

**CENTRAL ENGINEERING BUREAU****CONSOLIDATED ACCOUNTS****STATEMENT OF INCOME & EXPENDITURE****FOR THE PERIOD FROM JANUARY TO DECEMBER 2002**

	<u>HEAD OFFICE</u>	<u>CONSULTANCY</u>	<u>CONSTRUCTION</u>	<u>CECB</u>
<b>(A) REVENUE</b>				
<b>1) Construction / Consultancy &amp; Other Revenue</b>				
1. Construction Revenue	27,211,273.46	10,946,835.92	942,673,895.44	980,832,004.82
Add - Value of Work B/F	-	-	315,090,352.08	315,090,352.08
	27,211,273.46	10,946,835.92	1,257,764,247.52	1,295,922,356.90
Less - Value of Work C/F	-	-	(520,829,211.90)	(520,829,211.90)
<b>Total Net Construction Revenue for the Year</b>	<b>27,211,273.46</b>	<b>10,946,835.92</b>	<b>736,935,035.62</b>	<b>775,093,145.00</b>
2. Other Revenue	69,648,558.00		10,298,761.87	79,947,319.87
3. Consultancy Fees	15,100.00	106,918,905.41	-	106,934,005.41
<b>Total Const./Consul. &amp; Other Revenue</b>	<b>69,663,658.00</b>	<b>106,918,905.41</b>	<b>10,298,761.87</b>	<b>186,881,325.28</b>
<b>2) Other Operating Income</b>				
1. Interest Income	5,346,475.65	3,744,646.30	21,202,378.06	30,293,500.01
2. Miscellaneous Revenue	1,291,699.55	654,238.72	6,788,694.43	8,734,632.70
<b>Total Other Operating Income</b>	<b>6,638,175.20</b>	<b>4,398,885.02</b>	<b>27,991,072.49</b>	<b>39,028,132.71</b>
	<b>103,513,106.66</b>	<b>122,264,626.35</b>	<b>775,224,869.98</b>	<b>1,001,002,602.99</b>
<b>LESS</b>				
<b>(B) EXPENSES</b>				
<b>1) Raw Material &amp; Other Direct Costs</b>				
Construction cost	25,045,849.60	7,311,970.39	702,073,344.53	734,431,164.52
Add - Cost of Work B/F	-	-	239,029,159.84	239,029,159.84
	25,045,849.60	7,311,970.39	941,102,504.37	973,460,324.36
Less - Cost of Work C/F	-	-	(414,275,977.15)	(414,275,977.15)
<b>Net Construction Cost</b>	<b>25,045,849.60</b>	<b>7,311,970.39</b>	<b>526,826,527.22</b>	<b>559,184,347.21</b>
<b>2) Staff Costs</b>				
1. Salaries,EPF,ETF(Invoices)	28,707,370.37	62,246,279.00	34,671,129.00	125,624,778.37
2. Salaries,EPF,ETF(Others)	-	-	2,573,318.55	2,573,318.55
3. Assignment Salaries	1,398,569.03	7,044,526.00	12,713,401.44	21,156,496.47
4. Productivity Incentive	-	-	-	-
5. Overtime	1,564,806.18	5,045,448.63	12,006,384.85	18,616,639.66
6. Bonus	859,363.23	2,083,591.00	1,376,445.00	4,319,399.23
7. Encashment of Sick Leave	898,063.50	2,722,176.00	1,337,835.00	4,958,074.50
<b>Total Staff Cost</b>	<b>33,428,172.31</b>	<b>79,142,020.63</b>	<b>64,678,513.84</b>	<b>177,248,706.78</b>
<b>3) Depreciation &amp; Ammortisation</b>				
Depreciation	<b>10,114,020.86</b>	<b>210,768.00</b>	<b>16,161,176.58</b>	<b>26,485,965.44</b>
<b>4) Other Operating Expenses</b>				
1. Medical Expenses	1,478,851.67	-	-	1,478,851.67
2. Travelling Cost	2,793,149.66	2,220,295.10	7,030,098.71	12,043,543.47
3. Welfare & Entertainment Expenses	1,771,446.97	170,450.34	3,699,893.51	5,641,790.82
4. Recruitment & Training	467,549.57	-	389,739.43	857,289.00
5. Rent & Rates	604,650.00	6,852,128.00	4,372,066.16	11,828,844.16
6. Pri.,Sta. & stocks Issues	2,537,098.08	384,992.35	2,679,687.87	5,601,778.30
7. Electricity & Water	5,299,554.56	191,736.43	4,378,435.02	9,869,726.01
8. Telephone Comm. & Postage	3,409,463.73	145,629.47	5,712,660.47	9,267,753.67
9. Advert. & Business Promotion	189,898.50	26,443.00	509,677.21	726,018.71
10. Running & Maint. of Vehicles	4,884,325.34	4,263,843.61	22,236,918.44	31,385,087.39
11. Other Maintanance	2,128,182.48	380,137.26	1,692,404.30	4,200,724.04
12. Legal Expenses & N.S.L.	251,170.40	7,500.00	-	258,670.40
13. Security Services	1,840,515.10	80,670.00	-	1,921,185.10
14. Magazines & Perodicals	444,884.44	36,686.71	-	481,571.15
15. Other Special Services	314,500.00	3,430,082.57	1,776,664.68	5,521,247.25
16. Miscellaneous Expenses	1,575,639.64	130,569.45	8,751,684.22	10,457,893.31
		34,694,975.00	23,101,747.00	57,796,722.00
<b>Total Operating Expenses</b>	<b>29,990,880.14</b>	<b>53,016,139.29</b>	<b>86,331,677.02</b>	<b>169,338,696.45</b>
<b>Total Expenses</b>	<b>98,578,922.91</b>	<b>139,680,898.31</b>	<b>693,997,894.66</b>	<b>932,257,715.88</b>
<b>Income over Expndiure from Operations</b>	<b>4,934,183.75</b>	<b>(17,416,271.96)</b>	<b>81,226,975.32</b>	<b>68,744,887.11</b>
<b>5) Financial Charges</b>				
	<b>Note 1</b>			
<b>Income over Expenditure from ordinary activities</b>	<b>3,417,886.15</b>	<b>6,194,362.56</b>	<b>25,689,825.53</b>	<b>35,302,074.24</b>
	<b>1,516,297.60</b>	<b>(23,610,634.52)</b>	<b>55,537,149.79</b>	<b>33,442,812.87</b>
<b>ADD/(LESS)</b>				
<b>6) Extraordinary activities</b>				
1. Disposal of Fixed Assets	(224,164.27)	-	-	(224,164.27)
<b>Income over Expenditure before Tax</b>	<b>1,292,133.33</b>	<b>(23,610,634.52)</b>	<b>55,537,149.79</b>	<b>33,218,648.60</b>

