Central Engineering Consultancy Bureau and its Subsidiary - 2023

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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 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information, 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 as at 31 December 2023, 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 (Auditor's Responsibilities for the Audit of the Financial Statements)

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Audit Issue	Management Comment	Recommendation
Although the process of properly coding the fixed assets of the Bureau to verify the assets annually was completed by 31 December 2023 a centralized fixed asset register had not been prepared. Therefore, physical existence of property, plant and equipment amounting to Rs.4,308.58 million had been shown in the financial statements could not be satisfactorily vouched in audit.	We intend to complete the process of properly coding the Bureau's fixed assets in the year 2024 and enter them into the accounts.	All the assets of the bureau should be properly coded and entered into the fixed asset registers.

1.5.2 Non-Compliance with Sri Lanka Accounting Standard

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	Contrary to paragraphs 27 and 28 of Sri Lanka Accounting Standards – 01, the Bureau had shown the balance of VAT receivable or payable on a cash basis in the financial statements.	As CECB has obtained approval from Inland Revenue Department to pay VAT on cash basis, CECB records VAT at the time of payment or receipt.	Sri Lanka accounting standards should be followed.
(b)	In accordance with the Sri Lanka Financial Reporting Standards 09 - Financial Instruments, the treasury bonds value of Rs.246.99 million maturing on 15 June 2025 received by the Bureau in the year 2022 had not been recognized at a fair value in the relevant year and the said accounting error had not been retrospectively adjusted and recognized in the accounts in the year under review as per paragraph 42 of Sri Lanka Accounting Standards (LKAS) – 08.	The interest to be adjusted at the end of 2022 was Rs. 0.78 million and it is an immaterial value.	Sri Lanka accounting standards should be followed.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Biological Assets worth Rs.17.28 million belonging to the mixed agriculture project which was implemented by the Bureau had been presented in the inventory of the financial statement as at 31 December 2023. However, land and capital costs of Rs.11.26 million and	Comment had not been received.	Capital assets should be accounted for separately from the inventory assets.

	equipment worth Rs.0.17 million were also included in that value.				

1.5.4 Unreconciled Control Accounts or Records

	Item	as per Financial Statements Rs. Mn.	As per correspon ding Record Rs. Mn.	Difference Rs. Mn.	Management Comment	Recommendation
(a)	Trade Creditors	1,299.37	1,286.66	12.71	During the preparation of final accounts 2023, some invoices were not recorded by the Subsidiary company (Central Engineering Services Pvt. Ltd.). The CECB balance is correct and the relevant tables have already been submitted.	In preparing the consolidated financial statements, arrangements should be made to reconcile the transactions and balances between the Subsidiary company and the parent company.
(b)	Retention Payables	2,080.10	2,027.33	52.77		
(c)	Sundry Creditors	0	13.30	13.30		
(d)	Mobilization Advance Payables	3,466.37	3,449.91	16.45		

1.5.5 Preparation of Consolidated Financial Statements

The Qualified Opinion on the financial statements of the Subsidiary (Central Engineering Services (Private) Limited) for the year ended 31 December 2023 had been expressed by me based on the following observations.

	Audit Issue	Management Comment	Recommendation
(a)	As per Section 51 of Sri Lanka Accounting Standards 16, the useful economic life of the property, plant and equipment with a written down value of Rs.378.08 million as on 31 December 2023 had not been reviewed annually.	Assets are planned to be assessed segmentally.	Sri Lanka accounting standards should be followed.

(b)	The financial statements had been prepared without being eliminated the internal transactions aggregating to Rs.159.9 million incurred between the sub-units of the Bases and the main Bases. Further, an amount of Rs.56.78 million earned from the internal transactions between the Base Offices had been included in the annual income as well as expenditure of the Company.	Due to the limited time available to prepare the financial statements, it is not possible to eliminate certain items. Balance sheet related balances are expected to be investigated during this year and eliminated accordingly.	Transactions and balances between Base offices and divisions should be eliminated in the preparation of financial statements.
(c)	The differences amounting to Rs.12.71 million, Rs.52.77 million, Rs.13.30 million and Rs.16.45 million were observed between the corresponding balances of Rs.1,286.66 million, Rs.2,027.33 million, Rs.13.30 million and Rs.3,449.91 million shown in the financial statements of the Company with regard to trade debtors, retention receivables, sundry debtors, mobilization advances respectively and the respective payable balances of Rs.1,299.37 million, Rs.2,080.10 million, zero value and Rs.3,466.37 million shown by the parent organization i.e. the Central Engineering Consultancy Bureau (CECB)	Reasons such as not comparing the invoices correctly in the preparation of the final accounts have contributed to this.	Action should be taken to reconcile the balances due and payable to related parties.
(d)	The cost of Rs.18.02 million chicks had been purchased as on 31 December 2023 under the Rambakanoya project. Although it should be shown	I emphasize that in the coming financial year, all biological assets will be disclosed at fair value according to Sri Lanka Accounting Standards No. 41.	Sri Lanka accounting standards should be followed.

under biological assets, it had been shown under property, plant and equipment contrary to paragraph 12 of Sri Lanka Accounting Standards 41.

