of 1971. 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 of the Bureau and the Group give a true and fair view of the financial position of the Bureau and the Group as at 31 December 2020, and of their financial performance and their 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 Bureau and the Group'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 Bureau and the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bureau and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Bureau and the Group 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 Bureau and the Group.

1.4 Auditor's Responsibility 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 Bureau and the Group'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 Bureau and the Group'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 Bureau and the Group 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 Bureau and the Group, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Group has complied with applicable written law, or other general or special directions issued by the governing body of the Bureau and the Group*;*
- Whether the Bureau and the Group has performed according to its powers, functions and duties; and
- Whether the resources of the Bureau and the Group 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 Consolidated Financial Statements.

The Qualified Opinion on the financial statements of the Subsidiary i.e. Central Engineering Services (Private) Limited for the year ended 31 December 2020 had been expressed by me based on the following observations.

1.5.1.1 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 entire PPE have been accounted, adequately safeguarded and to detect missing items. However, the Company had not properly coded its fixed assets and those codes were not included to	At present the Company is developing a new coding system using ERP system. That system will be introduced within this year.	Proper coding system is needed when developing the ERP system and to ensure the accurate and adequate controls over PPE.

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 carry out the annual assets verification accordingly.

1.5.1.2 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, and performance bonds etc. when undertake the construction works from the clients. However, the Company had failed to valued and disclose such pledged amount at the reporting date in the financial statements as per the	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.

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.		
(c) According to the 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, 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.

1.5.1.3 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	Retention Receivable – Total difference is Rs. 574,401. We will check the differences and	Actions need to be taken to correct financial statements accordingly.

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.	correct the differences in the future if the error happened in our side. CECB Creditor- This will be corrected in 2021.	
(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.

1.5.1.4 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.

1.5.2 Bureau's Financial Statements.

1.5.2.1 Non-Compliance with Sri Lanka Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	**Paragraph 14 of *SLFRS 07 – Financial Instruments: Disclosure and paragraph 37(a) of LKAS 39- Financial Instruments: Recognition and Measurement*** - The Bureau has pledged its investments worth Rs. 200,225,207 against the bank guarantees obtained by way of bid bonds, advance bonds, retention bonds and performance bonds etc. when undertake the construction works from the clients. However, the Bureau had failed to disclose such pledged amount at the reporting date in the financial statements as per the provisions in the Standards.	It is noted to comply in future.	Bureau should disclose the pledged amount against the bank guarantees obtained at the reporting date.
(b)	**SLFRS 15 – Revenue from Contracts with Customers -** the revenue is identified according to the works completion stage of the Construction Contracts and there is a possibility for due from or due to the customer when bills have been issued in excess or less than the works completion. But this balance should be cleared after identification of 100 per cent revenue from the Construction Contracts. However, even after fully identified the revenue from Construction Contracts, sums aggregating Rs. 297,528,112 and Rs. 359,002,617 have been still shown as due from customers and due to customers respectively in the financial statements as at 31 December 2020. Out of those due to customers and due from customers, amounting to Rs. 195,696,219 and Rs. 145,816,913 respectively had remained un-cleared from the accounts for over 05 years as at 31 December 2020. Further, so far no effective actions were taken in this regard even though this matter had been pointed out in my previous years audit reports.	Final invoices had not been certified by the client yet. Therefore, contract sum will be adjusted in 2021 based on the certified final bills.	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.