## Comments by the Auditor-General

### 1. Audit

#### 1.2. Scope of Audit

#### 1.3. Responsibility for Financial Statements and Audit

### 2. Accounts

#### 2.1. Audit Opinion

#### 2.2. Financial Results

#### 2.3. Comments on Accounts

##### 2.3.1. Accounting Deficiencies

A summary of the deficiencies in the computation of the financial results and financial position and their effects on the financial results and financial position is given below :

Deficiency	Effect On				
	Revenue	Expenditure	Financial Results	Assets Position	Liability Position
	Overstated/ (Understated)	Overstated/ (Understated)	Overstated/ (Understated)	Overstated/ (Understated)	Overstated/ (Understated)
	Rs	Rs	Rs	Rs	Rs

##### (a) Omission of Expenses:

1. Accrued VAT	-	43,444	(43,444)	-	43,444
2. Accrued Exps	-	311,385	(311,385)	-	311,385
3. GST	-	(9,034)	9,034	-	(9,034)
4. Retentions	-	(140,719)	140,719	-	(140,719)
5. Prepayments	-	206,000	(206,000)	( 206,000)	-

## Replies given by the CECB

1. **Agreed.** The amount will be rectified in the `VAT Return' for May 2003, and correction entries will be incorporated in year 2003 accounts.
2. **Agreeable to comment.** Effect of correcting error will get reflected in year 2003 accounts, as no correction entries can be made now, The amount will be rectified in the `VAT Return' for May 2003,
3. **Comment accepted.** This amount was subsequently included in March 2003 VAT payment, and relevant accounts were adjusted accordingly.
4. This figure **does not represent Retention money.** A part payment was made to a labour contractor in Galle Base. It was subsequently deducted from dues to the contractor, and all payments made were shown as `Labour Costs' in books of accounts.
5. **Agreeable to comment.** No accounting entries are made, since these are now considered as part of expenditure accounted in year 2003.

