Central Engineering Consultancy Bureau and its Subsidiary - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Consultancy Bureau ("Bureau") and the consolidated financial statements of the Bureau and the Subsidiary (the Group) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 consolidated 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 2021, 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 based 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 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 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 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 Bureau and the Group have 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 have 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 Preparation of Bureau's Financial Statements

1.5.1 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 –** As per the financial statements of the Bureau, the value of the fixed deposits pledged as collateral against bank guarantees was Rs.460 million while as per the schedule submitted by the Bureau, it was Rs. 398.19 million. Thus, a difference of Rs. 61.80 million was observed between these two figures. Further, according to the direct confirmation obtained from the Bank of Ceylon it was reported that a sum of Rs.62,712,505 had been outstanding as Letter of Guaranties as at 31 December 2021. However, this amount had not been recognized in the financial statements for the year under review.	Rs.460 million had been disclosed instead of Rs. 398 million erroneously. The correct schedule of Head Office is submitted for.	Bureau should disclose the correct pledge amount against the bank guarantee obtained at the reporting date.
(b)	The fully depreciated assets approximately costing Rs. 295,813,575 as at 31 December 2021 are being	We are in the process of reassessing the useful life and residual value of all class of	Action to be taken to reassess the useful economic life of the

	continuously used by the Bureau for last several years without reassessing the useful economic lifetime of those assets as per the provisions in paragraph 51 of **LKAS – 16 Property, Plant and Equipment** by rectifying the estimation error and showing accurate carrying value in the financial statements as per the **LKAS – 08** and the Significant Accounting Policy 3.8.6 of the Bureau. Therefore, the carrying amounts of those assets had not reflected the fair value as at the end of the reporting period.	assets including fully depreciated assets. We intend to complete this exercise during this year and incorporate into accounts.	fully depreciated assets and, rectify the estimation error and make adjustments in the financial statements accordingly.
(c)	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 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.635,790,612 shown in the financial statements and accumulated depreciation made thereon Rs. 545,337,442 for the year under review could not be reliably ascertained in audit.	The process of verifying physical existence of these 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 assets register should be maintained as enable to conduct Annual Boards of Survey.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Two (02) credit balances aggregating Rs.34,168,033 were included in the due from customers balance of Rs. 625,042,274 shown as at the end of the year under review (relating to Badulla Base Office of the Bureau), and as such the amount due from customers as at 31 December 2021 had been understated by that amount.	Due to customer balances were set off against due to customer balance by oversight. This will be corrected in 2022.	Credit balances should be separately shown in the accounts without offset against the debit balances.

(b)	According to the consolidated financial statements presented, the total eliminated amounts with regard to 04 account items (mobilization advance receivable, retention payable, trade debtor and trade creditor) were totalled Rs.7,041,261,926. However, it was revealed in audit that these eliminated items had been understated by Rs.47,766,826 in the consolidated financial statements for the year 2021 due to difficulty in identifying the correct balances by the Bureau.	**Mobilization Advance Receivable and Trade Debtors:** The Bureau's mobilization advance paid balances to the Subsidiary and debtors are correct. However, due to difficulty in identifying Subsidiary's corresponding balance recorded, we couldn't eliminate the figures. **Trade Creditor:** The Bureau's Creditor balance with Subsidiary is correct. However, due to Subsidiary's debtor balance was shown in the accounts as Rs.85,381,104, a difference of Rs.404,624 was arisen. In addition to that the creditor balance of Burea's Uva Base was eliminated by Rs.136,219,025 instead of Rs.146,488,862 erroneously. Further, another amount of Rs. Rs.3,408,103 belonging to Consultancy Division was under eliminated by Rs.2,448,103 **Retention Payable:** By oversight we have eliminated the Subsidiaries retention amount instead of Bureau's amount**.**	The correct figures should be eliminated in the financial statements after examining corresponding balances with the Subsidiary.
(c)	When comparing the financial statements of the Bureau together with the financial statements of its Subsidiary, the differences of Rs.199,685,696 were observed between the corresponding payable and receivable balances shown in relation to 03 items of account. Further, The debtor balances of Rs.9,298,487 reported by the Bureau as receivable from its	The Bureau's balances are correct and invoices have been sent for services rendered.	The correct figures should be shown in the financial statements after examining corresponding balances with the Subsidiary.

