Central Engineering Services (Private) Ltd - 2022

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Central Engineering Services (Private) Ltd "Company" for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements.

	Audit Issue	Management Comment	Recommendation
(a)	According to the asset verification conducted at Gampaha base office, the value of the assets on 31 December 2022 was Rs. 20.18 million, but according to the ERP system, the cost of assets in that office was Rs. 19.13 million and the written down value was Rs. 3.38 million. During the audit it was observed that the item details, number of items and value included in the asset register maintained by the store keeper could not be reconciled with the ERP system. Therefore, the accuracy of the cost of fixed assets amounting Rs.19.13 million that is included in the financial statements of the Gampaha base office could not be verified during the audit.	It was recognized that there is a difference between asset items shown in the ERP system and physically existing asset items. We are working on fixing them in consultation with the ERP team and hope to complete the process as soon as possible.	Actions should be taken to identify the difference and correct since there is a difference between the asset items shown in the ERP system and the physically existing asset items.
(b)	Although all Value Added Tax (VAT) payments are made by the head office of the company on cash basis, the accrual concept is being used for accounting of those VAT payments. For the month of December 2022, a difference of Rs.12.74 million was observed between the VAT payable and receivable values shown in the documents submitted by the base offices and the amounts as per the financial statements. The Company had not maintained a monthly reconciliation process to settle this discrepancy.	Due to payment of VAT is done on cash basis and according to the accounting concept, accounting is done on accrual basis there is always an amount of unclaimed input VAT left in the accounts. Even though an improvement of the ERP system was requested to generate a report from the ERP system for that amount, but it has been delayed due to the existing shortage of ERP employees.	Actions need to be taken to confirm the reasons for differences in VAT on cash basis and accrual basis by means of statements of reconciliations.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to Note No. 2.3.6 to the financial statements and the provision in paragraph 51 of Sri Lanka Accounting Standard (LKAS) 16, it was stated that the Company reviews the estimated useful lives of Property, plant and equipment (PPE) annually. However, the cost of fully depreciated assets which being continuously used by the Company was Rs. 523.57 million as at 31 December 2022. But by correcting the estimated error of the useful economic life of those assets as per the provisions in the standard the accurate carrying value was not presented in the financial statements in accordance to the provisions in LKAS 08.	In accordance with Sri Lanka accounting standards, we apply the cost model for initial and subsequent recognition of property, plant and equipment. Therefore, the company does not apply the revaluation model. However, as per LKAS 16, we have disclosed information about fully depreciated assets as at 31 December 2022.	The company should reassess the useful economic life of fully depreciated assets as per the provisions of LKAS 16 and correct estimation errors as per LKAS 8.

1.5.3 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Internal transactions between base offices should be eliminated when preparing the company's annual financial statements. However, it was shown Rs. 16.46 million in the statement of financial position as the balances due between sub units of base office and between the base offices and the Rs. 113.49 million was included in the company's annual income as rental income earned internally by providing vehicles and construction equipment on rental basis by Company’s each base office.	We have eliminated inter-unit transactions in 2022 and expect to eliminate the missing amounts next year. Most transactions are done through inter-unit current accounts. Hence, many transactions are automatically eliminated in when balancing the inter unit current accounts.	Actions need to be taken to eliminate the transactions happened between the base offices and those divisions when preparing the consolidated financial statements.

(b)	Even though Rs. 6.63 million were written off by the parent company from the retention receivable balance of Bureau during the year under review, the Company had not identified and made necessary adjustments or disclosures relating to the relevant retention receivables of the Company.	CESL had not made a write-off in relation to this retention balance and we hope to do so next year.	Actions need to be taken to make necessary adjustments as the write-off of the balances due to the Company shown in the parent company's financial statements affects the subsidiary company's balances.

1.5.4 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per Corresponding Record	Difference	Management Comment	Recommendation
	Rs. million	Rs. million	Rs. million		
Retention Receivable	2,009.06	2,005.13	3.93	This belongs to the Jawatta office and we hope to check and correct it in this year.	Actions need to be taken to correct after find out the reasons for this difference.