(b) Omission of Revenue:

1. Receivables	-	-	-	72,275	-
2. With Holding Tax	(81,309)	-	(81,309)	-	-
3. GST	(9,034)	-	(9,034)	-	-

1. }
2. } **Agreeable to comments.** Effects of correcting errors will get reflected } In year 2003 accounts, as no correction entries can be made to Year } 2002 accounts at this stage. The GST element will be rectified in the } 'VAT Return' for May 2003,
3. }

(c) Omission of Assets:

1. Receivables	-	5,407	(5,407)	(5,407)	-
2. Mobilization Advance	-	1,357,107	(1,357,107)	(1,357,107)	-

1. **Comment accepted** This amount represents Withholding Tax on Digana Call Deposits. Will be rectified in Year 2003.
2. **Observation is correct.** However, we are **not in a position to accept your final conclusion**, since the amount advanced was fully recovered against contractor's bills by July 2002.

(d) Omission of Liabilities:

1. GST	-	(355,983)	(355,983)	-	(355,983)
2. Retention Payable	-	(169,813)	(169,813)	-	(169,813)
3. - do -	-	(178,261)	(178,261)	-	(178,261)

1. }
2. } **Comments accepted.** Will be rectified in Year 2003.
3. }

The following accounting deficiencies also were observed.

- a. National Security Levy is not taken into account in preparing invoices for consultancy services. As a result the National Security Levy had not been recovered and the income as well as Good and Services Tax had been understated by similar amount.
- b. Unpaid retention money amounting to Rs. 85,823 had been adjusted to the net adjustment account instead of accounting to the Retention Payable Account resulting in understatement of Retention Payable Account and overstatement of the Prior Year Adjustment Account.
- c. The bad debts provision had not been adjusted for the moneys received during the year under review thus resulting in the understatement of the Profit.

- a) Consultancy Invoices are generally raised on an 'Engineer Time Basis' or on a 'Percentage of Job Cost Basis', and no further additions can be built in as NSL. As such, the NSL component is paid out of receipts, when funds are actually received from clients, and accounted accordingly.
- b) **Comment accepted.** Noted for future compliance.
- c) **Agreeable to comment.** 'Bad debt provisions' against certain debts had not been reduced by an oversight. These will be given due consideration when making provisions as at 31.12.2003.

### **2.3.2 Over Payment**

The Bureau had paid National Security Levy of Rs. 45,472 though it is not liable to pay that levy.

### **2.3.3 Unreconciled Control Accounts**

- (a) Balances in two Control Accounts amounting to Rs. 21,058,697 had not been reconciled with the balances in the corresponding subsidiary records amounting to Rs. 21,095,051.
- (b) The debit balances relating to the inter units/base current accounts amounting to Rs 315,730,386 and the corresponding credit balances amounting to Rs 93,495,120 had not been reconciled.

### **2.3.4 Accounts Receivable and Payable**

- (a) Although debtors aggregating Rs. 424, 942,231 and other receivable aggregating to Rs. 16,018,499 had been outstanding for a considerable period, effective action had not been taken to recover those dues from the parties concerned. However, a provision had been made in the accounts for bad and doubtful debts in respect of debts due including debts due from Government Institutions.
- (b) Confirmations had not been called for from 186 trade creditors aggregating Rs. 563,683,668. Also confirmations had not been called for in respect of refundable deposits amounting to Rs. 59,000 and sundry creditors amounting to Rs. 14,254,018.

### **2.3.5 Lack of Evidence for Audit**

- (a) Debtors, deposits and advances aggregating Rs. 757,085,153 and creditors and refundable deposits aggregating Rs. 578,527,686 could not be satisfactorily vouched or accepted in audit due to non availability of confirmations and age analysis.

This sum represents NSL paid on material purchased, but **erroneously shown as NSL charges** in year 2002 accounts. Will be correctly classified in future.

#### **a) Comment Noted.**

- b) The figures referred to in your comment represents net current account balances of Construction Divisions' individual bases with each other, as well as balances of accounts with the Head office.

Construction Division's Inter base current accounts will be reconciled in year 2003.

Transactions of the head office current account with the Construction Division relates back to events that are several years old. An exercise was carried out by the Chief Internal Auditor to study reasons for having long outstanding Creditors & Debtors. In this process, some of the reasons for current account differences were also identified. As a result of these findings, some correcting entries were put through the accounts.

