

Transactions of the State Engineering Corporation of Sri Lanka - 2019

The audit of operating activities of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2019 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 the Finance Act No.38 of 1971.

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

As per Section 16 (1) of the National Audit Act No. 19 of 2018, each audited entity is required to maintain proper books and records on its own income, expenditure, assets and liabilities so as to be able to prepare annual and periodic financial statements on that entity. In terms of Section 16 (2) of the said Act, the Annual Financial Statements in respect of each other auditee entity shall be submitted by the Chief Accounting Officer to the Auditor General along with the annual performance reports, within such period as may be provided by rules. Section 38 (1) (d) of the said Act shall ensure the timely preparation and submission of annual reports and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the auditee entity. However, in accordance with Section 6.5.1 of the Public Enterprise Circular No. PED / 12 dated 02 June 2003 and Circular No. 01/2004 dated 24 February 2004, this financial statements of the year 2019 should be submitted to the Auditor General within 60 days from the end of the financial year it has not been submitted for audit as of the date of this report.

2. Audit Observations

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Management Comments	Recommendation
(a) Paragraph 2(c) of the office Circular, No. 121/1979 of 20 December 1979.	Once the advances are given by cheques together with orders, such advances should be settled within a period of 30 days. However, advances totaling Rs.175,470,650 related to the period of 1999 to 2019 had remained unsettled at the Corporation. Further, cheques with order advances totaling	The delay in settlement has been brought to examination of corporate levels of organization and appropriate action is enforced according to current circular – 121/1979. New circular with instructions for speedy recovery is being implemented.	Outstanding balances should be recovered without any delay and Corporation should take appropriate actions in this regard.

Rs.6,445,194 had remained unsettled from 2016 to 2019 at National Equipment and Machinery Organization (NEMO) which was operated under the Corporation as a project.

- (b) Paragraph 4 of the office Circular, No. 121/1979 of 20 December 1979
- Once the cash advances are given for the supply of services or goods, such advances should be settled within a period of 14 days. However, cash advances of Rs.22,016,960 had remained unsettled even up to end of December 2019. Further, cash advances of Rs.9,711,161 relating to the year 2017 and 2018 had remained unsettled even up to the end of the year 2019 in respect of National Equipment and Machinery Organization (NEMO) which was Operated under the corporation as a project.
- The delay in settlement has been brought to examination of corporate levels of organization and appropriate action is enforced according to current circular – 121/1979.
- Action should be taken as per the circular.

2.2 Performance

The main objectives of the Corporation are: (i) Investigation, planning, designing and construction of building, civil engineering and other engineering projects (ii) Provision of consultancy and project management services (iii) Undertake property development works (iv) Manufacture and sale of ready mix concrete, reinforced concrete and pre-stressed concrete products (v) Manufacture, sale, import and export of construction materials, machinery and equipment required for engineering projects/ undertakings (vi) Training of engineering and technical personnel (vii) Carrying out of research into construction materials, methods and techniques utilized for the above purposes.

The following observations are made with regards to main activities performed during the year 2019 in order to achieve the above objectives.

2.2.1 Construction Component Division

	Audit Observation	Management Comments	Recommendation
(a)	<p>Precast Yard – Rathmalana (Site No. 343)</p> <p>-----</p> <p>The net profit decreased by Rs.6.27 million or 30 per cent compared with the previous year , mainly due to decrease of sales by Rs.10.11 million or 11 per cent.</p>	<p>Comments have not been given</p>	<p>Action should be taken to improve sales.</p>
(b)	<p>Dankotuwa Site (Site No. 1099)</p> <p>-----</p> <p>The net loss increased by Rs.2.092 million or 17 per cent compared with the previous year, mainly due to decrease in sales by Rs.2.14 million or 14 per cent.</p>	<p>Comments have not been given</p>	<p>Action should be taken to improve sales.</p>
(c)	<p>Walikanda Precast Yard (Site No. 1738)</p> <p>-----</p> <p>The net profit decreased by Rs.7.15 million or 397 per cent compared with the previous year, mainly due to decrease of sales by Rs.16 million or 86 per cent.</p>	<p>Comments have not been given</p>	<p>Action should be taken to improve sales.</p>
(d)	<p>Dematagoda concrete slippers yard (Site No. 1510)</p> <p>-----</p> <p>The net profit decreased by Rs.4.7 million or 109 per cent compared with the previous year, mainly due to decrease of sales by Rs.53.6 million or 19 per cent.</p>	<p>The sales have been decreased due to decreasing orders from Department of Railway. Sales will be expected to increase in future under positive relationship with each party.</p>	<p>Action should be taken to improve sales.</p>