1.5.5 Documentary Evidences not made available for Audit

	Item available	Amount Rs. million	Evidence not	Management Comment	Recommendation
(a)	Accrued Expenses	11.77	Certified invoices with respect of total value, details of subsequent payments made to sub-contractors.	Bills for the reported costs have not been taken from suppliers. But the measurements recorded by the sub-contractors, have been agreed with the amounts recorded in the expenditure.	Actions need to be taken to provide the acceptable evidence to verify the accuracy and existence of accrued expenses.
(b)	Accrued Expenses	3.04	Detailed schedules, supporting documents	No comments	Actions need to be taken to provide the acceptable evidence to verify the accuracy and existence of accrued expenses.
(c)	Amount Due to Parent Company (Anuradhapura and Polonnaruwa base offices)	23.96	Detailed schedules, supporting documents	No comments	Actions need to be taken to provide the acceptable evidence to verify the accuracy and existence of balances due.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	As per the financial statements the trade receivable balance was Rs. 3,778.89 million as at 31 December 2022. Out of that balance, the debtor value relating to the certified bills was Rs. 2,236.52 million. However, the parent Company i.e. Central Engineering Consultancy Bureau (CECB) has made Rs.959.08 million as provision for impairment in the year under review affecting to the previous years. Along with that, although the Company should identify the provision for impairment relating to the Company, the Company has only provided Rs.25.51 million which relates to the Anuradhapura Base Office. Although it was revealed in test audit that the parent Company has made a Rs.98.42 million as a provision for impairment in the financial statements of the parent Company related to the projects implemented by the company's North and Central Base Offices, but no adjustment or disclosure had been made in the Company's financial statements in this regard. Therefore, the risk of recoverability of the balances shown in the Company's financial statements as receivables from the parent Company cannot be ruled out in the audit.	The Company has made a provision for impairment of Rs.25.51 million for this year and thus the expenditure of the year 2022 have been identified. It is a provision to be made by CESL and due to an item identified during the year 2022 it has been made for this year. Since the provision made by CECB is Rs. 959 million it was adjusted to the previous years, since the allocation amount is relatively low in CESL there was no need to adjust to the previous years. No provision for impairment has been made for the debtor balance of the Central Base office and we hope to do it next year. Moreover, CESL has no right to allocate for the full value and it is emphasized that CECB's responsibility to settle CESL's debtors is not at risk due to CECB's bad debt provisions.	Actions should be taken to appropriately adjust and disclose in the financial statements the effect on the debtors of the Company due to the provision for impairment made by the CECB.
(b)	Out of the balance of Rs. 2,395.66 million which is a trade receivable balance due to the company from other external parties, balance confirmation letters had been received only for the amount of Rs. 24.59 million which is 1 percent for the year under review.	Balance confirmation letters have been sent to debtors but there are delays in receiving reply letters.	Actions should be taken to ascertain the balance from the debtors.
(c)	As per the Statement of Financial Position as at 31 December 2022, the total debtor balance is Rs.3,778.89million and out of which Rs.417.55 million and Rs.53.33 million had remained outstanding for more than 03 years and more than 05 years respectively. Meanwhile, It was further observed that the debtor balances of Rs.273.51 million in	Company makes the best possible efforts to collect the outstanding debtor & retention balances such as submit a cabinet memorandum to obtain the debtor balances and the receivable balances, to certify the invoices related to the due	Effective actions should be taken to recover the outstanding balances without further delay.

	relation to completed projects was also unrecovered for a longer period as at the reporting date.	balances and to speed up the process and to take actions to issue treasury bills and bonds, inform & follow up with secretaries to the ministry and other relevant parties etc.	
(d)	Retention receivable as at 31 December 2022 was amounting to Rs.3, 077.62 million. Out of that, the details of the dates of completion of the completed projects were not submitted to the audit for calculation of overdue retentions. As revealed during sample test by the audit, out of Rs. 244.83 million related to completed projects, Rs. 47 million and Rs.31.04 million remained arrears in 3 to 5 years and more than 5 years respectively since non- taking of proper recovery measures by the responsible officers.	- do-	Actions should be taken to maintain a detailed information management system related to construction projects and arrangements should be made to recover retentions according to the project completion date.

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
Creditors and Retention Payable as at 31 December 2022 were amounting to Rs. 1,534.27 million and Rs. 729.57 million respectively. An age analysis for retention payable balances was not able to obtain due to not providing the details of project completion dates. According to the age analysis provided for audit, the creditors amounting to Rs. 620.63 million shown under current liabilities had remained unpaid for a period of 2 to 5 years.	Our suppliers give less than 1 year credit periods in most of the time. Hence, all the creditors are considered as current liabilities with the intention of settling within one year. Creditors cannot be settled within the relevant credit period without collecting money from our clients.	Actions should be taken to settle the outstanding balances promptly and a management information system should be maintained for the subcontracted projects and accordingly the retentions amount should be refunded according to the project completion date.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
According to Guideline 5.4.4 (iii) of the Procurement Guidelines the mobilization advances received shall be fully settled before the project works reached to 90 percent completion level. Nevertheless, such advances received amounting to Rs. 211.13 million with regard to fully completed and 90 percent completed construction projects of 06 Base offices of the Company had remained in the accounts as at 31 December 2022 without being settled. Further, the reasons for non-settlement of these balances were not provided to the audit.	Unsettled mobilization advances will be settled after issuance of final bills.	Actions should be taken to settle the advances as per procurement guidelines.