	Subsidiary was not included in the creditor balance of the Subsidiary and the creditor balances of Rs.26,481,152 reported by the Subsidiary as payable to the Bureau was not included in the debtor schedule of the Bureau. The reasons for these omissions had not been explained to audit.		
(d)	A debit balance of Rs.811,714 was shown by the Polonnaruwa Base of the Bureau in their mobilization advances received account. Hence, the mobilization advances received account had been understated by that amount.	This debit balance was due to over recovered mobilization advance from the client and this will be rectified.	The debit balances should not be included in the accounts with credit balances, and these balances to be shown separately.
(e)	The total debtor balances as at 31 December 2021 was Rs. 5,630.41 million and the audit observed that there was a huge uncertainty with regard to the physical existence and the accuracy of the debtor balances aggregating Rs. 2,280.37 million included in the above debtor balances due to receipt of only 09 debtor's confirmation worth Rs.7.75 million even up to the date of this report, prevailing long outstanding unidentified and unchanged debtor balances, and even not satisfied alternative methods to verify the availability of the above debtor balances since the changes of government ministries (i.e. main debtors of the Bureau) in time to time. Further, adequate provision for impairment had not been made in the financial statements in order to ensure the fair presentation of debtor balances.	Balance confirmation letters have been already sent to clients requesting confirmations directly to external auditors.	Action should be taken to confirm the physical existence and the accuracy of the debtors shown in the financial statements. Further, adequate provision for impairment to be made in the financial statements to ensure the fair presentation of debtor balances

1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements	As per corresponding Record	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Due from customer					
- Uva Base	29,413,645	29,412,837	808	The correct amounts shown in the schedules could not be corrected in the financial statements by oversight.	Attention to be paid to reconcile the ledgers balances with schedules before preparing the financial statements.
- East Base	160,463,858	159,849,182	614,676		
Due to customer					
- East Base	159,843,863	159,229,385	614,477		
- Central Base	470,994,092	470,986,948	7,143		
Sundry Creditor	16,610,469	16,495,761	100,757		
Total Difference			**1,337,861**		

1.5.4 Suspense Accounts

Audit Issue	Management Comment	Recommendation
Twenty (20) unidentified Balances with regard to 05 items of accounts aggregating Rs.139,079,791 were observed during the audit examination carried out on the detailed schedules and financial statements submitted by 15 Base Offices of the Bureau. Out of the above 20 items, 07 items worth Rs.17,252,052 were the unidentified balances which pointed out in the previous year's audit reports.	These balances are carrying forward for a longer period and they have not been claimed up to now. Hence, those balances have already been classified as doubtful/suspicious receivables & payables in the ledger and will be written off/back with the approval of the Management.	Fruitful action to be taken to clear this suspense nature balances from the books of account without further delay.

1.5.5 Preparation Consolidated Financial Statements

The Qualified Opinion on the financial statements of the Subsidiary (Central Engineering Services (Private) Limited) for the year ended 31 December 2021 had been expressed by me based on the following observations.

	Audit Issue	Management Comment	Recommendation
(a)	Credit balances of debtors and debit balances of mobilization advances aggregating Rs.183.04 million and Rs. 38.04 million respectively had been offset against the debit and credit balances of such accounts in 36 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.	The credit balances of debtors were mainly arisen due to recording of cash received from the client as credit balance in debtor summary and over payments from customers. Debit balances of mobilization advances arisen due to over recovery of mobilization advances and recovery made from different projects mistakenly. Those will be rectified.	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.
(b)	Although the confirmations were called from the debtors worth Rs. 3,553.87 million as at 31 December 2021, no confirmation was received to audit even up to the date of this report. Further, according to the information made available for audit it was confirmed that the certified bills for the debtors approximately amounting to Rs. 1,200 million only available as at the reporting period. Further, the Chief Operating Engineer of the Anuradapura Base Office of the Company had reported that the no records had been maintained at the Anuradapura Base Office in respect of debtors' balances of Rs.550 million. However, it was also included in the financial statements of the Company as at the reporting date. In view of the above, the audit was unable to ascertain the existence and the accuracy of the debtor balances of Rs. 3,553.87 million shown in the statement of financial position as at 31 December 2021.	The Company makes significant effort to collect outstanding from our clients. As per the guidance from Chairman and CEO all bases engage in the collection of outstanding by appointing special committee as well. During the current year Company had received more than 3.5 Bn without VAT receipts from our debtors as debtor recovery. Anuradhapura base had 26 ongoing projects with this situation. We have completed and hand over 15 projects. Other 11 projects are ongoing and it will have completed with the readjusted work program. Investigations are being conducted by the Company.	Effective actions should be taken to recover the outstanding balances without further delay and further, effective and strong internal control system needs to be introduced in order to minimize future frauds.