1.5.6 Documentary Evidences not made available for Audit

	Item	Amount Rs. Mn.	Evidence not available	Management Comment	Recommendation
(a)	Retention Balances Payable - Battaramulla - South	 35.16 18.32	Detailed information for Retention Balances Payable in Engineering Procurement Construction (EPC) Division.	Management has not commented.	Detailed information should be submitted for audit.
(b)	Trade Receivable Balance at WP-2 Base Office as on 31.12.2023	55.01	Project information or other written evidence relating to outstanding balances of Rs.55.01 million relating to 13 projects at Jawatta Base Office and 08 projects at Katubedda Base Office.	Trade receivable balances exceeding 5 years, written evidence / corroboration had been submitted along with the reply letter dated 10 November 2023.	Management should take necessary steps to submit project information and other written evidence to the audit.
(c)	Retention money related to projects in Jawatta and Katubedda Base Offices	7.16	Schedules relating to the retention balances	The file of D1256 project has been destroyed due to rainwater in the warehouse. Retention money related to D1166 and D1180 projects had not been accounted.	Retention and debtor balances should be submitted separately for audit.
(d)	Damages of 6 vehicle	1.93	Vehicle accidents files and information	In the future, this accident register	Financial Regulations

accidents as per Financial Regulations - 104(3)(4).	about insurance compensation	will be provided with the relevant files.	should be followed.

1.6 **Accounts Receivable and Payable**

1.6.1 **Receivables**

	Audit Issue	Management Comment	Recommendation
(a)	As on 31 December 2023, the Bureau should receive Rs.1,545.96 million from the Subsidiary company and this value included vehicle rental charges, fixed asset rental charges and stock exchanges and temporary loans. However, due to lack of proper and up-to-date agreements between the Bureau and the Subsidiary company regarding these transactions and no effective action had been taken to settle this balance. Further it was observed that this balance has continuously increased since the year 2017.	On the advice of the board of directors, CECB has entrusted the assignment to a consultancy firm to give an opinion on how much time should be considered for inter-company balance. Accordingly, we intend to make the necessary adjustments with Board approval.	Necessary steps should be taken to settle this balance promptly.
(b)	According to the statement of financial position as at 31 December 2023, the total debtor balance of the bureau was Rs.4,549.28 million and according to the age analysis of those debtors, there were long outstanding debtors. Between 3 – 5 years and outstanding balances over 5 years were Rs.246.90 million and Rs.1,280.46 million respectively in the Engineering Procurement Construction (EPC) division and it represented 63 percent	Compared to preceding year, the debtor balance has decreased from Rs.5,300 million to Rs.4,500 million. Also, our organization continues to discuss the debt balance with the relevant institutions. Further, the internal divisions are followed up periodically by the Debtor Control Committee.	Debt collection should be done in accordance with the Bureau's Financial Procedures Manual.

compared to the total debtor balance of Rs.2,425.99 million. Furthermore, the debtor balances between 3-5 years and the debtor balances over 5 years were Rs.270.48 million and Rs.356.54 million respectively in the consultancy division and it represented 30 percent compared to the total debtor balance of Rs.2,116.54 million. The receivables management processes in accordance with the Bureau's Financial Procedures Manual were not in a place to maintain the Bureau's cash flows and fail to collect the Bureau's receivables in a timely manner with statutory requirements had led the "bad debts".		

