Central Engineering Consultancy Bureau - 2022

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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 2022 comprising the statement of financial position as at 31 December 2022 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 as at 31 December 2022, 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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards

		Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	(i)	In accordance with paragraph 40(a) of Sri Lanka Accounting Standards No. 01 - Presentation of Financial Statements, when an entity restates its financial statements as a third step in addition to the minimum comparative financial statements required in accordance with paragraph 38(a), the financial position prior to the restatement of the prior period must be submitted. However, In the set of restated financial statements submitted by the Bureau, the financial position before the restatement of the prior period was not presented.	Due to impracticability to determine the period specific effect of an error on comparative information for one or more prior periods presented the opening balances of Provision and Equity balance for the earliest possible year which retrospective restatement is practicable.	According to the standard, the financial position should be presented before restatement of the prior period as a third step in addition to the comparative financial statements.
	(ii)	Contrary to paragraph 32 of Sri Lanka Accounting Standard No. 01-Presentation of Financial Statements, there were 4,120 and 74 instances of debit balances respectively Rs.5.71 million and Rs.129.81 million has offset against the credit balances and was shown in the financial statements as the net value of the retention payable money respectively Rs.121.05 million and Rs.357.33 million as the retention payable money relating to the	The accurate schedule is submitted herewith.	That the debit balances relating to the retention payable amounts in accordance with the standard should be identified and corrected.

	Katubedda and Jawatta Base offices of the Engineering Procurement Construction (EPC) Division.		
(b)	According to paragraph 51 of Sri Lanka Accounting Standards 16 - Property, Plant and Equipment Standard, an entity should review the scrap value and useful life of its assets at the end of each financial year and if the expected values differ from previous estimates, correct the estimation error in accordance with Sri Lanka Accounting Standards 08. However, the Bureau and the Company had not reviewed the scrap value and useful life of the assets which had a written down value of Rs.633.07 million and Rs.558.98 million respectively at the end of the year under review. Further, the assets belonging to the Bureau and the company costing Rs.374.79 million and Rs.523.57 million respectively were fully depreciated and continued to be used but appropriate steps were not taken to correct the estimated error in those assets.	We are in the process of reassessing the useful life and residual value of all class of assets including fully depreciated assets. We intend to complete this exercise during this year and incorporate into accounts.	Review the scrap value and useful life of assets at the end of each financial year and the estimated error should be corrected in accordance with the standard. .
(c)	According to paragraph 5.1.1 of Sri Lanka Financial Reporting Standard No. 09 - Financial Instruments Standard, within the scope of paragraph 5.1.3, an entity shall measure financial assets and financial liabilities other than trade receivables are initially measured at fair value less the costs directly incurred to acquire them. But the bonds received from the treasury in order to settle the value of Rs.235.08 million due from the debtors, the Bureau had recognized in the financial	According to SLFRS 9 the Bond has been accounted using amortized cost in the balance sheet. The particular bond has been received on 27/12/2022 and the difference between the face value Rs.246,993,200 and the settlement value Rs.235,086,152 is Rs.11,907,048 which has been treated as a discount received and shown under noncurrent liabilities and recording the bond at face value.	The initial measurement of treasury bonds should be made at fair value in accordance with the standard.

	statements Rs.246.99 million which was the face value of bonds instead of the fair value.		
(d)	In accordance with paragraph 36 of Sri Lanka Accounting Standard No. 8 - Accounting Policies, Changes in Estimates and Errors - requires adjustments to be made to reflect the effect of a change in accounting estimate on profit or loss for that period and future periods, instead of adjustment to the profit and loss account of the year of allocation for impairment losses of Rs.959.08 million on trade receivables made by the Bureau in the year under review, an adjustment of Rs.770.62 million and Rs.188.46 million had been made to the accumulated profit/loss of the years 2020 and 2021 respectively. Due to this, the profit of the year under review had been overstated by that amount and the accumulated profits of the years 2020 and 2021 had been understated by the respective amounts. Further, the basis on which these allocations were distinguished for the year 2020 and 2021 was not reveled in audit.	The huge uncertainty regarding the physical existence and accuracy of long-standing unrecognized and outstanding debtor balances and the lack of adequate provision in the financial statements for impairment and how it has affected the auditors' opinion have been discussed several times. Therefore, with that view we reviewed all Debtor and Retention balance outstanding as at 31.12.2022 in order to identify the actual existence and accuracy of the balances. Based on the review we have identified the provision for debtors and retention. However, these balances are due for more than 5-10 years. . We have made the provision with the assumption of provision should have been accounted for previous years and not current year. Since the provision is applicable for previous years and not specifically current year or previous year the adjustment was made as a correction of error to previous years. In addition to that we identified some debtor and retention balances which are not actual existence. Therefore, we have adjusted them in the current year correctly.	At the end of each reporting period, the trade receivables should be reviewed to determine whether there is any objective evidence that the receivables will not be recoverable, and impairment losses should be recognized in the statement of comprehensive income at the same time. But without doing so, the provisions for previous years have been made in the current year contrary to the provisions of the standard.