(c)	According to Note No. 2.3.6 to the financial statements, it was stated that the Company reviews the estimated useful lives of Property, Plant and Equipment (PPE) annually. However, fully depreciated assets approximately costing Rs.429.78 million representing 30 per cent of the total assets 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 - Accounting Policies, Changes in Accounting Estimates and Errors.	As per 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. However, as per the LKAS 16 we have disclosed the details of fully depreciated assets held at 31 December 2021.	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.
(d)	Differences aggregating Rs. 20.65 million was observed between the balances shown in the financial statements and the corresponding schedules in respect of written down value of Property, Plant and Equipment (PPE) and Amount due to Related Company.	It is due to mistakenly write off different categories of fixed asset which are not in line with the respective fixed asset code, and some differences arises due to the loan receipt update difference.	Actions need to be taken to correct the financial statements accordingly.
(e)	The opening Works-in-Progress (WIP) amounting to Rs. 105,091,340 shown under the inventory of the Company had been reversed during the year under review as completed and billed amount in the year 2021. However, it was observed that an amount of Rs.24,833,281 included thereof had not been completed and billed even up to the end of the year under review, and as such the disclosure made in Note 2.6 to the financial statements is totally incorrect.	Two projects (BD-444 and BD – 531) have temporary suspended due to the clients do not settle the invoices outstanding. There are several discussions and follow up action has been taken in this regard.	Actions need to be taken to correct the financial statements accordingly.
(f)	A detailed schedule or any acceptable supporting documents for the amount payable to the parent company aggregating Rs.21.97 million with regard to two Base Offices (Anuradhapura and Polonnaruwa) of the Company had not been provided for audit.	No comment	It is required to provide acceptable supporting documents to verify the transactions occurred between different bases.

(g) During the test audit inspection carried out with regard to physical inventory verification conducted in 03 project sites and Battaramulla (WP-1 Base) main stores, it was revealed that there were stock shortages of Rs.11.77 million and stock excess of Rs.1.5 million as at 31 December 2021. Further, the fixed assets items costing Rs.1,042,413 was also included to the inventories of WP-1 Base of the Company. However, the Company had not made adjustments to the inventory to rectify the above matters including other material shortcomings reported by the stock verification committees. Further, the Company had not properly coded its inventory items and those codes were not included to the ERP system as enable to identify and carry out the annual inventory verification accordingly. In view of the above, the accuracy of the inventory amounting to Rs. 1,027.02 million shown as at 31 December 2021 could not be ascertained in audit.	**Stock Shortages & Excess-** These were arisen due to not timely updating the ERP System. **Items of fixed assets nature included -** Those materials were transferred via stores management module of ERP system as stock items since the Company's ERP System classified them as stock items.	Actions need to be taken to improve internal controls over inventory management in order to minimize stock shortages and excesses. Further, system parameters need to be upgraded to classify items accurately in ERP system.
(h)The Company had recognized sums aggregating Rs.1,653,804,990 and Rs.2,078,338,828 as trade receivable and retention receivable respectively from its parent company and recognized sums aggregating to Rs. 3,345,272,654 as mobilization advance payable to the parent company as at 31 December 2021. However, the parent company had shown those corresponding amounts as Rs.1,643,727,470, Rs.2,010,467,225 and Rs.3,320,415,563 respectively in its financial statements for the year ended 31 December 2021. Hence, the differences of Rs.10,077,520, Rs.67,872,603 and Rs. 24,857,091 were observed with regards to above 03 balances. Nevertheless, no reason for the above differences had been submitted to audit.	The identify balances with the parent company reconcile is in progress. The necessary actions taken place for avoid arising the differences in future.	Actions need to be taken to reconcile the differences in order to avoid future misunderstanding

(i) Internal transactions between the sub-units of the Bases should be eliminated when preparing the Company’s financial statements. However, the balances of Rs.116, 860,830 and Rs. 2,596,405 had been included in the Company’s creditors and debtor’s schedules as payable and receivable respectively from the Company itself without being so eliminated.	The elimination of internal creditor and debtor transactions become difficult at the time of accounts preparing due to difficulty in separate identification of balances at the peak time period. Anyway the corrective actions will take with the current year onwards.	Actions need to be taken to properly identify the eliminated item on timely basis.
(j) According to the statements of financial position, the cash in transit as at 31 December 2021 was Rs. 186,124,863 and the Company has informed to audit that this amount consists 06 cheques issued by the parent Company (i.e Central Engineering Consultancy Bureau) on 31 December 2021 in order to settle the outstanding debtor balances as at 31 December 2021. However, the actual value of those 06 cheques issued was Rs.197,852,894. Hence, a difference of Rs. 11,748,930 was observed between the value of the cheques issued by the parent company and the amount recognized in the accounts. Further, these cheques were deposited during the month of January 2021. Further, a difference of Rs.20,900 was observed between the amounts shown in the detailed schedule and in the financial statements with regard to above cash in transit balance as at the reporting date.	The difference in the actual values and the amount recognized is the accounts of Cash in Transit were exactly the amounts of VAT component of the cheque receipt for both Sabaragamuwa and Katubedda Base Offices.	All Base Offices need to follow the same method in recording transactions and actions need to be taken to correct the financial statements accordingly.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) According to the statements of financial position as at 31 December 2021, the total debtor balance is Rs. 5,630.41 million and out of which Rs. 2,734.61 million and Rs. 1,871.93 million had remained outstanding for more than 03 years and 05 years respectively. Meanwhile, the Bureau had	Even in difficult circumstances we were able to collect significant amount of long outstanding debtor balances in 2021. Due the political and economic instability in the country	Outstanding balances should be recovered without any delay.