2.2.2 Mechanical & Electrical Division

	Audit Observation	Management Comments	Recommendation
(a)	<p>Paliyagoda operations Site (Site No 104)</p> <p>-----</p> <p>The net loss of the site increased by Rs.5.88 million or 18 per cent compared with the previous year.</p>	<p>Alternative strategies will be implemented to recover losses in future through board of directors.</p>	<p>Action should be taken to make profits.</p>

- (b) University of Moratuwa (Site No 6033)

The net profit decreased by Rs.2.66 million or 62 per cent compared with the previous year, mainly due to decrease of income by Rs.1,788 million or 13.5 per cent
- Instruction was given to identify revenue annually in order.
- Action should be taken to increase the income.
- (c) The quantity of production of the Dolomite project situated at Mathale had been deteriorated compared with the previous years. It's, operating loss of the year under review was Rs.9.183 million. It was further observed that, the Corporation had to pay a lease rental of Rs.7,227,099 for the period from 1992 to 2017 to the Land Reformed Commission out of which, the Corporation had paid only Rs.1.5 million as at the end of the year 2018. In addition, the license obtained from Geological Survey and Mine Bureau for excavating had not been renewed since 2018. As a result, production of the site had been suspended until July 2020.
- Comments have not been given
- Action should be taken to commence the production.
- (d) **Construction of the Sri Jayewardenepura Nursing Faculty Building**

The contract of construction of the aforesaid faculty building was awarded to the Corporation at a contract sum of Rs.7,171.88 million (without VAT) with the approval of the Cabinet of Ministers in 04 October 2017.
Following observations are made in this regards.
- (i) A contract agreement had not been entered into between the client and the Corporation.
- SEC was served authenticated letter of award until such time arrangement prepare to enter into contract with both party. Further you are explained ascertainment of contract sum is most important item in any agreement, and letter of award is a substitutable document at any litigation, while agreement is signed.
- Action should be taken to enter into agreement.

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| (ii) | A cost estimate of the project was not available due to not preparing of a detail Bill of Quantity. Therefore, it was observed that the project had been undertaken by the corporation without proper assessment of the cost. | Detailed BOQ for the above project has been prepared and forwarded to the auditors | Action should be taken to prepare detail Bill of Quantity. |
| (iii) | According to the letter No. CB/AGM/SPI/HW/C1247/1 dated 10 September 2019 sent by the consultant, the progress of the contract as at 10 September 2019 was 05 per cent even after completion of two and half years from the date of commencement of the construction works. However, the project should have been completed on or before 22 February 2020. It was revealed that actual progress was far behind the expected progress. | It was noted, delay in payments from client side was experienced at the inception of the project. Further identification of pilling methodology has been consumed further period of contract time. As a result of financing for the rest of limited period amounting Rs.800 million per month by the treasury is impossible task in current economic situation. | The Progress should be improved furthermore. |
| (iv) | According to the letter No. CB/AGM/SPI/HW/C1247/1 dated 06 February 2020 sent by the consultant advance totaling Rs.995 million had been obtained by the Corporation during the period from March 2018 to March 2019. However, the value of the work done by Corporation was only Rs.537 million. It was also observed, that the Corporation had utilized those advances for other activities of the Corporation. | The respective project collection was utilized similar purposes of payments either cover cost of labour or materials whatever the official business of the corporation with proper written consent from Department of Treasury Operations, and it was adopted for the public interest according to the situation. | The management of the Corporation should pay its attention to utilized consultation advance for consultation activities. |

2.3 Cash Flow of the Corporation

----- Audit Observation -----	----- Management Comments -----	----- Recommendation -----
(a) According to the information furnished to audit, the Construction Division, Construction Component Division, Mechanical and Electrical Division, Special Operation Division and Consultancy Division had shown negative cash flow of Rs.51,243,748, Rs.25,628,858, Rs.305,927,727, Rs.101,110,904 and Rs.222,091,810 respectively as at 31 December 2019.	Negative cash flow maintained thereon have been financed by the Loan obtained from the BOC.	Action should be taken to maintain proper working capital management in Corporation and cash flow management.