1.6.2 Payables

Audit Issue	Management Comment	Recommendation
According to the statement of financial position as at 31 December 2023, the total creditor balance of the Bureau was Rs.1,874.15 million and according to the age analysis of those creditors, there were long outstanding creditors. Between 3-5 years and creditor balances over 5 years in Engineering Procurement Construction (EPC) sector were Rs.219.18 million and Rs.767.83 million respectively. It represented 55 percent compared to the total creditor balance of Rs.1,808.68 million. Furthermore, the creditor balances between 3-5 years	Due to assignment of projects to CESL by EPC division, CESL has the higher credit balance. And the EPC Division will settle the creditor balance only after receiving the money to CECB. Therefore, the debtor balances related to those creditor balances are shown in our accounts and there is no risk of payment of those creditor balances. The creditor balances of the consultancy division are the balances after receiving the advance and then the projects were suspended and although reminders have been sent to the relevant ministries in this regard, no proper reply has been received yet.	Settlement of creditor balances should be done in accordance with the Bureau's financial procedures manual.

and the creditor balances over 5 years were Rs. 2.92 million and Rs. 39.03 million respectively in the consultancy division and it represented 70 percent compared to the total creditor balance of Rs.59.18 million. The Bureau had not followed accounts payable management procedures to settle all accounts payable on time had led that situation.		

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
Advances shall be settled on due dates as per paragraph 3 of the Bureau's Financial Procedures Manual. Although according to the financial statements submitted for the year ending 31 December 2023, there was a total advance balance of Rs.4.83 million relating to 3 divisions of the Bureau. According to its age analysis, it was Rs.1.80 million in Bureau Head Office, Rs.1.03 million in Engineering Procurement Construction (EPC) Division and Rs.0.0143 million in Consulting Division, totaling to Rs.2.84 million had been outstanding for more than 1 year and it represented 59 percent compared to the total advance value.	Arrangements are being made to settle in the future.	Proceedings should be in accordance with paragraph 3 of the Bureau's Financial Procedures Manual.

1.7 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
According to Section 7 (2) of the Settlement of Defaulted Taxes (Special Provisions) Act No. 16 of 2010, the Bureau had defaulted on payment of income tax, VAT, pay-as-you-earn and other types of taxes and fines totaling to Rs.49.59 million to the Inland Revenue Department for the period of 1996 to 2007.	Rs.20 million had already been paid and the remaining amount of tax will be paid on time negotiating with the Inland Revenue Department.	Necessary action should be taken to remit the unpaid taxes to the Inland Revenue Department.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a pre-tax profit of Rs.747.54 million and the corresponding pre-tax profit in the preceding year amounted to Rs.69.39 million. Therefore, improvement amounting to Rs.678.15 million of the financial result was observed. The main reasons for this improvement were increase of other income and financial income.

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 2023 Rs. Million	For the year ended 31 December 2022 Rs. Million	Difference { Favorable / (Unfavorable)} Rs. Million	percentage %
<u>Revenue</u>				
Construction	4,008	2,747	1,261	45.9
Consultancy	1,494	1,747	(253)	(14.5)
Other Income				
Miscellaneous Revenue	57.18	83.59	(26.41)	(31.6)
Hiring Income	55.04	12.14	42.9	353.4
Finance Income	896.76	459.64	437.12	95.1
<u>Expenses</u>				
Administration expenses	577.79	602.86	25.07	4.16
Selling and distribution expenses	0.60	390.45	389.85	99.8

Finance cost	3.65	3.60	(0.05)	(1.4)

The following observations are made in this regard.

(a) The attention of the management had not focused on increasing the income of the Bureau by using it's financial resources and fixed assets amounting to Rs.4,067.71 million and Rs.4,382.1 million respectively.

(b) Even after setting up its subsidiary for construction activities, the management had not paid any attention to the need to run the Engineering Procurement Construction (EPC) division continuously for the years 2022 and 2023 by an operating loss of Rs.303 million and an operating profit of Rs.74.73 million respectively.

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	2023	2022	2021
Profitability Ratios	percent	percent	percent
Gross Profit Ratio (GP)	4.25	10.17	10.88
Operating Profit Ratio	2.65	(8.60)	(2.01)
Return on Assets (ROA)	4.19	0.39	0.27
Liquidity Ratios			
Current Assets Ratio (Number of times)	1.2: 1	1.2 : 1	1.2 : 1
Quick Assets Ratio (Number of times)	1.2 : 1	1.2 : 1	1.2 : 1

The following observation is also made in this regard.
The Bureau had earned a profit before tax of Rs.747 million during the year under review by using its total asset base of Rs.17,827 million, which was only 4.19 of return on assets ratio.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	Out of the 15 official quarters at Sarana Road, Colombo 07, 05 official quarters namely No. C, No. D - 7, No. M, No. A - 1, No. A - 4 were used by external parties and the Bureau had not followed approved system for providing quarters to external parties and the bureau has not entered into an	The allocation of official quarters to external parties had done on the instructions of the line ministry in the Sarana Road official quarter's complex. At present, 05 official quarters had been given to external parties.	Arrangements should be made to reserve quarters only for the residence of the officers of the Bureau.