	failed to recover the Construction Division's (EPC) debtor balance of Rs.1,621.69 million which has remained outstanding for more than 07 years even after establishment of the Subsidiary for carryout the Construction activities, and the Bureau was able to recover only Rs.869.45 million out of the above total long outstanding debtor balances during the period of January 2021 to March 2022.	this task has become harder. However, continuous efforts are being taken to recover the long outstanding balances. Further, adequate provisions have been made in financial statements to reflect the fair presentation of trade debtors.	
(b)	No action had been taken to recover the retention money with regard to completed or suspended construction projects amounted Rs.324.53 million and Rs.497.64 million which were remained unrecovered between 03 to 05 years and more than 05 years respectively as at 31 December 2021. Furthermore, out of the retention money amounting to Rs.2,661.13 million that was shown as receivable as at 01 January 2021 by the EPC Division of the Bureau, a sum of Rs.1,501.02 million had remained unchanged as at the end of the reporting period without being recovered.	Most of the retention balances are outstanding due to pending STC approvals, delays in project completion and non-settlement of final claim by clients. However reminding letters were already sent to clients. Hence, it is expected that the retention will be released consequent to the rates being finalized. When we prepared and forwarded the final bills there are no any funds to clients to settle those invoices and this issue were inform several times to the clients. So according to our experience this retention also might not be settled. However, some were already fully and partly received.	A proper mechanism should be introduced to recover the retention receivables relating to projects which completed long ago without further delay. While, further action should be taken to mitigate the risk of uncertainty on the recovery of long outstanding balances.
(c)	According to the financial statements for the year 2021, the balances of due from customers and due to customers as at 31 December 2021 were amounting to Rs.625,042,274 and Rs.1,278,670,257 respectively. However, once the projects works undertaken by the Bureau is completed there should not be the due from customers or due to customers. In contrary that, the balances of Rs.540,460,962 and Rs.972,361,851 relating to 160 completed projects were shown as due from customers	These figures will be corrected in 2022 after reviewing the rectifiable amounts.	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.

and due to customers respectively without take proper actions to clear these account balances. It was further observed that this issue has been arisen mainly due to not having proper and timely billing system in the Bureau.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	According to the Guideline 5.4.4 (iii) of the Procurement Guidelines, the mobilization advances received shall be fully settled before the project works that reached to 90 per cent complete level. Nevertheless, such advances received amounting to Rs.76.6 million with regard to 19 fully completed construction projects had remained in the accounts as at 31 December 2021 without being settled. Meanwhile, the mobilization advances amounting to Rs. 104.07 million and Rs.155.59 million received related to 06 not commenced projects and 09 abandoned projects respectively are withheld with the Bureau without taking proper action to get settled them. It was further observed that the total mobilization advances payable as at 31 December 2021 was Rs. 3,786.14 million and this amount was received from the government and semi government organization during the past several years to carryout various construction works. However, out of that, a sum of Rs.1,194.01 million so received is being continuously utilized by the Bureau for over 03 years without being settled to the particular government agencies even as at 31 May 2022.	- Mobilization advances amounting to Rs. 174.82 million and Rs. 104.07 million is related to 10 on going and 06 not commenced Projects respectively. - Mobilization advances amounting to Rs.155.59 million is related to 09 abandoned Projects. - Mobilization advances amounting to Rs.76.6 million is related to 19 completed Projects. But this amount not recovered by clients. In general projects are continuing for more than 3 years. And also mob advances recoveries are made in line with progress of the projects and as per the payment certificates issued by the clients. Hence above audit observation is not acceptable.	Actions to be taken to settle the all possible long outstanding mobilization advances without delay and to treat others as income.
(b)	Creditors and retention payables as at 31 December 2021 were amounting to Rs.2,309.34 million and Rs.2,206.28 million respectively. According to the age analysis provided for audit, the creditors amounting to Rs.603.14 million and retention payables	More than 90% of the creditors and retentions are comprised of amounts payable for subsidiary (CESL). The correspondent debtor & retention receivables	Creditors and retention payable should be settled within the stipulated time period and actions should be