1.7 Related Parties and Related Party Transactions not disclosed

	Audit Issue	Management Comment	Recommendation
(a)	It had been revealed by internal audit that the staff members of the company and the parent company i.e. Central Engineering Consultancy Bureau (CECB) have formed a welfare society at the Ampara base office and they have provided labor and materials during the 4 years period between 2019-2022 for the operations of the company on sub-contract basis and for which an amount of Rs. 152.16 million had been paid. But according to Sri Lanka Accounting Standard (LKAS) 24 there was no disclosure made in the financial statements regarding the transactions between the Company and welfare society, all transactions and outstanding balances necessary to understand the nature of the related party relationship as well as the potential impact of the relationship on the financial statements. Therefore, the risk of whether these transactions happened during the normal course of business with the transparency could not be ruled out in the audit.	The welfare association established by the Ampara base office was formed jointly by the members of both CECB and CESL. It has fulfilled certain supplies and works related to the projects carried out by CESL. As per the decision taken by the Audit and Management Committees the welfare concept has been discontinued in this base office.	Transactions between related parties should be done in transparent manner and actions should be taken to disclose them in the financial statements as applicable.

(b)	While the Company has to be paid Rs.1,538.07 million to the parent Company i.e. Central Engineering Consultancy Bureau (CECB) as at 31 December 2022, this amount included vehicle hiring charges, value of fixed assets hiring charges and stock exchange, temporary loans etc. However, proper and up-to-date agreements were not maintained between the two entities regarding these transactions. It was further observed that no effective action had been taken to settle this balance and this balance has continuously increased since 2017. Further, the Company has not accrued any interest on this outstanding balance till 30 June 2023.	Intercompany current account balances have increased due to adverse condition prevailed in the country which badly affects to the cash flow of the projects. Further, the Company is in the process of reviewing long outstanding balances to identify a way of capitalizing the balance negotiation with CECB by a way of issue of shares.	Actions should be taken to have a formal agreements between the company and Bureau regarding the providing of various services and balance reconciliation statements should be prepared once in a reasonable period.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance Rs.	Management Comment	Recommendation
(a)	Public Enterprise Circular No. 01/2021 dated 16 November 2021 Operational Manual for State owned Enterprises			
	(i) Paragraph 4.3 (iii)	Although it is required to maintain a formal inventory management system to manage all stock receipts and issues, the ERP system used by the company is not facilitating to generate a proper inventory aging analysis reports. As a result it was observed that it could not identify obsolete, slow-moving and non-moving items.	Inventory age analysis is not available through ERP system. But all obsolete stock is monitored by an independent party during annual stock survey and necessary actions are taken.	Actions should be taken to upgrade the system parameters to generate an inventory age analysis report using the ERP system.

	(ii) Paragraph 9.3 (i)	Although there should be an approved recruitment and promotion scheme in the company before recruiting staff for various posts, such a scheme had not been prepared and approved even up to 30 April 2023.	The recruitment and promotion procedure of the Company was referred to the Department of Management Services on 24.02.2022 and a discussion was held in the Department of Management Services on 06.09.2022.	Actions need to be taken to get the immediate approval after making necessary amendments to the recruitment and promotion scheme.
(b)	Public Finance Circular No. 08/2019 dated 31 December 2019	As of May 2023, the company was not registered in the e-Government Procurement System to carry out its procurement activities and to provide its business services.	E-Government Procurement System registration will be processed.	Arrangements should be made to register in the Government's E-procurement system.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 58.39 million and the corresponding profit in the preceding year amounted to Rs. 138.91 million. Accordingly a decline amounting to Rs. 197.3 million of the financial result was observed. The reasons for the decline are decrease in construction revenue by 24 percent, increase in selling and distribution expenses by 320 percent and increase in administrative expenses by 11 percent as compared to the previous accounting period.