	agreement with the relevant parties to providing the official quarters.		
(b)	By the letter No. DL/10/02/07 – X of Director General of Sri Lanka Mahaweli Authority dated 21 August 2020 and the letter No. RPM/RO/L/CLO/ PB/38 of the Resident Manager of Sri Lanka Mahaweli Authority dated 19 November 2020, 150 acres of land in Polle Bedda Mahaweli Division in Rambakanoya Mahaweli Zone of Ampara District belonging to Sri Lanka Mahaweli Authority, and it has been given to the Bureau for a mixed agriculture project. As of 30 April 2024, the Bureau had not entered into a formal lease agreement to acquire the land on a long-term lease basis.	According to the letter from the Sri Lanka Mahaweli Authority, the long-term lease agreement had not been finalized yet.	Action should be made to enter into a long-term lease agreement.
(c)	The officer who was on duty as the Chief Operating Engineer at the Anuradhapura operations office of the subsidiary company belonging to the Bureau had been suspended from 11 January 2021, in view of the alleged misconduct that occurred from 01 January 2016 to 22 June 2020. In the letter dated 24 May 2021, the concerned officer had been reappointed as an employee of the Bureau, but the investigation had not been completed by 30 April 2024 and an investigation report had not been submitted.	As the officer who was working as the operational engineer has been assigned to CESL, the relevant investigation is being carried out by CESL.	Appropriate action should be taken after the investigation is completed promptly.

(d)	The total recoverable deposit balance of the Engineering Procurement Construction (EPC) division as on 31 December 2023 was Rs.5.79 million and according to its age analysis, 90 percent of those balances amounting to Rs.5.25 million were over 5 years. Further, the balances of Rs.3.23 million related to 21 projects which were 100 percent completed had not been recovered.	This money has been deposited for getting new electricity and water connections, getting drinking water, renting vehicles and will be settled promptly.	After the relevant objective has been achieved, the necessary steps should be taken to recover it.

3.2 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In the year ended 31 December 2023, the Bureau had recorded a loss of Rs.145.57 million from its total operations. Also, it was observed that three main divisions of the Bureau, namely the Consultancy Division, the International Division and the Head Office, had recorded operating losses of Rs.216.09 million, Rs.13.38 million and Rs.4.40 million respectively in the year ending 31 December 2023.	The country's economic downturn, which is beyond our control, has adversely affected the performance of the Bureau.	The management pay attention to get maximum profit from the operational activities of all the divisions of the bureau.
(b)	According to the financial statement of the Engineering Procurement Construction (EPC) division submitted for the year under review, 07 out of 14 divisions under that had reported an overall operating loss of Rs.54.85 million for the year ending 31 December 2023.	An operating loss has been incurred due to the insufficient amount of excessive depreciation included in the administrative cost of machinery.	Action should be taken to turn the operational loss making bases into profitability under Engineering Procurement Construction (EPC) division.

(c)	In evaluating the profits from the operational activities of the Engineering Procurement Construction (EPC) sector from the year 2020 to 31 December 2023, Gampaha, Uva, Central, Anuradhapura and Jaffna, 05 bases of that division had been continuously reported a total operating loss of Rs. 41.54 million in 2020, Rs.39.99 million in 2021, Rs.88.97 million in 2022 and Rs.47.26 million in 2023 respectively.	Slowdown, suspension and in some cases termination of construction activities after the government's decision to stop construction projects as a solution to the country's economic problem adversely affected the EPC sector.	Action should be taken to turn the continuously loss-making bases into profitability under Engineering Procurement Construction (EPC) division.
(d)	The two branches of the Engineering Procurement Construction (EPC) Division, Uva and Kantale, had not generated any revenue during the year under review and incurred administrative expenses of Rs.12.66 million and Rs.1.52 million respectively.	Since the operations of both Uva and Kantale base offices had run by the Ampara head office, the operating income of the ongoing projects is shown in the accounts of the Ampara base office.	Separate accounts should be maintained to showing the profit and loss.
(e)	According to the financial statement of the consultancy division presented for the year under review, the consultancy division had recorded a total loss of Rs.216.09 million from the operations in the year ending 31 December 2023 moreover out of 22 cost centers in the consultancy division, 14 had reported a total loss of Rs.305.49 million.	Due to the country's current economic recession, the collapse of the construction industry and the suspension of construction in the public sector have led to a decrease in income and expenditure had not decreased comparatively.	Action should be taken to keep the division at a profitable position.
(f)	In evaluating the profit and loss from the operational activities of the consultancy division from the year 2020 to	Due to the country's current economic recession, the collapse of the construction industry and the suspension of construction in	Efforts should be made to bring the cost centers which are continuously incurring losses in the consultancy division to a