	amounting to Rs.305.12 million shown under current liabilities had remained in the accounts for more than 05 years without being settled or cleared.	have also been accounted for external clients on the same projects and all these projects are continued for a long period. Therefore, above mentioned creditors & retentions will only be settled once debtors & retention are recovered from external clients back to back.	taken to release the amounts which can be released and others to treat as income
(c)	According to the financial statements for the year 2021, the income tax payable by the Bureau is Rs. 689,135,858. Out of which Rs.316,937,620 and Rs.510,213,118 were the balances remained unsettled for over 05 years and 03 years respectively. No action had 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 66 million of the total income tax liability during the year 2021.	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.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
Advances given for various purposes aggregating Rs.1,699,093 and Rs.1,024,217 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.	Rs. 2,356,768 are unidentified long-outstanding amounts. Action had taken to classified them as doubtful balances and will refer to the Management to take further action. Also actions had taken to get settle the remaining outstanding balances.	Attention to be paid to get settled 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
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(a)	Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance, and Guidelines on Corporate Governance for State Owned Enterprises.			
	(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 posts in middle and top level management even as at 30 July 2022. In the meantime, the contract period of 252 officers recruited on contract basis in time to time during the period of 2005 – 2019 had been continuously extended in 2227 instances up to the year under review without being recruited them on permanent basis after obtaining the concurrence of the Department of Management Services.	A proposed Scheme of Recruitment and Promotion for MM level to HM level was submitted for the March 2022 Board approval and waiting for their approval to proceed with the Department of Management Services.	An approved Scheme of Recruitments and Promotions for all level of the approved cadre should be made available at the Bureau. Proper action should be taken on the matter of officers who recruited on contract basis for a longer period.
	(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.	The Bureau's HR & Admin Unit completed the Manual of Procedures in 2021 with providing rules and regulations on all matters relating to management of	Properly approved manuals for the areas of HR should be made available at the Bureau.

			human resources and administration, and currently it has been uploaded to the Bureau ERP system as well.	
(b)	Assets Management Circular Nos. 01/2017 of 28 June 2017 and No. 01/2017(1) of 03 January 2020	The information such as year of construction, value of the buildings, number of employees belonging to each categories, electricity cost, details of utilized buildings and details of rendered out or sublet buildings etc. had not been submitted to the Comptroller General as requested even up to 30 June 2022.	We have already submitted the said information to Comptroller General office on 04.03.2022	Information pointed out should be submit as per the Circular.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
Although 06 bank balances amounting to Rs. 1,355,214 was allowed to be idled in 06 bank current accounts for the period ranging 1 to 2 years, the attention of the management had not paid to close down these dormant bank accounts even up to 30 April 2022 by reviewing half yearly to justify the need for continuously with the bank accounts.	The Board approval has been obtained to close these accounts and will be closed early.	Necessary action should be taken in order to closed down the dormant bank accounts and accounts with private banks which operated by the Bureau.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a net profit of Rs.236,964,960 and the corresponding net profit in the preceding year amounted to Rs.261,360,170. Therefore, deterioration amounting to Rs.24,395,210 of the financial result was observed. The main reasons for this deterioration are decrease of construction revenue and finance income as compared to 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 2021	For the year ended 31 December 2020	Variance Favorable/ (Adverse)	Percentage
	Rs. Mn.	Rs. Mn.	Rs. Mn.	%
Operating Income				
Construction	3,947.26	4,124.05	(176.79)	4
Consultancy	2,116.50	2,007.79	108.71	5
Other Income				
Hiring income	20.16	32.52	(12.36)	38
Miscellaneous Income	36.59	21.96	14.63	67
Finance Income	175.84	263.17	(87.33)	33
Expenditure				
Depreciation	154.71	173.62	18.91	11
Administration Expenses	681.48	656.53	(24.95)	4
Selling and Distribution Expenses	29.21	0.47	(28.74)	6115
Finance Cost	5.03	4.94	(0.09)	2

The following observations are also made in this regard

(a) The attention of the management should be paid to increase the revenue of the Bureau by efficiently utilizing its financial resources and fixed assets worth Rs. 3,223.35 million and Rs.4,480.85 million respectively.

(b) The management should pay high attention on necessity for running the Construction Division (EPC) at continuous loss (operating loss for the years 2020 and 2021 were Rs. 53.89 million and Rs.39.57 million) even after establishment of its subsidiary for the constructions purpose.