- (b) There is a positive net cash flow shown in the month of May and November due to receiving of Rs.50 million Temporary Over Draft from Bank of Ceylon and receiving of Rs.150 million grant from the General Treasury. Positive cash flow was represented TOD granted on bills receivable, and settled with in due date in 2019. Action should be taken to maintain proper working capital management in Corporation and cash flow management.

2.4 Operations of the National Equipment and Machinery Organization (NEMO)

Audit Observation	Management Comments	Recommendation
(a) Seventy three number of National Youth Cope projects to the value of Rs.812,820,217 had been categorized as non-operating.	There were about 104 buildings scattered in the island belongs to National Youth Core has been awarded deviation of the tender procedure according to the cabinet decision, which allowed release advances leaving bond/ guarantees. Due to shorter contract period was allowed NEMO has faced critical situation in finding technical staff to mobilized and administrate various places in 25 location in different areas in the island, since this kind of operation is beyond it's business activity of the NEMO. Although part of operations were allocated through sub contractors supervision and administration part was not up to expected levels of planned performance. Due to zero percentage of majority part of the project, it has been treated as non operated, as a result of it, projects withdrawn with the decision of cabinet of ministers. Therefore termination activities are being carried out by the parties concern.	The management should pay attention to operate the projects.
(b) Although mobilization advances aggregating to Rs.23,335,967 had been obtained for 22 projects in 2017 their works had not even been initiated even by 31 December 2019.		Action should be taken to initiate the projects.
(c) Out of 82 non-operation projects, 24 projects should have been completed on or before 31 December 2019. However, progress of those projects were less than 50 per cent.		Action should be taken to improve the progress.
(d) Even though 06 operating projects valued at Rs.241,378,424 should be completed at the end of the year under review, their works had not even been initiated by 31 December 2019. However, mobilization advances totaling Rs.29,269,917 had already been obtained for 03 of those projects.		Action should be taken to complete the projects.
(e) Even though the project completion period had already being lapsed in respect of 24 projects valued at Rs.586,937,590, the actual progress of those projects were below 75 per cent by 30 June 2020.		Action should be taken to improve the progress.
(f) The details in respect of Value Added Tax (VAT), Nation Building Tax (NBT), Economic Service Charge (ESC) had not been submitted for audit. Hence, the actual payable balances of		Details in relation to VAT, NBT and ESC will be sent to the audit in due course.

those taxes could not be satisfactorily ascertained in audit.

- (g) VAT and NBT amounting to Rs.123.84 million and Rs.7.8 million respectively had not been remitted by NEMO to the Corporation which enable to forward the same to the Department of Inland Revenue. Action has been taken to remit VAT and NBT to the CGIR before end of third quarter of 2020. Action should be taken to remit the taxes.
- (h) A sum of Rs.235.8 million payable to the National Housing Development Authority had not been paid since period from 2002 to 2011. The Control account maintained with NHDA at the inception of NEMO have been reconsidered for reschedule prior to payments. Action should be taken to settle the all possible long outstanding balance without delay.
- (i) Although the approved cadre for the NEMO was 344, the actual cadre as at 31 December 2019 was 591. The approval for the excess cadre of 247 had not been obtained. Further, the NEMO had created 23 new posts without the approval of the Department of the Management Services and 62 employees had been recruited for these unapproved posts. A committee was appointed to make recommendation to the management committee in this regard. Action should be taken to obtaining approval.