(c) **LKAS 16 – Property, Plant and Equipment**

(i) Action had not been taken to reassess the useful economic life of the fully depreciated assets costing Rs. 269.24 million which are continuously used by the Bureau. Further, these assets had not been accounted with accordance to the provisions in Section 51 of the LKAS 16.	Teams have been assigned to verify physical existence of all class of Property, Plant & Equipment (PPE) other than motor vehicles and land & buildings and a committee has been appointed to revalue the same classes of PPE as most of the fixed assets are at zero net book values.	Action to be taken to reassess the useful economic life of the fully depreciated assets and, rectify the estimation error and make adjustments in the financial statements accordingly.
Further, the useful life of the assets belong to Bureau had not reviewed at least at each financial year end and, had not accounted for as a change in an accounting estimate in accordance with LKAS 08 even though it is stated in the Significant Accounting Policy 3.8.6, that the Bureau reviews the estimated useful lives of assets at least at each financial year end.	However, we need more time to fully complete this assignment as Bureau's fixed assets have been scattered all over the island and limitations in gathering staff due to prevailing situation in the country.	
(ii)The Bureau had not properly coded its fixed assets costing Rs. 3,700,591,042 and those codes were not included to the fixed asset registers maintained at the EPC and Consultancy Division. Therefore, it was unable to identify those assets in the annual asset verification since the existences of those assets were doubtful. Further, an accurate and timely coding system is essential for property, plant & equipment (PPE) in order to ensure that entire PPE accounted for accurately, safeguard and missing items are detected.	Coding of Fixed Assets have been already commenced in parallel with the process of physically verifying of fixed assets. This process has already been implemented for assets purchased during the year 2021.	Necessary action should be taken to coding the entire fixed assets of the Bureau.
(iii) The Bureau had computed the depreciation for furniture and fittings, construction instruments and equipment, office equipment, plant and machinery, containers, computers etc. based on the values shown in the general ledgers without being considered the actual existence of those assets as per the assets verification conducted by each Base of	As stated in query, the process of verifying physical existence of fixed assets is underway and we look ahead to scrutinize the Fixed Assets Registers and update with verified details.	The Depreciation should be computed by ensuring the physical existence of fixed assets which shown in the general ledger. Further, an updated centralized fixed

the Bureau. Further, the Bureau had not maintained a centralized assets register to ensure the existence of the assets which shown in the general ledger of the Bureau. Hence, the accuracy of the cost of such assets to the value of Rs. 646,315,029 shown in the financial statements and depreciation made thereon Rs. 58,383,489 for the year under review could not be reliably ascertained in audit.		assets register should be maintained as enable to conduct Annual Boards of Survey.

1.5.2.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) It was observed that a cost incurred on piling works of construction of the Bureau's Head Office building amounting to Rs. 10,503,223 had been included in the total debtor balances as at 31 December 2020 without being capitalized and another unidentified amount of Rs. 971,365 had also been erroneously included in the debtor balance of the Bureau. As a result, the debtor balance of the Bureau as at the end of the year under review aggregating Rs. 5,977 million had been overstated by Rs.11,474,588.	Rs.10,503,223 was cost incurred on piling works of construction of the Bureau head office building and due to an oversight it was mentioned under Debtors. Action will be taken to transfer this amount under Buildings and necessary adjustment will be made in the PPE note. Further, balance of Rs. 971,365 will be reviewed and adjusted accordingly.	Actual debtor balances should only be shown in the financial statements.
(b) According to the financial statements of the DHQC Advisory Division of the Bureau as at 31 December 2020, the debtor balance was amounting to 48,698,299 and the provision for impairment thereof was Rs.55,464,739. Accordingly, a sum of Rs. 6,766,440 had been made as provision for impairment by exceeding the debtor balances as at the end of the year under review.	Considering the significance of total trade debtor value in Bureau, it was decided to maintain overall general provision as it is in year 2020. However, this has already been adjusted in financial statements of DHQC in year 2021.	Provision for impairment should not be exceeded the total debtor balances at the reporting date.