2.3 Ratio Analysis

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

Ratios	2021	2020	2019
Profitability Ratios			
Gross Profit Ratio (GP) (%)	10.88	8.12	7.64
Operating Profit Ratio (%)	1.09	0.05	0.39
Return on Assets (ROA) (%)	1.26	1.34	1.73
Liquidity Ratios			
Current Assets Ratio (Number of times)	1: 1.3	1:1.2	1:1.2
Quick Assets Ratio (Number of times)	1:1.3	1:1.2	1:1.2

The following observation is also made in this regard

The Bureau had earned a pre-tax net profit of Rs. 236,964,960 during the year under review by utilizing its total assets base of Rs. 18,764,612,183. Hence, the return on total assets was only 1.26 per cent (2020 – 1.34 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.

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.8,660,406 which recoverable from 10 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 2021.	Requested reports and files have sent to Legal Unit for further action	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)	Eight (08) Base Offices which belonging to the Engineering Procurement Construction (EPC) Division of the Bureau had sustained the total operating loss of Rs.72,435,372 in the year 2021 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, 06 Consulting Divisions of the Bureau had sustained the total operating loss of Rs.93,140,717 in the year 2021 and out of those, 03 Divisions had reported the continues operating losses since the year 2017.	The economic downturn in the country has adversely affected the performance of the Bureau which is beyond our control. There are 20 cost centers in the Consultancy division of the Bureau. They have different functions and have different staff sizes, but they all work in unison to produce the total Consultancy revenue output of the Bureau. Therefore it is not acceptable to consider them as individual units and state that some of the units are underperforming. However, the Management has already taken steps to seek possible new business avenues within the Bureau's scope to	The Management of the Bureau should pay its attention to enhance the operating income of the Bureau rather than increasing the finance income.

		maximize utilization of human and physical assets of the Bureau. Further, main reason for operating loss in EPC Bases was due to high depreciation charge included in administration cost mainly from revalued motor vehicles and plant & machineries.	
(b)	According to the construction revenue recognition statements provided for audit, 19 construction projects had been completed with the total loss of Rs.146,791,423 by the end of the year 2021.	Reasons for the loss are as follows. - There were three separated jobs related to R. Premadasa Cricket Stadium, and consultancy fee paid to an internal Division of the Bureau has been recorded under this job. Code However that internal payment applicable to all 3 job codes. Therefore overall this project has not incurred loss. - Some additional work caused a loss for few projects. - Variations and price escalations were not considered for contract sum as client has not approved yet. - The client certified the less value than the Pro-forma Invoice raised. Therefore, projects turned to a loss. - The Final Payment Certificates have not been received and unexpected cost had to incur. As such this expenditure directed to a project loss. - Some cost of other projects had been borne to projects by oversight. This will be corrected. - STC approval was not yet received to some projects and 90 per cent of the work done was certified up to now. So this loss will be reduce after obtaining STC approvals.	Fruitful actions should be taken by the Bureau to mitigate these project loses in the future.

(c)	The Bureau had earned a net interest income of Rs. 170,809,765 on its short-term and long-term investments amounting to Rs.3,223,350,872 which invested in Repo, fund account and fixed deposits etc. as at the end of the year under review. This net interest income represents 72.08 per cent of the profit before tax of Rs.236,964,960 for the year under review. In the meantime, the Bureau had not paid its attention to utilize these excess money in order to fulfil the main objectives and purposes of the Bureau.	The Operating Profit had been reduced drastically from year 2019 to 2021 due to the adverse economic effect to the operations with the impact of Covid-19 pandemic in the country. Further, due to downturn in the construction industry the Bureau was not able to secure sufficient operating profit during the year under review. Also, as an organization engaged in consultancy & construction nature projects, we receive mobilization advances and they are effectively utilized in short term deposits until they are used for intended purpose. When most of the projects are received, it is required to secure FDs against Mobilization advance and performance guarantees.	The Management should pay its attention to enhance the operating income and fulfil the main objectives and purposes of the Bureau by utilizing the excess money.
(d)	The Bureau had not properly coded its fixed assets and those codes were not included to the fixed asset register as enable to identify the physical existence of the property, plant and equipment (PPE) costing Rs.4,191.66 million shown in the Financial Statements and carry out the annual asset verification accordingly.	Fixed asset register will be updated accordingly.	The Bureau should properly code its fixed assets and those codes should include in the fixed asset registers.