2.5 Identified Losses

----- Audit Observation -----	----- Management Comments -----	----- Recommendation -----
A surcharge of Rs.161,703,053 had been imposed by the Department of Inland Revenue up to year under review due to non-remittance of Income Tax, Value Added Tax, Economic Services Charge, Nation Building Tax and GST amounting to Rs.10,562,227 , Rs.897,465,953 , Rs.97,745,734 ,Rs.17,204,806 and Rs.25,683,053 respectively from 2014 to 2019.	An alternative arrangement rather than remittance are being under gone with the help of line ministry with Ministry of Finance to waive of taxes on par with SEC revival program, which is being implemented within the year 2020. Simultaneously a discussion was held with CGIR over the outstanding and grace period of 6 month is proposed with 0% penalty.	Action should be taken to remittance of tax in terms of tax law.

2.6 Management Inefficiencies

Audit Observation	Management Comments	Recommendation
<p>Surcharges of Rs.171.22 million and Rs.20.98 million had to be paid by the Corporation to the Employees' Provident Fund and the Employees' Trust Fund respectively due to non-remittance of contributions of Rs.307.82 million and Rs.41.97 million with regard to the cost of living allowances paid to the employees which had not been taken in accounts when calculating the amounts since January 2006 to July 2015.</p>	<p>The respective liability is principally accepted by the SEC. The internal audit test examination was revealed certain discrepancies in individual calculations, which effect personal interest of members. Therefore the audit test check has to be expanded until errors become zero/minimized not to incurred either loss for organization or member. Meanwhile financing for the remittances are being organized through Government assistance.</p>	<p>Action should be taken in terms of the Employees' Provident Fund Act, No.15 of 1958 and Employees' Trust Fund Act, No.46 of 1980.</p>

2.7 Transaction of contentious Nature

Audit Observation	Management Comments	Recommendation
<p>(a) Due to difference in application of the basis of quantities measured of inputs of Road work at finalization of the bills, there is a receivable balance of Rs.61,851,213 from 30 contractors were observed related to the Provincial Road Development Project at Galle district which had not been recovered.</p>	<p>Comments have not been given</p>	<p>Receivable balances should be recovered without any delay.</p>
<p>(b) An Additional expenses totaling to Rs.1,233,480 had been incurred for fuel due to exceeding the approved level of fuel consumption by 16 officers of the Corporation. Similarly the total fuel expenditure incurred by NEMO for 03 officers during the year was Rs.530,971.</p>	<p>The basis applied in release of fuel to the staff of, which transport facility eligible according to circular No.CH/SEC/2015/14 of 18 November 2015 issued by chairman.</p>	<p>Action should be taken to obtaining approval.</p>
<p>(c) In addition to that, the fuel expenditure incurred during the year for the transport officer who is not entitle for the transport facility was Rs.543,085.</p>	<p>Agreed and instruction was given respective officer concern to adhere terms in the circular PED 1/2015</p>	<p>Action should be taken to in terms of the circular.</p>

2.8 Idle Assets

	----- Audit Observation -----	----- Management Comments -----	----- Recommendation -----
(a)	The land and building of the C-city project owned to the Corporation had not been utilized for the intended purpose even by the end of year under review.	The matter was under gone the ownership of Land to be cleared as the particular plot of Land is allocated to SEC under Section 44 of the land acquisition Act as crown land by the Local Government Authorities. Therefore all related documents have been lodge to obtaining approval.	Action should be taken to utilize the assets.
(b)	Stock of aluminum bars and ceiling sheets owned to the Corporation remained at the main stores of the NEMO since 2017 without being utilized.	The Project officers are responsibility to make them economically utilized. An Committee appointed by General Manager is of the recommendation to add the material to aluminum site subject to verification.	Action should be taken to utilize the assets.

2.9 Delays in Projects

	----- Audit Observation -----	----- Management Comments -----	----- Recommendation -----
(a)	Construction Division -----		
(i)	Three projects with an estimated cost of Rs.237.27 million had been expected to complete as at 31 December 2018. However, those projects had not been completed even up to 31 October 2020.	Initial and interim cash flow is inadequate to meet site expenses to finalize the job on time.	Action should be taken to complete projects within the time period.
(ii)	Although four projects with an estimated cost of Rs.884.66 million had been targeted to complete by 31 December 2019, their actual progress was less than 80 per cent even up to 31 October 2020.	Initial and interim cash flow is inadequate to meet site expenses to finalize the job on time.	The progress should be improved furthermore.