1.5.2.3 Unreconciled Differences

Audit Issue	Management Comment	Recommendation
(a) A difference of Rs. 29,028,235 was observed in 19 instances between the value added tax control account balances included in the financial statements prepared by each Bases and Consultancy Divisions of the Bureau as at 31 December 2020 and the schedules prepared by those Bases and Divisions as at that date. Accordingly, the value-added tax payable had been overstated by similar amount in the financial statements. However, out of the above differences only Rs.8,927,514 or 23 per cent had been removed from the accounts even up to 30 September 2021.	These balances are appearing in the accounts for a longer period and we are in the process of reconcile in the differences. These were cleared in the year 2021	Attention to be paid to reconcile the ledgers balances with schedules before preparing the financial statements.
(b) Although the Subsidiary of the Bureau had shown a sum of Rs. 5.1 million to be receivable from the Bureau, this amount had not been shown as payable in the financial statements of the Bureau as at the end of the year under review.	The payable amounts has already been settled and there's no such amount payable to the Subsidiary.	The records of the Bureau should be reconciled with the records of the Subsidiary before preparing the financial statements.

1.5.2.4 Suspense Accounts

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Audit Issue	Management Comment	Recommendation
(a) Sums aggregating Rs. 60.16 million relating to 19 items of accounts belongs to 12 Base Offices of the Bureau were stated as unidentified in the schedules prepared as at 31 December 2020. Out of these 19 items, 09 items to the value of 13.73 million was reported as unidentified for more than five years. The Bureau had not taken fruitful action to identify and clear these account items even up to the date of this report.	The balance of Rs. 60.1 million comprised of payables & receivables of Rs. 45.3 million & Rs. 14.8 million respectively. These balances are carrying forward for a longer period and they have not been claimed up to now and those balances are appeared to be no longer receivable or payable. Hence, those balances have already been classified as doubtful /suspicious receivables & payables in the ledger.	Fruitful action to be taken to clear this suspense nature balances from the books of account without any delay.

Audit Issue	Management Comment	Recommendation
(b) It was observed that 04 items of assets and liabilities amounted to Rs. 8,711,447 and 17,651,275 respectively were continuously included in the Bureau's financial statements as Building Services although there is no Division or Base Office by that name is operated at present. In addition, the difference between the above assets and liabilities amounting to Rs. 8,939,828 was shown as capital erosion instead of being properly adjusted.	Action has already been taken to get the Board approval to close the bank account and transfer the remaining funds to main bank account of the Head Office. Actions will be taken to scrutinize the other balances.	Immediate action to be taken to clear this balances from the books of account.

1.5.2.5 Preparation of Consolidated Financial Statements

Audit Issue	Management Comment	Recommendation
The balances totalled to Rs. 92,880,628 shown as amounts due from Subsidiary (Central Engineering Services Private Ltd.) had not been eliminated when preparing the Group's financial statements and instead it had been added to the total debtor balances of the Group. In addition to that, a sum Rs. 46,401,148 to be eliminated from the group accounts was also not eliminated when papering the Group's accounts. As a result, the Group's debtor balance had been overstated by Rs. 232,162,404.	Rs. 92 million had been added back instead of deducting in elimination column by mistakenly when preparing Consolidated Accounts and the balance of Rs 46 million had not been eliminated due to an oversight. It is noted to prevent such lapses in future.	The true and correct figures should be shown in the financial statements after making proper adjustments.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) The trade debtor balance as at 31 December 2020 as per the financial statements was Rs. 5,977,305,595 and out of which Rs. 2,674,662,841 and Rs. 1,449,987,960 were remained unrecovered for over 3 years and 5 years respectively. Although immediate action should have been taken to ascertain whether these	As we have informed to you in several occasions, our clients are mostly government Ministries, Departments and other State-Owned Enterprises and Bureau's recovery action on collection of accounts receivables is highly limited as the matter is beyond our control. Despite that, all	Outstanding balances should be recovered without any delay.