1.5.2 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
According to the financial statement presented by the Bureau for the year 2022, Rs.612.84 million of debtors and retention balances were written off against profit during the year under review and in that balance, Rs.380.10 million that were not provided in previous years were also included. As per paragraph 6.9 of Public Enterprises Circular No. 01/2021 dated November 16, 2021, Board of Directors approval had not been sought for this write-off. Debtors and retentions of Rs.338 million in the Ampara (South East) base office were included in these write-offs, but clear and specific reasons for the write-offs were not submitted to the audit.	We reviewed every debtor and retention balances outstanding as at 31.12.2022 and we have identified the correct debtor and retention outstanding balances as at year 2022. However, we understood some balances were remained in accounts for longer period but those are not physically existence balances with clients and only accounting balances. Also, these balances are shown as long outstanding debtor and retention and it misinterprets the actual outstanding. Therefore, with all these concerns accounting balances were written off from accounts to show the correct trade & other receivable balance in accounts. In our view Board approval / Treasury approval is not required for these accounting adjustments.	In order to carry out write-offs in accordance with the circular provisions, matters should be submitted to the Board of Directors and arrangements should be made to obtain approval. Furthermore, it should be verified by sources and evidence that the outstanding balances are not accurate.

1.5.3 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 2022 had been expressed by me based on the following observations.

	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-base 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)	Although an amount of Rs.11.77 million was stated to be payable to a sub-contractor for the supply and installation of wooden doors and windows in the project BD-624 in the age analysis of accrued expenses at the Company's northern base office, acceptable evidence of the expenditure was not submitted to the audit and the amount was not paid till 01 June 2023. Furthermore, an amount of Rs.3.04 million in the accrued expenses register of the Company's Anuradhapura base office was being brought forward for a long time, but no acceptable evidence was submitted to the audit to confirm the correctness of those expenses and balances.	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.	Acceptable evidence must be submitted to establish the accuracy and existence of the accrued expenses.
(c)	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.
(d)	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.	Management should arrange to obtain balance confirmations from debtors whose balances are material.

(e)	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.	Advance should be made settled when project works reached 90 percent complete as per procurement guidelines.
(f)	As of December 31, 2022, there should be no receivables from customers or payable to customers after completion of projects undertaken by the Company. 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 notion that these receivable and payable balances are due to the absence of a timely billing system should be dismissed. The main reason for this is because the contract value has not been 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.	A data system should be maintained to accurately reflect changes in contract value and total value of certified bills. Accordingly, in cases where the receivable value decreases, the necessary adjustments should be made.
(g)	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.	Approval had been obtained from the Inland Revenue Department for payment of VAT on a cash basis. 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	That the system should be improved so that a comparison report can be obtained once in a reasonable time period.

		to the existing shortage of ERP employees. We expect to get a report on this as soon as possible.	