3.3 Transactions of Contentious Nature

	Audit Issue	Management Comment	Recommendation
(a)	Due to the subcontracting of all construction projects to its Subsidiary, the Bureau is currently engaged only in consulting activities. Therefore, it was questioned to audit that approximately 1,094 employees, including 395 engineers, were employed to earn only consulting income. Further, in the year 2012	As per the analysis given below, there is no such degrees in income earn per engineer attached to consultancy projects.	The Bureau should pay its attention to reconsider the necessity for deployment of 1,094 employees including 395 engineers to earn only the consultancy income approximately Rs. 2

i.e. before the establishment of the Subsidiary, the Bureau was earned Rs.23.58 million and Rs.8.97 million incomes (both construction and consultancy income) for one engineer and one employee respectively. However, these income had reduced to Rs.6.29 million and Rs.2.27 million by the year 2021 i.e. after the establishment of the Subsidiary during the year 2012.

	2012	**2021**
Consultancy revenue - Rs. Mn.	1,509	2,116
Number of Engineers	341	395
Revenue per Engineer - Rs. Mn.	4.42	5.35
Revenue per Employee - Rs. Mn.	1.12	1.93

billion per annum.

(b) The Bureau was shown a balance of Rs.1,431.24 million as receivable from its Subsidiary as at 31 December 2021 and this amount included the vehicle hiring charges, temporary loans, value of fixed assets and stock etc. which released to the Subsidiary in time to time. It was further noted that this balance continuously increased year by year without being taken fruitful action to recover this balance. In addition to that a capital contribution of Rs.10 million was given to the Subsidiary during the year 2011 in order to commence the business operation of the Subsidiary. Nevertheless, no return on these investments had been obtained from the Subsidiary since its inception.

With the instruction of the Board, assignment has been handed over to a consultancy firm to give an opinion as to how long outstanding intercompany balance to be treated.
We are in the process of reviewing the draft report given by consultant and we intend to make necessary adjustments accordingly with Board approval.

A settlement procedure should be introduced by the management.

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue	**Management Comment**	**Recommendation**
The Bureau has an official quarters complex consisting 15 housing units located at Sarana Road, Colombo 07 and the value of the land on which the said housing complex located is Rs.960 million and the building value was stated as Rs.60.4 million in the accounts. The following observations were revealed during the course of audit examination conducted in this regard.		

• Out of the above 15 quarters, 03 quarters have been allocated to three members of Parliament during the years 2004 and 2015 and another 02 quarters were provided for the use of Director of Sri Lanka Mahaweli Authority and then Secretary to the line ministry without being entered into any rental or lease agreement with those parties. Meanwhile, no rental for an official quarter allocated to the Director of Sri Lanka Mahaweli Authority had been recovered since January 2011 to date.	Bureau Official Quarters No. D7 is occupied by Member of Parliament Manjula Dissanayake and Official Quarters No. C is occupied by Member of Parliament Premalal Jayasekara. While the rentals up to July 2022 have been settled, both have not signed and returned the Rental Agreements sent to them. Official Quarters is occupied by Mr. Anura Dissanayake, former Chief of the President, former Secretary to the Prime Minister and former Secretary to the Ministry of Irrigation. All rentals are settled. Quarters A-1 is released to Mahaweli Authority, Sri Lanka and up to January 2010 all rentals have been paid. After 2011 no rentals have been received and quarter's maintenance is carried out by Mahaweli Authority.	Action should be taken to enter into lease agreements with those parties after determining the appropriate rental based on the valuation report obtaining from the Government Chief valuer.
• The report of the Chief Valuer had not been obtained before fixing the rental for the above quarters.	Action is being undertaken to obtain Chief Valuer's Report as provided under Clause 5.6, Chapter XIX of the Establishment Code to fix the rentals accordingly.	Action should be taken to act according to provisions in the Establishment Code.
• It was revealed that the electricity and water charges amounting to Rs.12,056,803 and Rs.1,778,722 respectively for an official quarter allocated to a member of Parliament had remained in arrears as at 31 May 2022. It is further observed that if the relevant resident fails to pay the outstanding bills in the future, the Bureau will be bound to take the final responsibility for the arrears.	It is the responsibility of tenant to pay bills on time. Further it is the duty of the service providers to recover the dues.	The Bureau will be bound to take the final responsibility for the arrears. Therefore, Action should be taken to mitigate that type of losses
• Although this official quarters complex is located in a Centre with high economic value, the total rental income earned by the Bureau in the years 2020 and 2021 is only	Considering high economic value of the quarter's complex area, the Bureau has already prepared plans and completed preliminaries to establish a multi storied building	The attention of the Bureau should be focused on making the best use of this property.

Rs.1,803,878 and Rs.1,966,976 respectively. When compared this total rental income with the total asset value, its represent only 0.2 per cent of the total asset value. Therefore, the attention of the Bureau has not focused on making the best use of this property which has greater economic value.	complex at the site. However, due to the ongoing economic crisis in the country and difficulties in obtaining required construction approvals, the plans are put on hold and once the situation improves the planned construction will be undertaken.