balances were recoverable or not, effective steps had not been taken to do so. It was further observed that, there is a significant delays in respect of payment for progressive bills by the clients. Hence, the management of the Bureau should find a permanent solution with regard to delays of payments in near future.	continuous efforts have been made to collect the dues. In the meantime, steps have been taken to investigate long outstanding balances under Debt Collection Unit. Also please note that, total trade receivables reduced by 8% in the year 2020 with compared to year 2019, and for long outstanding debts, adequate provisions of Rs. 1,830 million have been made in the Financial Statements. Accordingly, we have made continuous efforts to scrutinize the trade debtor balances and to collect the dues.	
) The total debtor balance of the EPC Division of the Bureau is Rs. 4,290,523,157 and out of that Rs. 2,628,620,342 or only 61 per cent are the debtor balances related to projects which are being carried out or completed on the recommendations of the Standard Technical Committee (STC). Although it was stated that the delay in obtaining the approval from the STC had affected the collection of those debtor balances, the Bureau had failed to provide the reasons for the recovery of remaining outstanding debtor balances to the audit.	-do-	-do-
No action had been taken to recover the retention money with regard to completed or suspended construction projects amounted Rs. 894,598,087 and Rs. 543,001,855 which were remained unrecovered for more than 03 years and 05 years respectively as at 31st December 2020. Out of the above balances only Rs. 15,498,200 had been recovered during the period of 01 January to 30 November 2021.	We have send continues reminders to the clients and requesting to settle these long outstanding balances, but the clients responses are very poor. Further, some projects are with pending STC approval and hence the client has not released the retention until receiving the rate approval. Meanwhile, a provision of 44% has been made for those long outstanding retention receivable.	A proper mechanism should be introduced to recover the retention receivables relating to projects which completed long ago without further delay.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
(a) According to the financial statements for the year 2020, the income tax balance payable by the Bureau is Rs. 897,795,802. Out of which Rs. 152,446,819 and Rs.700,484,023 were the balances remained unsettled for over 05 years and 03 years respectively. No action has been taken so far to remit this balance to the Commissioner General of Inland Revenue or to take appropriate action in consultation with the Commissioner General of Inland Revenue.	The Bureau’s liquidity position has been adversely affected during the past few years due to long outstanding trade receivables & prevailing adverse situation in the country. The continued liquidity problems of Bureau led to late settlement of above tax liability. Despite of financial constraints, the Bureau had settled Rs 69 million of the total income tax liability during the year 2020.	The Bureau should comply with the provisions in the Inland Revenue Act and immediate actions to be taken to remit the income tax which payable to the Commissioner General of Inland Revenue in order to avoid the surcharges on delayed payments.
(b) Although in completion of 90 per cent of the construction projects the mobilization advances received on a construction project have to be settled in full, such mobilization advances received with regard to 13 completed projects amounting to Rs. 32,942,162 still in the accounts as at 30 November 2021 without being settled. In addition to the above, a debit balance of Rs. 811,714 was shown by the Polannaruwa Base of the Bureau in their mobilization advances received account.	Some construction project were fully completed or abounded by the clients. However, the mobilization advances had not recovered by them. Further, in some instances the clients has over recovered mobilization advances from our final bills mistakenly. As a result, the debit balances arrived.	Actions to be taken to settle the all possible long outstanding mobilization advances without delay and to treat others as income
(c) The creditors amounting to Rs.218,474,698 and Rs. 647,016,183 retention payables amounting to Rs.521,142,737 and Rs. 403,493,350 had remained unsettled between 3 to 5 years and over five years respectively as at 31 December 2020. Further, accrued expenses amounting to Rs.11,881,461 had also remind outstanding for over one year without being settled as at that date.	These balances have been appearing in the accounts for quite a long time. Hence a considerable time is required to analyze these balances. Further, no requests have been received from the suppliers yet. Once we receive requests, balances can be released.	Creditors should be settled within the stipulated time period and actions should be taken to release the amounts which can be released and others to treat as income