1.6 Accounts Receivable and Payable
1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	As on December 31, 2022, the total debtor balance was Rs.5,296.02 million and till August 15, 2023, only 06 debtor balance confirmations worth Rs.4.49 million had been received.	More than 90 percent of the debtor balances are to be received from government institutes. Even though we are calling for confirmation as a practice the responses we received for all these years are very poor as you know.	Actions should be taken to verify the existence and accuracy of the debtors shown in the financial statements.
(b)	As per the statement of financial position at the end of the year under review, the total debtor balance is Rs.5,296.02 million, According to the age analysis of those debtors, the debtor balance between 3-5 years and the debtor balance over 5 years in the Engineering Procurement Construction (EPC) division and consultancy division were Rs. 641.47 million and Rs. 1,491.12 million respectively. It was observed that this situation has arisen due to the lack of proper internal control systems of the Bureau to collect the debtor balances on time.	In the Engineering Procurement Construction division (EPC) debtor specific provision is Rs. 1.2 Billion and general provision is Rs. 242 million. EPC debtor balance for more than 5 years is Rs. 1,218 million. The Consultancy debtor specific provision is Rs.180 million and general provision is Rs. 26 million. Its means adequate provisions have been made in financial statements to reflect the fair presentation of trade debtors. In addition to that we have submitted debtor reports to the Ministry for Ministry Audit on long outstanding debtor balances and total outstanding debtor balances to obtain a cabinet approval for settlement of debtors. Likewise continuous efforts are being taken to recover the long outstanding balances.	A proper internal control system should be followed to recover outstanding debtor balances.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	Detailed information was not provided for the audit for the outstanding retention balance amounting to Rs. 98.15 million in relation to Uva, Battaramulla, Central, East, Ampara and South Base Offices of the Engineering Procurement Construction (EPC) Division.	Out of Rs. 2.2 billion retention payable amount Rs. 92 million reflects subcontractor payments which have not been claimed by the suppliers so far which consist lengthy list of suppliers with small values.	Detailed information should be provided for the full balance of retention payable.
(b)	According to the statement of financial position as on 31 December 2022, total creditor balance is Rs. 2,061.60 million and according to the age analysis of those creditors, the creditor balance between 3-5 years and the creditor balance over 5 years in the Engineering Procurement Construction (EPC) division and consultancy division were Rs.364.90 million and Rs. 670.16 million respectively and no effective action was taken to settle these balances.	The consultancy creditor balance for more than 5 years is Rs 361 million and EPC creditor balance for more than 5 years is 1,218 million. And out of Rs 2 billion creditors, amount payable to Central Engineering Services Private Limited (CESL) is around Rs.1.5billion.	Effective action should be taken for prompt settlement of long outstanding creditor balances.

1.6.3 Advances

Audit Issue	Management Comment	Recommendation
According to the delegation of Financial Authority of the Bureau – 2022, Although the advances received are to be settled as soon as the work is completed, Advances of Rs.1.30 million and Rs.1.66 million respectively given to the Bureau's Engineering Procurement Construction (EPC) Division and Head Office Division for various purposes had not been settled even though they had exceeded 03 years as on the date of reporting.	Engineering Procurement Construction (EPC) balances are mainly carried forward from Fuel deposits and Head Office balances are still in the process of identifying the details to take a decision to recover from advance holders.	The responsible officials should take action to clear the advances as soon as the objectives are completed and disciplinary action should be taken in case of long term delay.

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
Two bank accounts of the Bureau with a total balance of Rs.2.40 million remained inactive in the year 2022 without transactions.	**International - Chennai BOC Account** As per the Board meeting held on 24 May 2023, the board confirmed to continue the bank account with the remaining balance as CECB has undertaken some works in Mauritius and it is funded by an Indian Bank. **Central – HSBC Account** The bank was unable to trace the account details due to account is non-operating for a long period. And waiting for their respond.	Current details of inactive bank accounts of the Bureau should be ascertained and arrangements should be made to close them or keep them active as required.

1.8 Non -compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
As per Section 7(2) of the Settlement of Defaulted Taxes (Special Provisions) Act no 16 of 2010, the Bureau had defaulted on payment of unpaid income tax, VAT and other taxes including pay-as-you-earn taxes and related penalties amounting to Rs.82.38 million to the Inland Revenue Department for the period 1996 to 2007.	The Inland Revenue Department has sent us a letter for settlement of IT/VAT/PAYE/TT & SNC without penalty of Rs. 47.12 million. However we are still under discussion with IRD for such payment and for a payment plan and it is not finalized yet.	The management should take necessary action to remit the long term unpaid taxes to the Inland Revenue Department.