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| (iii) | The completion progress of four projects with an estimated cost of Rs.8,851.35 million was less than 50 per cent against the expected target by 30 July 2020. | Initial and interim cash flow is inadequate to meet site expenses to finalize the job on time. | The progress should be improved furthermore. |
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| (b) Constructions Component Division
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| (i) | Although the project No.2292 valued at Rs.743.01 million had been targeted to complete during the year under review, the actual progress was 77 per cent even by 31 October 2020. | A delay in settlement bills was found as main reason to differ financing for specialized supplies, which are effectively contribute progress of the project, that was beyond contractor's (SEC) control. | The progress should be improved furthermore and action should be taken to eliminate delay. |
| (ii) | Although the project No.2323 valued at Rs.575 million had been targeted to complete during the year under review, the actual progress was 23 per cent even up to 31 October 2020. | Contract administration unwholesome relate with client organization and practical errors in field work in the site, such as time consumed to leave require ground spaces to execute proposed contract work were caused reasons, which beyond contractor's manageable zone. | The progress should be improved furthermore. |

2.10 Resources Released to Other Organizations

Audit Observation -----	Management Comments -----	Recommendation -----
Thirty one (31) employees of the Corporation had been released to the Ministry of Housing and Construction, Provincial Ministries, Building Department, Government Factory and Urban Settlement Development Authority contrary to the instructions given in Guideline 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. Further, according to the Circular, salaries of such employees should be reimbursed from relevant institutions. However, the reimbursement of	The subjected employees have been released to the respective government institutions, as to honor request of the secretary to line ministry on the basis of reimbursement of monthly salaries of each, and collection are being made and closely supervised.	Action should be taken to reimburse salaries from respective government institution.

salaries amounting to Rs.13,152,091 , Rs.961,574 and Rs.297,570 incurred by the Corporation had not been reimbursed by the Ministry of Housing and Construction for 04 employees, the Building Department for 06 employees and by Government Factory for 02 employees respectively even up to 31 May 2020.

2.11 Human Resource Management

	Audit Observation	Management Comments	Recommendation
(a)	The Corporation had recruited 28 officers for 05 posts in the senior management level on contract basis at higher salary scales from 2006 to 2019. Further, 15 quantity surveyors, 08 draftsmen and 26 Superintended (Civil) had also been recruited on contract basis in the years 2018 and 2019.	The recruitment concern relevant procedure on SOR has been applied. Selected applicants had no desire to engage on current salary steps on permanent basis. Therefore at the necessity of services of such a higher management positions, on contract basis appointments were awarded. Further for the staff of construction projects, project basis recruitment were done to reduce fixed cost of the corporation.	Action should be taken to recruit senior management level in accordance with SOR.
(b)	According to Section 1.2 of Chapter II of the Establishments Code an appointment should be made only up to the post in the approved cadre, Contrary to that, 525 excessive employees had been appointed for 33 posts of the approved cadre as at 31 December 2019.	The provisions have not been approved for 03 positions. Deputy General Manager had been restated and one post was limited to persons to holder. Another position has been recruited on contract basis due to lack of experience person was not available in the Corporation.	Action should be taken to comply with establishment code.
(c)	According to Management Services Circular, No. 28 (ii), dated 01 August 2006 and the Director General of the Department of Management Services letter No.		Action should be taken to obtain the approval.

DMS/E3/43/4/265/1 dated 25 November 2009, the Corporation should neither be filled vacancies nor created new posts without approval of the Department of Management Services. However, ignoring that provision, the Corporation had approved 06 employees to 08 un-approved posts.

2.12 Tabling of Annual Reports

Audit Observation	Management Comments	Recommendation
<p>The Annual Reports for the years 2016, 2017 and 2018 had not been tabled in Parliament even by 20 July 2020 in terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12 of 02 June 2003.</p>	<p>It is practically understood that finalization of annual Financial Statement shall be on due date according to the PED /12 of 02.06.2003. All the financial reporting activities have been aligned on par with to perform in due date. As such other reporting of audited accounts along with audit report and Annual Report will be aligned accordingly.</p>	<p>Action should be taken in terms of the circular.</p>