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
Advances given for various purposes aggregating Rs. 4,178,158 and 1,463,688 had not been settled for over 03 years and 05 years respectively at the reporting date as per the Financial Regulation 371 of the Government of the Democratic Socialist Republic of Sri Lanka as amended by Public Finance Circular No. 3/2015 dated 14 July 2015 and Delegation of Financial Authority of the Bureau.	Action has already taken to get the Board approval to write-off few balances as employees given advances are no longer in the Bureau and some of these balances were unidentified long outstanding balances.	Attention to be paid to get settle the advances immediately after the completion of the purposes for which it is granted.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Sections 11 of the Finance Act, No. 38 of 1971 and Public Enterprises Circular No. 02/2018 of 14 November 2018.	A sum of Rs. 3,419,654,531 had been invested in short term and long term investment sources such as call deposits and fixed deposits etc. without obtaining the required approvals from the Finance Minister with the concurrence of the line Minister.	The Bureau being a self-financing organization with a decentralized operation structure, it is not practically possible to obtain approval from government authorities in each and every time. However, as instructed at the Audit & Management Committee meeting, it is intended to submit a statement to the Board on new investments as a Note to the Board.	Required approvals should be obtained before invest the excess money of the Bureau.

(b) Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance.			
i. Paragraph 9.3.1	Although there should have an approved Scheme of Recruitments and Promotions in the Bureau, such scheme had not prepared and approved for the post in middle and top level management. In this regard, the management have informed to audit that after obtaining the approval for the revised cadre of the Bureau, a revised Recruitment and Promotion Scheme for MM level to HM level will be submitted to the Department of Management Services. However, it was observed that no action had been taken in this regard even as at 30 September 2021.	A separate committee has been appointed to prepare SOR for MM to HM level to get the approval from the Board of Directors and Management Services Department (MSD). In this regard, the Bureau has to obtain the approval for the Revised Cadre and the Revised Recruitment and Promotion scheme. However, the SOR has not yet submitted to the Board and MSD for approval.	An approved Scheme of Recruitments and Promotions for all level of the approved cadre should be made available at the Bureau.
ii. Paragraph 9.14	Even though there should be a Manual of Procedure providing rules and regulations on all matters relating to management of human resources, the Bureau did not have such approved manual for the smooth and effective administration of human resources of the Bureau.	HR & Administration unit has submitted the Manual of Procedure providing rules and regulations on all matters relating to and HR & Admin functions in the Bureau to the Board.	Approved manuals for the areas of HR and Finance should be made available at the Bureau.
(c) Section 03 of the Public Administration Circular No.	The consumption of fuel must be re-tested after a period of 12 months from each fuel test or after	We are planning to do the fuel consumption testing as per public administration circular for	The consumption of fuel must be re-tested as per the

30/2016 of 29 December 2016.	running a distance of 25,000 Km or after carrying out a major repaired to the engine whichever occurs first. However, the Bureau had conducted this test during the period from 2016 to 2020 only for 12 vehicles out of 331 vehicles of the Bureau.	the year 2022 and onwards to manage the fuel consumption accurately.	provisions in said Circular in order to ensure the economical use of fuel consumption.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
The Bureau had maintained 78 bank current accounts in licenced commercial banks and the bank balances in those current accounts as at 31 December 2020 was Rs. 425,196,722. The following observations were revealed in operations of these bank accounts.		
i. Although the bank balances amounting to Rs. 3,310,974 was allowed to be idled in 11 bank current accounts for the period ranging 1 to 2 years, the attention of the management had not paid to closed down these dormant bank accounts even up to the date of this report by reviewing half yearly to justify the need for continuously with the bank accounts as per Section 8.4 of the Public Enterprises Circular number PED 12 dated 02 June 2003.	Two accounts closed during the year 2021 and one account was opened for the specific projects. We currently use this current account to en-cash people’s bank cheques and another account is opened and maintain in People’s Bank, Kandy on the request of the client.	Necessary actions should be taken to to closed down dormant bank accounts and accounts with private banks which operated by the Bureau.
ii Difference of Rs.325,260 was observed between the bank balance shown in the books of accounts and the bank confirmation with regard to a current account maintain at the Peoples bank	Worth of Rs.325,310 Cheques not presented to the bank had been cancelled and raised receipts for the same in January 2020 and these transactions had been posted to Cash Book. However, the above transactions had not been posted in the ledger 2020 due to error in the Accounting System.	A reconciliation should be papered in order to identify the any differences between the bank balances and the bank confirmations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre-tax net profit of Rs. 261,002,527 and the corresponding pre-tax net profit in the preceding year amounted to Rs.339,937,117. Therefore, a deterioration amounting to Rs 78,934,590 of the financial result was observed. The reasons for deterioration were decrease of construction revenue and consultancy revenue by Rs. 1,004,266,670 and Rs. 412,058,865 respectively as compared with the previous year.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review compared with the preceding year with the percentage of increase or decrease are shown below.