	31 December 2023, the 04 cost centers of D1, D3, Architect (Archi) and South had been recorded overall operating losses of Rs.195.09 million in the year 2020, Rs.83.83 million in the year 2021, Rs.175.52 million in the year 2022 and Rs.159.71 million in the year 2023.	the public sector have led to a decrease in income and expenditure had not decreased comparatively.	profitable position.
(g)	According to the financial statement of the consultancy division presented for the year under review, out of the 08 cost centers belonging to the division, D1, D3, Road, Architecture (Archi), NRM&LS, J&PW, Ampara (South East), East had not generated sufficient revenue to even cover the cost of sales in the year under review and Rs.16.19 million, Rs.3.89 million, Rs.6.89 million, Rs.50.86 million, Rs.8.13 million, Rs.53.53 million, Rs.1.71 million and Rs.1.06 million of gross losses had been recorded respectively.	The recession and collapse of the construction industry has led to the suspension of construction projects in the public sector.	The cost centers of the consultancy division should perform to make a profit.
(h)	The International division had not been carried out any operations during the year under review and during the period from 2021 to 31 December 2023, division had not generated any revenue.	International revenue is not shown in the international division, but other consultancy units have already implemented international projects and generated revenue in 2023.	The operations of the international division should be carried out.
(i)	The Bureau's WP-2 base office consultancy unit's income is mainly generated through external consultancy activities and hospital maintenance	Although the cash flows in the months of January, March, April and June are negative balances, the overall cash balance is a positive cash flow. And the	Efforts should be taken to increase the income.

related consultancy. It was observed that due to the prevailing situation in the country and the collapse of the construction industry, WP-2 had been faced a major financial crisis for covering the daily overhead costs.	money is received based on the work done. Therefore, cash flows are not constant every month and vary.	

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
5 vehicles owned by the Bureau bearing numbers 19 – 9681, 31 – 3052, GA – 9776, KF – 5300 and KE – 1632 remained idle for a period of 1-3 years and even on 30 April 2024, no action had been taken to dispose of those vehicles.	Arrangements are being made to dispose of the 5 vehicles.	If it is not possible to use it for the work of the bureau, it must be disposed.

3.4 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
According to paragraph 6.8 of the Operations Manual for State-Owned Enterprises, ministries and other institutions should not use the resources of state-owned enterprises to carry out their functions. However, the Bureau's 02 Roods 24.5 Perches land at T. B. Jaya Mawatha (Darley Road) Colombo, which was owned by the Bureau (value of Rs.575 million) on 22nd January 1990 at a value of Rs.3 million had not been used for any productive economic activity by the end of 2023	As this land is currently used as the car park premises of the head office of the Sri Lanka Mahaweli Authority located at No. 500, TB Jaya Mawatha, this has been repeatedly discussed in the Ministry's Audit and Management Committees and a decision is to be taken in the near future.	Attention should be paid to use this land for productive economic purposes.

	without generating income and used as a car park for the head office of the Ministry of Irrigation.		

3.5 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	Although paragraph 3.2 (i) of the Operational Manual for State Owned Enterprises, requires that there should be a scheme of recruitment and promotion approved by the Department of Management Services for all posts at all levels employed. However, the Bureau had not approved recruitment and promotion scheme prepared in accordance with Management Services Circular No. 30 for the middle management level and senior management levels from the year 2016 to the audited date of 30 April 2024.	The Ministry of Irrigation has submitted the proposed Recruitment and Promotion Procedure for Middle Management Level (MM-1-1) and Senior Management Level (HM 1-1, HM 1-3, HM 2-3) of the Bureau for the approval of the Department of Management Services on 31.10.2022. The Department of Management Services has notified to prepare and submit the recruitment and promotion procedure as per the model format.	A scheme of recruitment and promotion approved by the Department of Management Services for posts at all levels of the Bureau should be adopted expeditiously.
(b)	13 officials had entered into bond agreements worth Rs. 18.15 million with the Bureau between 2007 and 31 December 2022 and as on 30 April 2024, an amount of Rs.8.30 million remained unpaid to the Bureau by the defaulting officers.	Reminder letters have been sent to the Department of Immigration and Emigration seeking assistance in tracing addresses and legal action has been initiated against 3 officers. Also, 3 officers are paying arrears in installments.	Arrangements should be taken to recover the arrears from the officers or guarantors who have breached the bonds.