2. Financial Review

2.1 Financial Result

The Financial result of the year under review amounted to a pre-tax profit of Rs.69,394,967 and the corresponding pre-tax profit in the preceding year amounted to Rs.48,502,732. Therefore, improvement amounting to Rs.20,892,235 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 2022 Rs. Mn.	For the year ended 31 December 2021 (Restated) Rs. Mn.	Variance Favorable/ (Adverse) Rs. Mn.	Percentage %
Operating Income	4,495	6,070	(1,575)	(25.94)
Construction	2,747	3,947	(1,200)	(30.40)
Consultancy	1,747	2,116	(369)	(17.44)
Cost of Sale	(4,038)	(5,409)	1,371	25.34
Gross Profit	457	660	(203)	(30.75)
Other Income	228	116	112	96.55
Finance Income	381	175	205	116.67
Expenditure	997	905	(93)	(10.05)
Administration Expenses	603	682	79	11.54
Selling and Distribution Expenses	390	218	(173)	(79.37)
Finance Cost	4	5	1	28.43
pre-tax profit/loss	69	48	21	43.75

The following observations are also made in this regard

(a) Construction and consultancy revenues had declined by 30 percent and 17 percent respectively in the year under review, while financial revenues had grown by 117 percent.

(b) Even after setting up a subsidiary company for construction work, the Engineering Procurement Construction (EPC) segment had recorded losses of Rs. 228 million and Rs. 303 million for the years 2021 and 2022 respectively.

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	2022	2021	2020
Profitability Ratios			
Gross Profit Ratio (GP) (%)	10.17	10.88	8.12
Operating Profit Ratio (%)	(6.85)	(2.01)	0.05
Return on Assets (ROA) (%)	0.39	0.27	1.34
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 pre-tax net profit of Rs. 69 million during the year under review by utilizing its total assets base of Rs. 17,496. Hence, the return on total assets was only 0.39 percent. 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
(a)	The Bureau had calculated depreciation on furniture and fittings, construction equipment and fittings, office equipment, factory machinery, containers and computers etc. on the values shown in the general ledger as per the asset verification conducted by each of the Bureau's base offices, irrespective of the actual existence of those assets. Furthermore, the Bureau had not maintained a centralized fixed asset register to verify the existence of assets shown in the Bureau's general ledger. Therefore, it was not possible to ascertain the accuracy of the accumulated depreciation of Rs.590.33 million on assets with a cost of Rs.648.87 million shown in the financial statements.	The process of verifying physical existence of other fixed assets is underway and we look ahead to scrutinize the Fixed Assets Registers and update with verified details.	An updated centralized fixed Asset Register should be maintained so that annual board of surveys can be conducted.
(b)	Although the uncollected due from customer balances cannot exist related to two fully completed projects in the years 2015 and 2018 at the Ampara (South East) base office of the Engineering Procurement Construction (EPC) Division, but due from customers amounting to Rs.13.96 million exist even by the end of the year under review, proper action for recovery had not been taken. Accordingly, a balance of Rs. 1.43 million was observed as due to customers in relation to another project in the same base office, while it was stated	**Due from Customers** 01.Ampara (D2011) - Construction of accident & emergency treatment unit (Rs. 1,449,885), (D2128) - Construction of proposed police building using pre - fabricated panels at Kalkuda police station in Batticaloa division. (Rs.12,458,955) These balances are available due to non-adjusting of contract sum with the final bill.	Balances due from customers and due to customers should be settled and reconciled in the financial statements.