Description	For the year ended 31 December 2020	For the year ended 31 December 2019	Variance Favorable/ (Adverse)	Percentage
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	Rs. Mn.	Rs. Mn.	Rs. Mn.	%
Operating Income				
Construction	4,124.05	5,128.32	(1,004.27)	20
Consultancy	2,007.79	2,419.85	(412.06)	17
Other Income				
Hiring income	32.52	23.07	9.45	41
Miscellaneous Income	21.96	39.83	(17.87)	45
Finance Income	263.17	314.40	(51.23)	16
Expenditure				
Depreciation	173.62	131.79	(41.83)	32
Administration Expenses	657.00	668.49	11.49	2
Selling and Distribution Expenses	0.47	48.72	48.25	99
Finance Cost	4.82	4.16	(0.66)	16

2.3 Ratio Analysis

(a) The Bureau had earned a pre-tax net profit of Rs. 261,002,527 during the year under review by utilizing its total assets base of Rs. 18,951,048,931. Hence, the return on total assets was only 1.38 per cent (2019 – 1.73 per cent) and this had been gradually decreased year by year since 2012. Further, this was far below as compared with generally accepted ratio in the similar industry.

(b) Although the gross profit margin of the year under review had increased by 0.48 per cent, the operating profit margin was decreased by 0.347 per cent as compared with the previous year.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
The Bureau had failed to take fruitful actions to recover the course fees amounting to Rs.7,157,098 from 9 officers who breached the bond agreements entered into with the Bureau and those have gone abroad on no-pay leave during the period of 2007 to 2018.	Personal files of 7 officers have been handed over to the Legal Unit for Legal action and reminders were sent to other officers.	The Bureau should take legal actions against the officers who breached the bond agreements entered into with the Bureau for the recovery of outstanding course fees paid to those officers.

3.2 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Bureau had earned a net interest income of Rs.258,348,266 on its short-term and long term investment of Rs. 3,419,654,531 invested in Repo, fund account and fixed deposits etc. as at the end of the year under review. This net interest income represents 98.98 per cent of the profit before tax of Rs. 261,002,527 for the year under review.	The operating Profit had been reduced drastically in year 2019 & 2020 due to the adverse economic effect to operations with the impact of Covid-19 pandemic in the country. However, we expect to recuperate our operations and profit with the boom in construction industry after resettlement of prevailing pandemic situation in globe.	The Management of the Bureau should pay its attention to enhance the operating income of the Bureau rather than increasing the finance income.
(b)	Nine (09) Base Offices of the Bureau in the EPC Division had sustained the operating loss of Rs.93,092,128 in the year 2020 and out of those Base Offices, 05 Base Offices had reported the operating losses since the year 2018 onwards and 03 Base Offices had reported the operating losses since the year 2017. In addition to that, 13 Consulting Divisions of the Bureau had sustained the operating loss of Rs.351,934,685 in the year 2020 and out of those Consultancy Divisions, 03	The economic downturn in the country has adversely affected the performance of Bureau which is beyond our control. However, the Management has already taken steps to seek possible new business avenues within Bureau's scope to maximize utilization of human and physical assets of Bureau	The Bureau should pay its attention to minimize these losses by identifying the various business diversification fields related to construction industry and making maximum use of its existing human and physical resources.

Audit Issue	Management Comment	Recommendation
Divisions had reported the operating losses since the year 2018.		
(c) Out of the completed construction projects of the Bureau's Construction Division, 10 construction works were sustained the gross loss of Rs. 134,509,922 by the end of the year 2020.	Once the projects were completed the clients had taken the longer period for taking over the projects as a result the Bureau has to incur additional cost and some jobs were awarded through an open competitive bids for the lower prices.	Fruitful actions should be taken by the Bureau to mitigate these loses in the future.