2.2 Trend Analysis of major Income and Expenditure items

Description	**For the year ended 31 December 2022** **Rs. Mn**	**For the year ended 31 December 2021** **Rs. Mn**	**Variance {Favorable/ (Adverse)}** **Rs. Mn**	**Percentage** (%)
Total Revenue	**6,487.46**	**8,333.31**	**(1,845.85)**	**(22)**
Construction Revenue	6,332.57	8,298.38	(1,965.81)	(24)
Total Expense	**850.12**	**736.83**	**113.29**	**(15)**
Selling and Distribution Expenses	43.43	10.32	(33.11)	320

Administration Expenses	806.68	726.51	(80.17)	11
Asphalt profit/(Loss)	(36.59)	(60.75)	24.16	39.76
Finance Income	320.91	128.72	192.19	149
Finance Cost	7.98	12.71	(4.73)	(37)

(i) The downturn in the construction sector, increase in the cost of building materials, restriction of the supply of goods to the credit base by the suppliers, non-availability of fuel and raw materials and restriction of the construction activities by the government had mainly caused the construction projects to be delayed, stopped and not started. Due to that construction revenue was declined by 24 percent in this year compared to the preceding year.

(ii) Selling and distribution expense was increased 320 percent in this year mainly due to the write off of trade receivable balance amounting to Rs. 41 million by Anuradhapura base office.

2.3 Ratio Analysis

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

Ratios	**2022**	**2021**	**2020**
Profitability Ratios			
Gross Profit Ratio (GP) (%)	10.05	10.13	9.29
Operating Profit Ratio (%)	-0.92	1.67	-0.93
Return on Assets (ROA) (%)	1.87	1.95	0.56
Liquidity Ratios			
Current Assets Ratio (Number of times)	1.2:1	1.2:1	1.2:1
Quick Assets Ratio (Number of times)	1.1:1	1.1:1	1.1:1

The following observations are made in this regard.

(a) The Company had earned a pre-tax profit of Rs. 254 million during the year under review by utilizing its total asset base of Rs. 13,609 million. Hence, the average rate of return on total assets was only 1.87 percent. This ratio was lower in the year under review as compared to preceding year. Although management should have a strategic plan on how resources can be utilized to maximize operating profit in forthcoming period, such a plan was not presented for audit.

(b) The operating profit ratio was negative in this year due to a significant increase in selling and distribution expenses and a significant decrease in construction revenue.

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
Due to weaknesses in project management, Rs. 68.5 million in relation to 59 projects had been deducted from the bills by the employers as liquidated damages. Out of those projects, approvals had not been received for 47 projects for extending the requested time by 30 June 2023 and it was observed that amount of Rs. 2.1 million which was deducted in relation to 7 projects were found to be irrecoverable condition during the audit.	We are working with the employers to approve the time extensions and release the funds and we are working to get all available balances.	Arrangements should be made to obtain time extension approvals and avoid deduction of liquidated damages through effective project management.

3.2 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In the year 2019, Rs. 15.43 million was paid at once by the Company to the authority as rental to acquire 60 perches of land in the Rathnapura district belonging to the Urban Development Authority on 30 years lease basis. However, the company had not entered into a formal agreement with the authority regarding this leasehold property even up to the date of 01 June 2023. Furthermore, the Company had constructed the building for establishing the Sabaragamuwa base office on this land and it was observed that the payment of rentals and construction without entering into a formal agreement may lead to controversial situations in the future.	The lease agreement will be signed soon and we will follow up on this situation in a timely manner.	Actions should be taken to proceed immediately to sign the relevant agreement with the Urban Development Authority since the Company has paid the full lease rent.
(b)	A loss of Rs. 36.59 million had been occurred by the Company during the year 2022 by operating Asphalt/crusher plant. The Company had placed these 5 machines in 5 locations namely Kothmale, Alikandura, Kalagala, Thalawa and Buttala Mahagodayaya. However, the value of these five machines is not included in the Company's financial statements and only the loss earned from its operation is reported. Further Thalawa Asphalt Plant belonging to Polonnaruwa (MKDP) base office was operated only in the first two months of 2022 and all the other four machines remained idle during the year 2022.	As these machines are owned by CECB, their cost is included in CECB's financial statements. These machines have been operated only in the first 2 months of 2022 and the main reason for this loss is due to the maintenance costs incurred despite being idle. The crisis in the construction industry has also affected this loss.	The management of the Company should pay its attention to operate the Asphalt/Crusher plant in a profitable manner.