3.6 Management of Vehicle fleet

	Audit Issue	Management Comment	Recommendation
(a)	As per paragraphs 4.1 and 4.2 of Public Enterprises Circular No. PED/1/2015 dated 25 May	Whenever possible vehicles are not used for individual officer transport and the use of officers'	Comply with the Public Enterprises Circular.

	2015, instead of using the pool vehicles for group transportations, it had used by individuals to go to and from the office. The traveled distance could not be accurately distinguished due to the lack of proper running charts.	vehicles is mostly done in groups.	
(b)	The value of 4 vehicles worth Rs. 15.25 million transferred from the subsidiary company to the Bureau in the year 2019 had not been recognized in the Bureau's accounts until the year 2023 and the vehicles had been used for 5 years but the values of the vehicles and related depreciation had not been recognized in the financial statements, as a result the total value of the vehicles and the accumulated depreciation value of the vehicles presented in the accounts from the year 2019 to the year 2023 had been understated.	According to the approval of the Board of Directors in 2019, the cars were to be transferred to CECB, but their RMV registration was received by CECB in 2020. Therefore, in the year 2023, adjustments have been accounted through Retained Earnings, which are accounted for in relation to the years 2020, 2021, 2022.	At the time of transfer of assets, the value should be recognized in the Financial Statements.
(c)	No. 31 – 1776 and No. KF – 5300 vehicles had not been used for running after 31 December 2022 and it was observed in the audit that a total expenditure of Rs.0.31 million was incurred for repair work of Rs.0.16 million and Rs.0.15 million in the year under review, which was an uneconomical expenditure. Furthermore, the factors that led to spending a large amount of money as repair costs for	No. 31 – 1776 vehicle was temporarily removed from the Colombo Port project as it is a very old jeep, and it has been agreed to be attached to a work site that attached to the Digana office in the future. KF – 5300 is a car in running condition with minor defects. Currently, due to the financial situation of the organization, the fuel and other maintenance of this vehicle are quite expensive, so it was decided to remove the vehicle from use	Maintenance and repair should be done only for economically effective vehicles.

	such vehicles, which cannot be brought to running condition, were not submitted to the audit.	and dispose of it.	
(d)	The engine of vehicle No. KM – 1763 was breakdown on 21 July 2021 and handed over to the service agency and an expenditure of Rs.1.75 million was incurred for repair work. However, after driving 230 km after the repair, once again the vehicle was breakdown. An estimate of Rs.4.42 million had been submitted by the agency to repair the vehicle's engine. However, it was observed that the vehicle had not been used for over a year and remained idle condition.	The estimate given for the last emergency engine shutdown was too high and as per the management decision, another engine was procured and the vehicle was taken to the office garage to check the estimate for repairs.	Maintenance and repair should be done in an economically and effective manner.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Issue	Management Comment	Recommendation
As per Paragraph 2.3 of the Public Enterprises Circular No. 01/2021 dated 16th November 2021, Guidelines on corporate governance for State Owned Enterprises, the Bureau had not prepared an action plan for the year 2023, including the responsibility, specific time targets and financial estimates for carrying out each activity, showing the strategy, specific activities and actions to be completed in a logical sequence and in detail to achieve the objectives of the institution.	The latest action plan report has been prepared by the Central Engineering Consultancy Bureau to achieve the Bureau's goals from the year 2023 to the year 2027.	An annual action plan should be prepared in accordance with the circular instructions.

4.2 Effectiveness of Management Information System

Audit Issue	Management Comment	Recommendation
The Bureau had used an accounting system called E-CECB to record all transactions within the institution and it was observed during the audit that the existing controls in this type of accounting system are not adequate and strong for such an institution that plans and executes operations at a regional level. Also, since the accounting system used by the base offices had not interconnected and operates in isolation, therefore there was a risk regarding the accuracy and consistency of the information provided. As debtors, creditors and inventory age analysis information could not be generated by the Bureau's accounting system and those had prepared by the accounting staff, so there was a risk of errors and omissions in those reports and it also consumes a lot of time.	To avoid this situation, the financial sector and other sectors are expected to implement an ERP system very soon.	The ERP system should be developed with all necessary accounting and other information can be generated from the accounting system.