	as the balance due in the financial statements. Furthermore, a balance of Rs. 3.89 million due to customers was also observed in connection with a fully completed project in the southern base office.	**Due to customers** South (D2403) Agunakolapalassa Proposed Bus Stand Construction Project (Rs.3,891,793) was completed in 2022 and this balance remains due to non-approval of variations. Ampara (D2234) - Design and construction of dedicated economic center at Kalawanchikudy - Batticaloa (Rs. 1,433,624) This balance is available due to final bill has not been approved by client yet.	
(c)	The Bureau has the official housing complex consisting of 15 housing units located at Sarana Road, Colombo 07, As on December 31, 2022, the land value was Rs.960 million and the building value was Rs.6.68 million. Out of these 15 quarters, it was observed that 05 quarters are being used by outside parties who are not officers of the Bureau and it was observed that providing quarters to outside parties is against the existing system. House rents were not collected from two houses given to outside parties and the reasons for this were not revealed. Therefore, it was observed that the attention of the Bureau was not focused on the effective utilization of these quarters.	Providing of quarters to outside parties is done on the instructions of the line Ministry. At present, 05 quarters in the Bureau's official housing complex have been given to external parties.	The Bureau should focus on using the quarters effectively according to the respective purposes.
(d)	By letter No. DL/10/02/07 - X dated August 21, 2020 of the Director General of Sri Lanka Mahaweli Authority and by letter No. RPM/RO/L/CLO/PB/38 of the Resident Manager of Sri Lanka	As per the letter from Mahaweli Authority of Sri Lanka, entering in to Long Term Lease Agreement has not been finalized yet. As per LKAS 41 all the	Arrangements should be made to properly acquire the land on long-term lease basis and correctly classify and present expenses and inventories in the financial

	Mahaweli Authority dated November 19, 2020, 150 acres of land in Rambakanoya Mahaweli region (Polle Bedda Mahaweli Division) of Ampara District belonging to Sri Lanka Mahaweli Authority had been given to the Bureau for a mixed agriculture project. Accordingly, the Bureau had implemented an agricultural project, but had not entered into a formal lease agreement until June 1, 2023, which was the audited date to formally acquire the land on a long-term lease basis. Furthermore, in the financial statement, the biological assets generated through this agricultural project were presented as Rs. 17.27 million of stock. In that value, non-biological assets of land and capital expenditure of Rs.11.26 million and equipment of Rs.0.17 million were also included.	disbursements that occurred in the growth stage will be carried to the financial statements in the non-current assets category. Which is meant to express the cost associated with the growth of the plant, as they are; direct and indirect labour, supplies, inputs fees etc. Therefore, Rs. 11 million includes land preparation cost such as hiring of machineries, labour, auger machine used for digging holes etc. Which we have categorized under work-in-progress (WIP) now and will be transferred to cost of sales once commercial harvesting starts.	statements as per the provisions of the standard.

3.2 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	In the years 2021 and 2022, the operating loss of the Engineering Procurement Construction (EPC) division had increased from Rs. 228.03 million to Rs. 303.11 million respectively, and it was observed that it was an increase of 33 percent compared to the previous year. Further, as per the financial statement of the Engineering Procurement Construction (EPC) division presented for the year under review, 9 out of 14 bases included in it had reported a total operating loss of Rs.358.91 million for the year ending 31 December 2022.	The main reason for operating losses shown in Engineering Procurement Construction (EPC) bases due to debtor and retention write offs during the period. Another reason for operating loss in EPC bases was due to high depreciation charge included in administration cost which arrived from revalued motor vehicles and plant & machineries. Also, economic downturn in the country has adversely affected the performance of the Bureau which is beyond our control.	Management should identify ways to increase contract revenue and control costs and minimize losses through prompt recovery of receivable balances.

(b)	According to the financial statement of the consultancy division submitted for the year under review, 17 out of 22 cost centres of the consultancy division had recorded an overall operating loss of Rs.378.60 million.	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.	Efforts should be made to reduce operating losses and increase operating income in the consultancy division.

3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
Rs. 575 million land owned by the Bureau which is 24.5 Perches and 02 Roods, located at T.B. Jaya Mawatha (Dali Road) Colombo with high economic value, remained idle without being used for any productive economic activity even at the end of the year under review.	As this land is currently used as the car park premises of the head office of the Sri Lanka Mahaweli Authority at No. 500, T.B. Jaya Mawatha, we are further inform that the possibility of exchanging the property of T.B. Jaya Mawatha for a property used by the Bureau as the property of the Sri Lanka Mahaweli Authority (Sri Lanka Mahaweli Authority's official housing complex located at Digana Nilagama) is being studied.	Attention should be paid to use this land for productive economic purposes.

