

State Development and Construction Corporation - 2023

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the State Development and Construction Corporation (“Corporation”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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.

In my opinion, except for the effects of the matters described in Paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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 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 intends 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 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 skepticism 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 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 it has performed according to its powers, functions and duties; and
- Whether the resources 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 Reference to the Relevant Standard	Comments of the Management	Recommendation
(a)	The electric stressing jack with the pump, purchased in the year 2022 valued at Rs. 11.29 million, had not been recognized as a fixed asset in the financial statements and accounted for in contrary to Paragraph 7 of Sri Lanka Accounting Standards 16 and as a result, the value of fixed assets had been understated by that value.	This will be included in fixed assets after making the necessary corrections in the machine.	Fixed assets should be accurately accounted for in accordance with Sri Lanka Accounting Standards.
(b)	Even though it had been stated that foreign exchange gains or losses should be recognized in the statement of other comprehensive income in accordance with	When making payments from foreign currency, a foreign exchange loss of Rs. 17,285,112 has been recorded in other income.	Foreign exchange gains / losses should be accurately accounted for in accordance with Sri Lanka Accounting

Paragraph 32 of Sri Lanka Accounting Standards 21 and as stated in the Accounting Policy No. 2.1.3 of the Corporation, the foreign exchange losses of Rs. 17.29 million as at 31 December 2023 had not been shown in the statement of other comprehensive income.

Standards.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
(a) Even though a sum of Rs. 194.20 million had been identified as income from 02 projects for which construction had been completed, since the certified bill value is only Rs. 163.46 million, the project income for the year under review had been overstated by Rs. 30.74 million.	Due to the reduction in the amount of work done under the Bill of Quantities (BOQ) of 02 Projects, a sum of Rs. 19.09 million and Rs. 11.65 million have decreased. As a result, the identified income has been Rs. 100.50 million and Rs. 62.96 million.	Project revenue should be accurately identified and accounted for.
(b) Due to a project currently being carried out by the Corporation has been recognized the income based on final bill value instead of recognizing revenue based on the percentage of completion considering as a terminated project, the income for the year under review had been understated by Rs. 24.44 million.	Due to considering the Project 1321 as a terminated project by a mistake, this situation has arisen. Corrections have been made in the year 2024.	Construction project revenue should be recognized and accounted for in accordance with Sri Lanka Accounting Standards.

(c) The value of the gemstone stock obtained from gem mining activities carried out in the year 2022 was Rs. 2.15 million, according to the valuation report provided by the National Gem and Jewellery Authority on 21 November 2022 and due to failure of taking that value into account in the financial statements for the year 2023, current assets had been understated by that value.	It has been planned to account for in the year 2024.	The stock should be accurately accounted for in the financial statements.
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1.5.3 Going- concern of the Organization

Audit Observation	Comments of the Management	Recommendation
When preparing the financial statements, the Management should make an assessment of an entity's ability to continue as a going concern in accordance with Paragraph 25 of Sri Lanka Accounting Standards - 01 and it should be disclosed about the events or conditions that may cast significant uncertainty on the going concern. Nevertheless, the net loss of the Corporation for the year under review is Rs. 2,261.13 million and the accumulated loss as at 31 December 2023 was Rs. 4,671.35 million. Although the total asset value was Rs. 3,738.03 million, the total value of the liabilities is Rs. 6,999.69 million and it had exceeded assets by 87 per cent. The amount of current liabilities exceeding current assets had been	Arrangements have been made to disclose all information in the financial statements 2024.	Management should make a proper assessment regarding the going concern of the entity according to Sri Lanka Accounting Standards and disclosures should be made in the financial statements as required.

Rs. 2,954.23 million, equivalent 136 per cent. Further, a decision had been made to merge this institution with the Road Development Authority as per the Decision of Cabinet of Ministers No. CMP/24/1684/608/032-1 dated 10.09.2024 and the Corporation is working on it by now. Nevertheless, it had been stated in Note 2.1.2 that there is no material uncertainty about the going concern.