3.5 Delays in Projects or Capital Works

Audit Issue	Management Comment			Recommendation
	Name of Project	**Awarded value Rs.**	**Reason of Abandoned**	
Twelve (12) construction projects worth Rs. 2,671,554,919 were assigned to the Subsidiary in the year 2021 and out of which 3 projects worth Rs.519,926,517 were abandoned without being completed due to various reasons.	1. Construction of Development of land acquired by the Urban Development Authority	111,817,502	The project commenced in 2021. This is a project under UDA and the project was suspended due to the financial constraints of the client	Maximum efforts to be taken to complete construction project works within the specified period.
	2. Construction of Bypass Road parallel to the railway line at Gampola	291,374,215	The project commenced in 2021. This is a project under UDA and the project was suspended due to the financial constraints of the client.	
	3. Construction of fourth floor of 'Mihikatha Madura' building.	116,734,800	The project was awarded in 2021 and commended in 2022. Subsequently the client has reduced the scope of the project mainly due to financial constraints	

3.6 Procurement Management

Audit Issue	Management Comment	Recommendation
According to the Procurement Plan prepared for the year 2021, the estimated value of items to be expected to purchase was Rs. 424,519,369. However, the value of actual items purchased during the year 2021 was amounted to Rs. 293,264,520 only and its represent only 69.08 per cent of the total estimated value. Thus, it was observed that the Procurement Plan had not been prepared and implemented on a rational basis.	We expect to prepare more realistic procurement plan in future.	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.

3.7 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	According 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, in the event of creation of a new cadre and in instances where there is excess the cadre, the Bureau should seeks the approval or consult from/with the Department of Public Enterprises, General Treasury. However, in contrary to that, 24 officers had been excessively recruited during the year under review by creating 03 new posts to the approved cadre. Further, 151 officers had been recruited for 10 post by exceeding the approved cadre.	The Bureau is compelled to recruit staff on Contract basis to service prospective project work requirements arising from time to time.	Information on the employees recruited under different categories exceeding the approved cadre of the Bureau should be submitted to the Department of Management Services for its consideration.
(b)	A difference of 10 employees was observed between the number of employees released by the Bureau to the Subsidiary and those employees shown in the schedules submitted by the Subsidiary, while the reasons for this difference was not explained to audit.	The Bureau's Cadre update as at 31.12.2021 is correct.	Action should be taken to reconcile the difference.

3.8 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
According to the available information with regard to insurance claims obtained from the Co-operative Insurance Company Ltd. for the period of January to December 2021, a sum of Rs.1,113,793 had been received as insurance claims on 17 instances with regard to 16 vehicles accidents. Nevertheless, no vehicle accidents had been reported to the Auditor General in terms of Financial Regulation 104(2) and copy of the police report regarding the accident had not been made available for audit. Further no inquiry had been instituted to fix the responsibility.	Details of vehicle accidents, insurance claimed etc. relating to year 2021 has already made available for audit.	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 Report

Audit Issue	Management Comment	Recommendation
According to Paragraph 6.5.3 of Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance, and Guidelines on Corporate Governance for State Owned Enterprises, the Annual Report of the Bureau for the year 2019 and 2020 had not been tabled in Parliament even up to the date of this report.	Annual report of 2019 will be submitted to the Parliament at the end of August 2022. Annual report of 2020 is in progress.	Action should be taken to table the annual reports in parliament.

4.2 Preparation of Strategic Plan

Audit Issue	Management Comment	Recommendation
A Strategic Plan for the period of 2021 – 2025 and 2022 – 2026 had not been prepared and submitted to audit as per the paragraph 2.3 of the Guidelines on Corporate Governance for State Owned Enterprises in order to ensure that clearly defined Key Performance Indicators (KPIs) are in place and continuously review the execution of that plan and take corrective measures wherever necessary, so as to achieve the set objectives.	Strategic plan 2022 – 2026 has been finalized and waiting for board approval	A Strategic Plan should be prepared and submitted to audit as per the Guidelines on Corporate Governance for State Owned Enterprises.

4.3 Annual Action Plan

Audit Issue	Management Comment	Recommendation
According to the Action Plan and the Progress Report submitted for the year 2021, no progress was reported with regard to 26 targeted activities to the estimated value of Rs.29,750,000 assigned to 05 Divisions of the Bureau. This situation has badly affected to the overall performance of the Bureau.	Due to financial limitation, restrictions due to Covid19 pandemic etc. we were unable to implement some areas of action plan as expected.	Action Plan should be prepared on realistic basis in order to achieve the setout targets effectively.