3.4 Procurement Management

Audit Issue	Management Comment	Recommendation
According to the Public Finance Circular No. 08/2019 dated December 17, 2019, instructions have been given to register in the government's electronic procurement system for the procurement activities of government institutions as well as for the provision of business services by those government institutions. However, till the end of the year under review, the Bureau was not registered in the e-Government Procurement System.	According to the circular 08/2019(i) dated 19.04.2023 procurement with an estimated value more than Rs 200 million only to be registered in electronic procurement system (eGP) portal. The Bureau is not required to register for electronic procurement system (eGP) at this moment as our procurement values are always less than Rs 200 million.	As per the provisions of Circular No. 08/2019, during the year under review, the Bureau should be registered to use the Government's Electronic Procurement System to carry out its procurement activities as well as submit bids for business services provided by the Bureau.

3.5 Human Resources Management

	Audit Issue	Management Comment	Recommendation
(a)	According to paragraph 3.3 of the Public Enterprises Circular No. 01/2021 dated November 16, 2021 of the Operational Manual for State Owned Enterprises, there should be a recruitment and promotion scheme approved by the Department of Management Services for all levels of posts in the Bureau. However, a recruitment and promotion scheme for the middle management level and senior management level of the Bureau had not been prepared and approved as per Management Service Circular No.30.	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. In response to that, the Director General of Department of Management Services letter No. DMS/1712/Vol. II dated 15.02.2023 has informed to prepare and submit the recruitment and promotion procedure according to the recruitment procedure model published by the Department of Management Services. A request has been made by the Ministry of Irrigation to the Department of Management Services through a letter dated 25.05.2023 to discuss this matter.	According to the circular, the Bureau should proceed expeditiously as directed by the Department of Management Services to adopt a scheme of recruitment and promotion approved by the Department of Management Services for all posts at all levels.
(b)	Thirteen officers had entered into bond agreements worth Rs. 18.03 million with the Bureau from 2007 to the end of the year under review, and by the end of the year under review, those officers had to pay an amount of Rs. 15.21 million to the Bureau due to breach of bond agreements. But in the year 2022, the Bureau had not taken effective steps to recover the arrears promptly.	The Board of Directors has approved the mode of payment of installments. Reminders have also been sent. Also told to settle the due amounts. Through Secretary, Ministry of Irrigation and Secretary, Ministry of External Affairs, letters were sent to the concerned High Commission/Embassy seeking the assistance of the High Commission/Embassy in obtaining addresses.	From the officers who breached the bond, the Bureau should recover the arrears from the guarantors or take legal action as per the agreement.

(c)	At the Anuradhapura base office of the subsidiary company belonging to the Bureau, the officer who was on duty as the Chief Operating Engineer at that time was suspended from January 11, 2021, in view of the alleged misconduct that occurred from January 01, 2016 to June 22, 2020. Nevertheless, without completing the related investigation, the chairman had reinstated the concerned officer as an employee of this Bureau since January 11, 2021, the date on which the concerned officer was suspended by the letter dated May 24, 2021.	These investigations have not been completed until now. As the investigations are delayed, the Chairman has reinstated him in the letter dated 24.05.2021 with effect from 11.01.2021.	An independent investigation should be conducted and appropriate action should be taken accordingly.

4. Accountability and Good Governance

4.1 Annual Report

Audit Issue	Management Comment	Recommendation
As per paragraph 6.6 of the Public Enterprises Circular No. 01/2021 dated 16th November 2021, Operational Manual for State Owned Enterprises, the Bureau's annual report for the year 2021 had not been tabled in Parliament by May 30, 2023.	2021 Annual Report has been submitted to the Ministry for Cabinet approval on 26.06.2023.	Should be complied with the circular.

4.2 Preparation of Corporate Plan and 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 Board of Directors should ensure that a Corporate plan is prepared to achieve its goals within a national policy framework, but the 2022-2026 Corporate Plan and the 2022 Action Plan had not prepared with amendments.	Corporate plan 2022 – 2026 has been finalized up to 75 percent by now and we are planning to submit it to the Board as soon as possible.	Should be complied with the provisions of the circular.