State Engineering Corporation of Sri Sri Lanka - 2019

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1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the State Engineering Corporation of Sri Lanka ("Corporation") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Corporation. Because of the significance of the matters discussed in the basis for disclaimer of opinion section of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

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 was unable to obtain appropriate and sufficient audit evidence to express audit 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

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 it 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 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 Corporation'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 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 Corporation , and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

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

1.5 Audit Observation on 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)	According to Paragraph No.32 of the Sri Lanka Accounting Standard - 01, the assets and liabilities, income and expenditure should not be off set against each other unless required or permitted by the Sri Lanka Financial Reporting Standards. However, the debit balances in the 6 accounts amounted to Rs. 401.83 Million had been offset against the credit balances of those accounts and the credit balances of such accounts had been understated by similar amounts. Further, aggregated credit balances Rs.1,361.50 million, in 8 receivable accounts as at the end of the year had been offset against the debit balances of these accounts and these accounts had been understated by similar amounts. In addition to that, credit balances of debtors aggregating Rs.26.50 million had been	Arrangements have been established through action plan to clear respective schedules and not to repeat debit amounts in the same.	The Corporation should ensure that the entity is adherent Standards and offsetting had not been done.

offset against the debit balances of such accounts in National Equipment & Machinery Organization (NEMO). As a result, the debtors of NEMO had been understated by similar amounts.		
(b) In accordance with the paragraph No.51 of the Sri Lanka Accounting Standard – 16, Property, Plant and Equipment, an entity shall 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 Corporation had not reviewed the scrap value and useful life of these assets which had a carrying value of Rs.997.98 million at the end of the year under review. Further, the assets of Rs.1, 057.60 million owned to the Corporation were fully depreciated and continued to be used but appropriate action had not been taken to correct the estimated error in these assets.	Reviewing useful life of each class of assets will be under taken at the revival process of the entity.	As per the standard entity shall review the scrap value and useful life of assets at the end of each financial year and should take recommended measures.
(c) The Corporation has pledged its investments worth Rs.71.80 million against the bank overdraft. However, the Corporation had not disclosed such pledged amount at the reporting date in the financial statements as per the provisions in the Paragraph 14 of SLFRS 07 – Financial Instruments: Disclosure.	Auditors observation has been noted and compliance in the presentation of Financial Statements of 2020.	The Corporation should ensure that the entity is adherent with Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) It was observed that unidentified two balances aggregating Rs.16.38 million had existed under the trade and other receivable.	This has been noted to correct in immediate subsequent accounting period.	Action should be taken to prepare the accounts accurately.
(b) Even though the inter division balances should not be included in the financial statement, receivable from NEMO	-	Action should be taken to prepare the accounts accurately.

division amounting to Rs.649.20 million had been included under other receivable, and payable to State Engineering Corporation by NEMO amounting to Rs. 514.12 million had been included under other payable. Therefore, other receivable and other payable were overstated by these amounts. Further the balances of current accounts being maintained between the divisions of the corporation should be zero as at end of the year. However, a debit balance of Inter division of current account amounting to Rs.1.82 million had been included under other receivable in the financial statements.

1.5.3 Unreconciled Control Accounts

Item	As per Financial Statements (as at 31 December 2019) Rs.Mn.	As per corresponding Record (as at 31 December 2019) Rs.Mn.	Difference Rs.Mn.	Management Comment	Recommendation
Revenue from Buildings and other constructions	459.41	565.88	106.47	-	Attention to be paid to reconcile the ledger balance with schedules before preparing the financial statements.

1.5.4 Documentary Evidences not made available for Audit

	Item			Management Comment	Recommendation
	Item of Account	Amount (Rs. Mn)	Evidence not made available		
(a)	Trade Receivable (more than 3 years and over Rs. 50 million)	517.13	Debtors Confirmations	Internal reconciliation process is carried out in order to clarify debtors prior to confirmation.	Debtor confirmation should be provided for audit to satisfactorily verify and the existence of trade receivables.
(b)	Collection from Client	38.58	Detail Schedule	Respective ledger account is given.	Detail schedules should be provided for audit to satisfactorily ascertain the accuracy, completeness etc. of the relevant balances.
(c)	Other Receivable Accounts	31.21	Detail Schedule	To be forwarded.	Detail schedules should be provided for audit to satisfactorily ascertain the accuracy, completeness, existence etc. of the relevant balances.
(d)	Due to customer - service	543.92	Detailed Schedule	-	Detail schedules should be provided for audit to satisfactorily ascertain the accuracy, completeness, existence etc. of the relevant balances.
(e)	Bank Balance	1.88	Bank confirmation	No confirmation is received. Follow up action is carried out.	Confirmations should be provided to get confirmed the existence of the balances.