1.5.4 Lack of Written Evidence for Audit

	Item	Amount	Audit Evidence Unavailable	Comments of the Management	Recommendation
		Rs. Million			
(a)	Investments in the subsidiary company	9.21	Confirmations and detailed information	Because there were no sufficient detail for the investments mentioned in the accounts regarding this company, provision for bad debts has been made hundred per cent according to the security method.	Actions should be taken to submit details and confirmations required to verify the existence and accuracy of investments to audit.
(b)	Debtor-Subsidiary Company	30.60	Detailed information and balance confirmations.	Because there were no sufficient detail for the debtors mentioned in the accounts regarding this Company, provision for bad debts has been made hundred per cent according to the security method.	Detailed documents and balance confirmations should be submitted for audit to check the accuracy and completeness of debtor balances.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) A sum of Rs. 636.76 million had been shown in the Statement of Financial Position of the Corporation as at 31 December 2023 as retentions receivable and out of which, the balance between 03 and 05 years was Rs. 280.41 million, and the balance for more than 05 years was Rs. 201.86 million. Further, the balance of retentions receivable related to suspended projects as at 31 December 2023 was Rs. 226.96 million and the Corporation had not taken steps to recover these balances.</p>	<p>Actions are being taken to recover all retentions.</p>	<p>Responsible officers should act to recover retention balances receivable and to take formal actions in accordance with the agreement.</p>
<p>(b) Liquidated Damages deducted from bills due to delays in projects completed by the Corporation as at 31 December 2023 amounting to Rs.233.21 million had been shown as a receivable balance in the financial statements and within that balance, there were Rs. 45.75 million from 01 to 04 years and Rs. 173.30 million for more than 05 years and it was observed that the ability to recover these balances is low.</p>	<p>A sum of Rs. 176.4 million has been allocated for the year 2023 for deductions from bills due to delays (Liquidated Damages). However, it seems that there is a further deficit of Rs. 42 million. All corrections will be made in the year 2024.</p>	<p>Projects should be completed without delay and late fees should be avoided and appropriate actions should be taken against the responsible officers.</p>

(c) The trade debtor balance was Rs. 299.47 million and the debtor balance between years 03 and 05 is Rs. 42.13 million as per the age analysis of debtors and the debtor balance remaining for more than 5 years had been Rs. 45.82 million. The debtor balance related to suspended contract projects as at 31 December 2023 is Rs. 34.09 million and the recoverability of these balances had remained low.	Recoveries will be made in the year 2024.	It should introduce effective methods to recover outstanding balances and responsible officers should review it periodically.
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1.6.2 Payables

Audit Observation	Comments of the Management	Recommendation
Out of the mobilization advance balance of Rs.626.76 million included in the financial statements for the year 2023, an amount of Rs.35.55 million are balances that are more than 5 years old and the outstanding mobilization advance balance related to the 45 projects suspended in the year 2023 was Rs. 432.15 million. The Corporation had not taken actions to settle this advance balance by successfully completing the construction works.	Due to the reasons such as stopping projects whilst functioning, failure of certifying final bills so far, failure of commencing project despite advances were taken, it is unable to settle the advance payment.	Actions should be taken to settle these balances in accordance with the agreements.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Employees Provident Fund Act, No. 15 of 1958	The unpaid Employees Provident Funds and the surcharge payable on such unpaid Employees Provident Funds by the Corporation up to 31 December 2023 are Rs. 105.96 million and Rs.49.53 million respectively had not been paid.	The Corporation will make all payments in accordance with the decisions of the Cabinet of Ministers in the future.	Actions should be taken without delay to settle statutory payments promptly.
(b) Public Finance Circular No. 08/2019 dated 17 December 2019.	Even though it had been stated that the government should register with the e-Procurement System in Sri Lanka and use that system, to carry out procurement activities of government institutions (Procuring Entity) as well as to provide business services to those government institutions (Vendor), it had not been registered in the Government's Electronic Procurement System even by the month of October 2024 when carrying out the procurement activities of the Corporation and for the provision of business services carried out by the Corporation.	Due to the frequent change of managers in the Supplies Division, it was unable to register in the government's electronic procurement system.	Actions should be taken to be registered in the government electronic procurement system and to conduct procurement activities through that system.

1.8 Non-compliance with Tax Regulations

Audit Observation	Comments of the Management	Recommendation
(a) The Nations Building Tax value payable by 31 December 2023 amounting to Rs. 6.09 million and the fine imposed for non-payment of the said tax amounting to Rs. 1.06 million, totalling to Nations Building Tax valued of Rs. 7.15 million had not been paid in contrary to the Nations Building Tax Act No. 09 of 2009 .	The Corporation will make all payments in accordance with the decisions of the Cabinet of Ministers in the future.	Actions should be taken in accordance with tax regulations.
(b) Actions had not been taken to pay outstanding tax of Rs. 28.09 million up to 31 December 2023 in contrary to the Social Security Act No. 17 of 1996.	The Corporation will make all payments in accordance with the decisions of the Cabinet of Ministers in the future.	Actions should be taken in accordance with tax regulations.
(c) The Value Added Tax from 2002 to 31 December 2023 amounted to Rs. 1,352.86 million, and the fines imposed on the arrears of Value Added Tax from 2006 to 31 December 2023 amounted to Rs. 1,087.21 million had not been paid in contrary to the Value Added Tax Act No. 14 of 2002.	The Corporation will make all payments in accordance with the decisions of the Cabinet of Ministers in the future.	Actions should be taken in accordance with tax regulations.
(d) According to the Economic Service Charge Amendment Act No. 13 of 2015, the Economic Service Charge payable by the Corporation	The Corporation will make all payments in accordance with the decisions of the Cabinet of Ministers in the future.	Actions should be taken in accordance with tax regulations.