Remaining items of differences will be cleared in year 2003.

- a) **We accept that certain Debtors**, mostly dues from government institutions, **are outstanding for several years**. Having identified long outstanding dues, we have already submitted a comprehensive paper to The Secretary Ministry of Irrigation & Water Management, seeking their assistance in collecting these dues. We expect the Ministry to submit a Cabinet Paper in this regard.
- b) **Comment Accepted.** In most instances, the difference between payments received from clients in advance against jobs, and the value of work charged against the same, are listed under Trade Creditors. It is a practically difficult task to obtain confirmations from these creditors. However, all possible efforts will be made in year 2003, to obtain confirmations from Other Creditors.
- a) The age analysis of debtors of both, Consultancy and Construction divisions, were prepared and are available for inspection. However, these were not presented as part of our Annual Accounts package.

(b) Staff loans amounting to Rs. 18,868,892, Construction Labour amounting Rs. 155,538,293, Plant and Machinery valued at Rs. 2,745,783, Overtime amounting Rs. 766,750, Suspense Creditors amounting to Rs. 8,335,153, Rent and Rates amounting to Rs. 437,100 and Accrued Expenses amounting to Rs. 10,410,807 also could not be satisfactorily vouched or accepted in audit due to the non-availability of evidence, such as Registers and Schedules of Loans, measurement books, invoices, Board approval, detailed schedules, rent agreement and details of accrued expenses.

### 2.3.6 Non Compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance observed in audit are shown below.

#### Reference to Laws, Rules, Regulations And Management Decisions

#### Particulars

(a) Finance Act No. 38 of 1971

- (i) Section 13 (6) Report on Accounts as specified by the Auditor General had not been submitted.
- (ii) Section 14 (3) Annual Report of the Bureau for the year 2001 had not been Tabled in Parliament.

(b) Public Finance Circular  
No. PF/PE 14 of 28 February 2001

Fuel allowances paid to officers had exceeded the limits in Certain instances

(c) Public Enterprises Circular No  
PED 02 of 16 August 2002

Quarterly Performance Report had not been submitted as required.

(d) Goods and Services Tax Act  
No. 34 of 1996

GST amounting Rs. 555,555 recovered had not been remitted to the Department of Inland Revenue.

(e) Inland Revenue Act No. 38 of 2000

1. Withholding Tax had not been deducted from machine hire and labour contractors' payments exceeding Rs. 500,000 a year, and remitted to the Department of Inland Revenue.

b) **We accept that updated Staff Loan Registers were not made available for inspection.** After sorting out various operational problems encountered, the computerized updating of Loan Registers are now proceeding at a rapid pace, and it is hoped to have these registers updated by end of year 2003.

Since, a major part of our activities are decentralized and are carried-out at site offices, most of the evidence such as Registers, Measurement Books, Detailed Schedules are available at these sites, itself. These can be made available for inspection, whenever required.

**Report on Accounts** under Section 13 5 (b) of The Finance Act **was forwarded** along with the Accounts.

**Annual Report for year 2001 has been forwarded to Cabinet Sub-Committee on Establishment Matters**, through the Ministry of Irrigation & Water Management.

**Yes.** Due to various exigencies of work, it had become necessary for the Chairman to use more fuel for his official vehicle during certain months.

**Not Agreeable to comment.** Year 2002 Quarterly Reports were submitted to Committee on Public Enterprises with copies to Auditor General, Secretary Ministry of Water Management & Irrigation and Director General Public Finance / Public Enterprises of Treasury for Quarters 1, 2, 3 & 4 on 19<sup>th</sup> July, 15<sup>th</sup> Sep, 25<sup>th</sup> Nov 2002 and 19<sup>th</sup> Feb 2003, respectively.

**Agreed.** Will be remitted in May 2003.

**Comment Accepted.** Noted for future compliance.

- 2. The Bureau has failed to add back interest on finance leases in respect of two vehicles in computing the taxable profit. Allowable depreciation for income tax has been erroneously claimed for these vehicles instead of the allowable lease rental.
- 3. Allowable depreciation had been erroneously claimed on a Mitsubishi Pajero Jeep.

} **Comment Noted.** The vehicles concerned were considered as purchased  
 } outright, and capital allowances were calculated accordingly.  
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(f) Government Tender Guidelines

Section 69.2 (I) Quotations for hire of heavy machinery had not been called for year 2002. Instead it had been based on the year 2001 rates.