3.3 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Company had not properly coded its fixed assets and those codes were not included in the fixed asset register in the ERP system in order to carry out the annual asset verification of the PPE costing Rs. 1,591.43 million shown in the financial statements as at 31 December 2022.	The Company's ERP team has developed a coding system for fixed assets. This process has been temporarily held due to adoption of the asset module of the recently developed ERP system.	Proper coding system is required when developing the ERP system and to ensure the accurate and adequate controls over PPE. Further actions need to be taken to evaluate the performance of the asset management module and make improvements by finding solutions to the current problems in the system.
(b)	According to the information provided for the audit, the Company has sustained a gross loss of Rs. 667.42 million, Rs. 888.15 million and Rs. 973.30 million by the end of the years 2022, 2021 and 2020 respectively from its completed construction projects. Further a loss of Rs. 433.93 million was reported from 47 on-going construction projects of the year under review. The management had not taken effective measures to mitigate these heavy losses by identifying the reasons and the persons who are responsible for these losses, as these losses directly affect to the going concern of the Company.	The longer than estimated time to complete the projects resulted in higher than estimated material costs, high overhead costs, correction of many mistakes in earlier stages, pandemic situation, payment delays, etc.	The company should take effective measures to manage the contract cost and time and mitigate the losses from the construction projects.
(c)	For the year under review, the Company had sustained an operating loss of Rs.58.39 million and it was mainly due to the losses reported by Anuradhapura, Uva, Head office and WP- 2 base offices of Rs.91.90 million, Rs. 18.75 million, Rs. 10.26 million and Rs. 6.5 million respectively.	**- do -**	The management of the company should pay attention to utilize its financial, human and other physical resources efficiently in order to mitigate the operating loss of the Company.

3.4 Transactions of Contentious Nature

Audit Issue	Management Comment	Recommendation
The balances due from customers and due to customers as at 31 December 2022 were amounting to Rs. 1,621.08 and Rs. 3,244.41 million respectively. However, once the projects works undertaken by the Company are completed there should not be the due from customers or due to customers. But due to not taking proper action for settlement, Rs.143.31 million and Rs.20.6 million was remained as due from customers and due to customers in respect of 62 completed projects in the financial statements. It was further observed that the main reason for these differences was not submitting bills correctly.	The main reason for this is because the contract value has not changed in proportion to the bills. Also, the contract value cannot be changed until the final bill is confirmed, leaving many balances. We look forward to considering these situations and correcting them whenever possible.	Actions should be taken to settle long outstanding balances in respect of completed projects and make proper adjustments in accounts and recover by preparing an age analysis without a delay.

3.5 Procurement Management

	Audit Issue	Management Comment	Recommendation
(a)	Although the Company currently follows a centralized procurement method for the procurement of cement, other large-scale purchases such as Reinforcement steel, Ready mix concrete etc. are purchased at the base level. It was observed in the test audit conducted on the procurement activities of the company's WP-2 base office that the material requirements of the projects had been divided into phases so as not to exceed the procurement limits given to the base offices.	Due to the recent crisis in the construction industry, it is not possible to call for tenders for large-scale purchases by the head office. When purchasing Ready mix concrete required for construction works, it should be done according to the specifications related to each project and it is also mandatory to get it from a location that close to the project site. Due to this, it is practically difficult to follow a method similar to cement procurement.	The material requirements of the projects should be procured in accordance with the procurement guidelines, avoiding unnecessary division into phases so as not to exceed the procurement limits, and wherever possible, efforts should be made to obtain benefits through a centralized procurement system.
(b)	At the test audit check carried out on the procurement activities of 2021 of Battaramulla and Digana base offices, it was observed that there is a trend of suppliers not being interested in responding to the quotations made by the company due to payment delays and long term arrears balances. Therefore it was further observed that the company should focus more on	The Procurement Committees of the base offices ensure that the procurement process is carried out in a way that contributes maximum benefits to the organization wherever possible.	It is required to work towards increasing the number of quotations to improve transparency, economy, timeliness and quality of procurement activities while managing payments to suppliers by the Company.

	getting more number of quotations to enhance transparency, economy, timeliness and quality of procurement activities.		

3.6 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	The Company had recruited 17 employees for the posts which are not in the approved cadre as at 31 December 2022.	Employees recruited after obtaining a special board approval. Further, the updated cadre has been sent to DMS for approval on 12.01.2022.	Recruitment should not be done for unapproved posts.
(b)	By considering alleged misconduct in the Anuradhapura operations office from 01 January 2016 to 22 June 2020 and the severe financial crisis faced by the base office and the financial losses incurred in the projects, the officer who was on duty as the Chief Operating Engineer (COE) at that time has been suspended from 11 January, 2021 while that officer had also been placed in the service of the Parent Company from the day he was suspended again without any investigation. However, none of the investigations initiated with regards the financial irregularities at the Anuradhapura base office had been completed by 30 June 2023.	The current chairman has expedited the inspections in this regard. Also, as mentioned here, it was informed that the Chief Operating Engineer at that time has been reinstated in CECB and has not been given any position in CESL.	A formal investigation should be conducted regarding the suspended officer and a proper decision should be taken based on the reports.