3.3 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
(a) According to the information provided to the audit regarding the International Division of the Bureau, No construction revenue was recorded in the year 2020 since three is no construction project was carried out during this year. However, the construction cost of Rs. 2,206,864 was stated in the financial statements related to that Division. Meanwhile, this value was also not mentioned in the previous year's financial statements under the accounts payable. Thus, incurring only construction costs without any ongoing construction project or certified detail bills, the reliability and accuracy of the above construction cost is doubt in audit.	At the time of finalizing 2019 accounts this payment for the sub-contractor was not submitted for the payment. Hence it has been accounted in year 2020.	No construction cost to be incurred without a construction project or obligation for the construction payments.
(b) Due to the utilization of the resources of the Bureau by its Subsidiary, a sum of Rs.1,652,545,484 had to be recovered from the Subsidiary as at 31 December 2020 and it was stated as dues from related party in the Bureau's Financial Statements. This amount is increasing exponentially from year to year and it was Rs.1,147,466,029 as at 31 December 2015. It was further observed that the management had not taken any effective action to clear this balance from the accounts after considering the available alternatives.	The Subsidiary (CESL) has been formed with a minimum capital of Rs10 million, hence Bureau has pumped funds time to time to meet working capital. Currently, both Bureau & CESL are working on scrutinizing the balances of each base and intend to submit a report to the Board to be held in December 2021. Action to be taken to clear this balance accordingly.	A settlement procedure should be introduced by the management.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
According to the Procurement Plan prepared for the year 2020, the estimated value of items to be expected to purchase was Rs. 283,677,950. However, the value of actual items purchased during the year 2020 was amounted to Rs. 10,570,195 only. That represent only 3.73 per cent of the estimated value. Thus, it was observed that the Procurement Plan had not been prepared and implemented on a rational basis.	Although we had a planned to purchasing motor vehicles it was unable to procure the requirement due to the government restrictions. Further, due to the financial constrains we were unable procure other capital requirements as well.	Efficient planning of the entire procurement process is vital to ensure timely completion of the activities and to obtain the best market value for it.

3.5 Defects in projects Administration

Audit Issue	Management Comment	Recommendation
The Board had taken a decision on 23 June 2020, to implement an Agriculture Engineering Sector Investment Project at Rambankanoya in Ampara District. Accordingly, a sum of Rs. 70 million had been allocated from the Bureau's fund in order to implement this project. The following observations are made in this connection.		
(i) It was decided to obtain a land with an extent of 150 Acres from the Mahawali Authority of Sri Lanka (MASL) on 30 years lease basis to carry out this project. However, the Bureau had failed to finalize this matter even up to the date of this report.	In Order to resolve this matter, a meeting was organized with the participation of the Secretary, Director General MASL, Chairman CECB, GM CECB and the Board of Directors CECB. At this meeting DG -MASL informed that the cabinet approval has been already obtained to lease these lands for commercial agriculture projects. This matter has already been communicated to the Bureau Board.	The legal ownership of the land should be obtained before implementation of the project.