**Agreeable to comment.** However, we have complied with the requirement for the year 2003.

Section- 144 (ii) Copies of Contracts had not been furnished to the Auditor General.

**Agreed.** Some contract agreements had not been furnished to Auditor General. This has been rectified now.

(g) Sri Lanka Accounting and Auditing Standards Act. No.15 of 1995

- (i) Sri Lanka Accounting Standard – 09

The Cash Flow Statement had not been submitted with the Annual Accounts.

Due to the very short time span made available to finalize accounts, **we were not able to furnish the Cash Flow statement.** However, this statement was subsequently prepared after the audit. We will submit a Cash Flow statement along with Accounts from year 2003 onwards.

- (ii) Sri Lanka Accounting Standard – 10

Some entries relating to the prior years' operations aggregating Rs. 46,869,899 have been adjusted through a net adjustment account and transferred erroneously to the brought forward profit, instead of adjusting to the current years' profit by restatement of prior year column as applicable after a careful study in relation to fundamental errors.

We will comply with SLA Standard-10 when dealing with prior year adjustments, in the future.

(h) Bureau Circular No. 18/2002

The overtime claimed by the clerical staff at Galle Base had exceeded the monthly maximum limit of 80 hours in many instances.

The extra OT was necessary to carry-out the work load in the Base. Subsequent approvals had been obtained from Chairman for these.

### 3. Financial and Operating Review

#### 3.1 Funding Arrangement for Payment of Gratuity

Although the accumulated provision for gratuity as at 31<sup>st</sup> December 2002 amounted to Rs. 53,184,317, only a sum of Rs. 28,454,371 had been invested in fixed deposits at the end of the year 2002.

**Agreed.** All efforts will be made to increase the investment.

#### 3.2 Liquidity

Liquidity position of the Bureau does not conform to any accepted standard of business prudence and reflects an alarming situation relating to liquidity.

**Comment Accepted.** It is extremely difficult to maintain the acceptable ratio when dealing with government clients. However, all efforts will be made to improve this ratio in the future.

Current Assets to Current Liabilities Ratio as at 31<sup>st</sup> December 2002 was 1.06:1.

#### 3.3 Uneconomic Transactions

The balance of a Bank Account in a Private Bank amounting to Rs. 350,687 had been lying dormant. This could have been invested at least in a call deposit to earn interest income or transfer the money to another overdrawn account to save on the interest cost.

**Agreeable to comment.** The Accountant of Galle Base have been advised to explore the opportunity of investing this sum, presently held in Sampath Bank current account, at least in a interest bearing Call Deposit.

#### 3.4 Matters of a Contentious Nature

(a) The supplier for the accounting system for Karawanella District Hospital has obtained a guarantee from Private Bank for the period 10 July 2002 to 9<sup>th</sup> July 2003 so that the retention could be released. Since the Bank is under liquidation guarantee from another Bank in place of the old guarantee should have been obtained. However, the retention money had been released without obtaining a valid guarantee.

This contract was for the supply of an Air Conditioning System to Karawanella District Hospital, and not an Accounting System. **We agree that a fresh bank guarantee was not obtained in place of the Pramuka bank guarantee provided by the supplier.** The warranty period for this supply has now lapsed and the item has performed satisfactorily. As such, the need to obtain a fresh guarantee does not arise, at this stage.

(b) Input GST amounting to Rs. 484,786 had not been claimed and consequently Goods and Services Tax had been overpaid by an equivalent amount.

As per the detailed breakup provided in your draft queries the input GST not claimed amounts to a total of Rs 435,906/- in Digana Base. This sum was subsequently claimed in March 2003

### 3.5 **Budgetary Control**

Major variances were observed between the budget and the actuals thus indicating that the budget had not been made use of as an effective instrument of management control.

**Comment acceptable.** Owing to the volatile and unpredictable nature of the construction sector, budgetary projections that are based on assumptions can have substantial deviations from the actuals.

### 4. **Systems & Controls**

Special attention is needed in respect of the following areas of control.

- (a) Financial Control
- (b) Credit Control
- (c) Budgeting
- (d) Accounting
- (e) Bank Reconciliation
- (f) Investments
- (g) Staff Loans

**Agreed.** All efforts will be made to improve these areas.