(f)	Differed Taxation	980.71	Audit evidence had not been provided to the audit to ascertain the probability that taxable profit will be available against which the unused tax losses.	Details in relation to tax computation were sent.	Detail calculation should be provided for audit to ascertain the accuracy of the differed taxation.
(g)	Property, Plant & Equipment (NEMO)	141.74	Register of Fixed Asset as at 31.12.2019	-	Fixed asset register should be provided for audit to satisfactorily verify relevant balances.
(h)	Trade Receivables (NEMO)	1,096.51	Confirmations	-	Detail schedules should be provided for audit to satisfactorily ascertain the accuracy, completeness, existence etc. of the relevant balances.
(i)	Petty Cash – Impress (Opening Balance - NEMO)	2.72	Detailed schedule for opening balance	-	Details of the petty cash impress should be maintained for the proper control of the petty cash impress.
(j)	Bank Balances (NEMO)	5.62	Bank Statements and Bank confirmations.	-	Bank Statements should be obtained monthly and should be prepared bank reconciliations for the bettor cash control and bank confirmation should be provided to audit.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
Trade debtors amounting to Rs.1,342.95 million remained unrecovered for more than 03 years and it is 48 per cent of the total debtor balance and the receivable balance of Rs.929.23 million had remained for over 05 years without being recovered.	Debtors have been analyzed with ageing and divided in to three categories. Separate action plan have been formed each category. Individual committees are appointed under take above action plan under each group. Further, performance is being monitored every fortnight.	Proper actions should be taken and followed to recover receivables.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	Out of the creditors balance amounting to Rs.477.23 million a sum of Rs.443.90 million had remained without being settled over 03 years.	Creditor balances are brought to internal reconciliation and settled on priority basis according to liquidity position.	Action should be taken to settle all possible long outstanding balance without delay.
(b)	Project wise detail progress relating to the retention payable was not available to audit. However, out of the sub contract retentions amounting to Rs.776.72 million, a sum of Rs.674.38 million had remained over 05 years.	Sub contract retention and sub contract control liabilities these are under internal reconciliation.	Action should be taken to settle all possible long outstanding balances.
(c)	The sub contract payable amount of Rs.685.21 million had remained for over 03 years without being settled.	Sub contract retention and control liabilities are under internal reconciliation.	Action should be taken to settle all possible long outstanding balances.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 2(c) of the Circular, No. 121/1979 of 20 December 1979 issued by then Chairman of the Corporation.	Once the advances are given by cheques together with orders, such advances should be settled within a period of 30 days. However, such	Audit and Management committee highly recommended to closely administrating the issuing of Cheque with orders in	Due attention to be paid to comply with circular and refrain from misuse of public money.

		advances totaling Rs.254.47 million had remained unsettled for over 03 years.	future to avoid issues and take immediate action to change this methodology.	
(b)	Section 4 of the Circular, No. 122/1979 of 20 December 1979 relevant to cash advance issued by the Chairman of the Corporation.	Once the cash advances are given for supply of service or goods, such advances should be settled within a period of 14 days. However, over 03 years special cash advance balances of Rs.27.73 million had remained unsettled as at 31 December 2019.	Audit and Management Committee emphasized to take immediate action to change this methodology in order to reduce the misuse of funds and to avoid further increase in the special cash advances.	Due attention to be paid to comply with circular and refrain from misuse of public money.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
The bank balances amounting to Rs.0.87 million were idled in 07 current accounts, and the management had not paid attention to close down these dormant bank accounts as at 31 December 2019 by reviewing half yearly to justify the need for continuity with the bank accounts as per section 8.4 of the Public Enterprise Circular No. PED 12 dated 02 June 2003.	Actions had been taken to update all account balance in order to regularize with the confirmation.	Due attention to be paid to comply with circular instructions.

1.9 Non Compliance with Tax Regulations

	Audit Issue	Management Comment	Recommendation
(a)	The Income tax balances totaling to Rs.10.56 million had remained without being remitted to the Inland Revenue Department from year 2013 to 2019.	Settlement of taxes in under negotiation and this has also been brought to SEC revival program.	The Corporation should comply with tax law.
(b)	Actions had not been taken to remit the Value Added Tax totaling to Rs.1,058.88 million to the Inland Revenue Department as at 31 December 2019.	Value added tax has not been remitted in full amounts to satisfy the liability due to financial constrain.	The Corporation should comply with tax law.

(c)	Actions had not been taken to remit the Nation Building Tax totaling to Rs.104.56 million to the Inland Revenue Department as at 31 December 2019.	Advices have been given by the Department of Fiscal Policy to waive off tax liability and its surcharges with the help of Department of Inland Revenue.	The Corporation should comply with tax law.

2. Financial Review

2.1 Financial Results

According to the financial statements, the operations of the Corporation during the year under review had resulted in a net loss (before tax) of Rs.1, 179 million as compared with the corresponding net loss (before tax) of Rs.1,757 million for the preceding year, thus indicating an improvement of Rs.578 million in the financial results for the year under review. The increase of Revenue and Other Income were the main reasons attributed for this improvement.

3. Operational Review

3.1 Operating inefficiencies

Audit Issue	Management Comment	Recommendation
46 projects implemented by the Construction Division valued at Rs.6,821.22 million had sustained losses amounting to Rs.260.84 million in the year under review, and its total accumulated loss as at 31 December 2019 was Rs.1,232.95 million and 04 projects implemented by the Construction Component Division valued at Rs.258.67 million had sustained losses amounting to Rs.9.39 million in the year under review, and its total accumulated loss as at 31 December 2019 was Rs.49.32 million. Further, 06 projects implemented by Mechanical & Electrical Division valued at Rs.91.07 had sustained losses amounting to Rs.22.88 in the year under review, and its total accumulated loss as at 31 December 2019 was Rs.35.94 million and 112 number of projects implemented by the NEMO valued at Rs. 838.69 million had sustained losses amounting to Rs. 95.14 million in the year under review.	Operations of projects are brought to management review and, project which are beyond practical operations are categorized to finalize and take action to maintain entire project which under operationally controlled.	The management of the Corporation should pay its attention to mitigate the financial losses and enhance the profitability.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
In term of section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, the annual financial statements and the draft annual report should be furnished to the Auditor General within 60 days from the close of the year of accounts. Nevertheless, financial statements pertaining to the year under review had been furnished to the Auditor General on 12 December 2022.	With due consideration of respective statutory requirements, the management and Board of Directors are keen to expeditious Presentation of Financial Statement in previous years and update current reporting.	Due attention to be paid to comply with circular instructions.