ii According to the separate financial statements presented for this project, a sum of Rs. 6,878,623 was spent for the implementation activities by 31 December 2020. Nevertheless, this was not shown as Biological Assets (WIP – Agriculture) or the other investments as per the Notice published in the Government Gazette No. 884 dated 11 August 1995, instead it had been shown as an inventory item in the financial statements of the Bureau.	Noted to comply in future.	The value of the Biological Assets or investment should be correctly accounted for.
iii The audit could not rule out the possibility of further escalation of the human-elephant conflict situation, which has now become a serious problem in the country, as the physical audit found that this area was inhabited by elephants.	Elephant Human Conflict is a common issue in most of the areas in the country. This area was identified by MASL for commercial farming under Rambakenoya multipurpose development project. According to our view, addressing human – elephant conflict matter would have been addressed at the stage of project identification by MASL.	Before implementation of the project, the social and environmental viability of the project should be considered.
iv. According to the Bureau's officials, approximately 60 acres of maize and 15 acres of black gram were cultivated in the above land area. However, the audit did not provide any confirmation to confirm the actual extent of the above cultivated area. Hence, there is a possibility for being carried out the cultivation in a larger area than reported.	It is accepted that these area extents mentioned by Bureau Officials are approximate. In Agricultural practice, the area extent is calculated by approximating the distribution of seeds over a particular area. As an Example, there is a norm to estimate seed requirement of maize (5Kg seeds are needed for 1Acre). Accordingly, if we spread 500kg seeds, the approximately 100-acre area is calculated. However, this is not the only method of estimating the area extent. In 2020 maha season, due to the time constraint, we had to go for the above approximate method. However, at present, Bureau has conducted a detailed	A proper mechanism should be introduced to ascertain the actual extent of the cultivated areas.

	engineering survey to identify the land based on different features and parameter.	
v. There was no suitable building facility for storage of harvested maize in the field or in the Ampara work site belonging to the Bureau. It was further observed that the harvested maize was stored in a building under construction and the Bureau had not taken steps to store it so that it could be safely preserved and sold at a higher price.	Bureau has initiated Constructing a store building at the farm and the same was 90% completed. However, MASL instructed to stop construction activities based on a decision taken from their side. There is a possibility to store the harvest temporary even in this partly completed building. It is true that there is a possibility to sell the harvest at a higher price having a proper storage. It is accepted that we can achieve this in future with the completion of stores building.	A proper storage facility should be provided for the project site without any delay.
vi. The people of the area have staged protests and agitations on several occasions regarding the cultivation in this area and have also resorted to legal action. Therefore, it is observed that there is uncertainty regarding this project.	It is true that the legal action has been taken by certain outside parties for some other lands given for commercial farming. Accordingly, we were instructed not to commence any permanent investments during next 4 months till the legal matters are cleared. MASL had the confidence that they can get these cleared for investors for commercial farming.	Before implementation of the project, the social and environmental viability of the project should be considered.

3.6 Human Resources Management

Audit Issue	Management Comment	Recommendation
In contrary to paragraph 9.2 (e) and (f) of the Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance, 25 officers had been recruited during the year under review by creating 03 new post to the approved	The Bureau recruited only 8 officer/employees on contract basis during the year 2020. And, the Bureau recruits staff outside the approved cadre mostly on contract basis to service prospective project	Information on the employees recruited under different categories exceeding the approved cadre of the Bureau should be submitted to the

cadre. Further, 182 officers had been recruited for 09 post by exceeding the approved cadre.	work requirements.	Department of Management Services for its consideration

3.7 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
(a) Out of 331 vehicles belongs to the Bureau, 48 vehicles are not being utilized for any purpose. In addition to that, two of them had been repaired for more than a year and the ownership of one vehicle had not been confirmed.	No comment	Attention to be paid to obtain the maximum benefits from the physical resources of the Bureau.
(b) 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.	Accident of vehicle fleet has been managed as per the circular dated 10.02.2014. Noted to carryout inquiries and report to Auditor General with regard to vehicle accident in future.	The preliminary report should be sent immediately if a delay of more than 7 days is envisaged for making a full report and after inquiry, the full report should be submitted within 3 month from the date of loss.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to the Action Plan and the Progress Report for the year 2020 presented to audit, no progress was reported with regard to 33 targeted activities to the estimated value of Rs. 27,700,000 belongs to 05 Divisions of the Bureau. This situation has badly affected to the overall performance of the Bureau.	Implementation of action plan could not be completely achieved mainly due to covid 19 pandemic situation prevailing in the country such as gatherings were cancelled adhering to the health regulations provided by the Government hence proposed workshops could not be conducted as planned etc.	Action Plan should be prepared on realistic basis in order to achieve the setout targets effectively.