from the year 2005 to the year 2020 was Rs. 67.50 million and due to the fact that the money was not remitted to the Inland Revenue Department on the due date, outstanding taxes totalled to Rs. 101.23 million had not been paid including the fine of Rs. 33.73 million imposed on that.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a loss of Rs 2,029.04 million and the profit as against to that in the preceding year was Rs.155.75 million. Accordingly, a deterioration of Rs. 2,184.79 million was observed in the financial result. The decrease of construction revenue by Rs. 2,358.59 million due to suspension of construction projects had mainly caused to this deterioration.

2.2 Trend Analysis of Major Revenue and Expenditure Items

Description	2023 Rs. Million	2022 Rs. Million	Difference Rs. Million	Percentage of Difference in Per cent
Revenue	218.62	2545.68	2,327.06	91
Cost of sales	1193.51	2189.63	996.12	45
Other income	87.51	176.78	89.27	50
Administrative expenses	209.43	310.28	100.85	33
Other expenses	932.23	66.8	865.43	1296
Financial income	154.77	8.02	146.75	1830
Financial expenses	386.85	122.15	264.70	217

Even though the cost of sales had decreased by 45 per cent in the year under review, sales revenue had decreased two times almost that is, 91 per cent. Similarly, increase of other expenses and financial expenses by a very high percentage excluding administrative expenses, had caused a financial deterioration.

2.3 Ratio Analysis

Ratio	2023	2022
Gross Profit Ratio per cent	(446)	(14)
Net Profit Ratio per cent	(1034)	(2)
Current Ratio	0.42:1	0.82:1
Leverage Ratio	2.15	6.64

A high loss is reported in the year under review and the total amount of equity had decreased by Rs. 2,131.47 million. Further, it was also observed that the current ratio and leverage ratio of the Corporation were in an unfavorable position.

3. Operational Review

3.1 Identified Losses

Audit Observation	Comments of the Management	Recommendation
The rent of Rs. 4.09 million receivable from the lease of the land valued at Rs. 317.54 million and a building valued at Rs. 37.99 million belonging to the Corporation located at Hector Kobbekaduwa Mawatha, Colombo 07 to the Sri Lanka Technological University from the year 2020 to May 2021 had not been recovered for more than 3 years up to 31 December 2023.	Actions are being taken to recover outstanding amounts.	Actions should be taken without delay to collect outstanding rent as per the agreement.

3.2 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Actions had not been taken until 31 October 2024 to transfer the ownership of 8 lands in extent 16 acres and 12 perches, which are being used by the Corporation on a long-term basis, to the Corporation or to obtain it on a long-term lease basis.	Requests had been made to the Divisional Secretaries to take over the lands of Weraganthota, Medawachchiya, Lunugamwehera, Kalahagala land, Medawachchiya land and Weerawila land and it is	Prompt actions should be taken to take over the ownership of the lands used by the Corporation.

stipulated to carry out surveys by evicting unauthorized occupants of Peradeniya land. Further, the acquiring of the Ratmalana Polwatte land has been halted whilst processing.

3.3 Projects or Capital Work Delays

Audit Observation	Comments of the Management	Recommendation
No work whatsoever was carried out in relation to 16 capital work – in- progress projects cost at Rs. 6.07 million during the year under review and it was also observed that there are 08 capital work in - progress projects valued at Rs. 2.70 million for which no work has been carried out for a period of 2 years from 01 January 2022 to 31 December 2023. Further, due to the financial difficulties of the Corporation, it was not possible to complete these capital works on time.	It has not been transferred to fixed assets since the work-in-progress has not been completed in the year 2023.	Management should take necessary steps to complete these projects in a usable condition.

3.4 Procurement Management

Audit Observation	Comments of the Management	Recommendation
In the purchase of a Stressing Jack with the Hydraulic Pump for the Bopitiya Concrete Yard, a jack with specifications different from those stated in the Material Request dated 29 July 2021 was imported into Sri Lanka on 24 March 2022 and steps had not been taken to release the goods from customs until more than 9 months had elapsed by 30 December 2022. Since there is an	Even though this jack machine was imported to Sri Lanka on 24 March 2023, as our organization was facing severe financial problems at that time, it has taken a long time to pay the relevant money and get the good released.	Goods should be purchased according to specifications and an appropriate action should be taken regarding failure to release goods from customs within the stipulated time.

oil leak in this machine, it was revealed that there was a situation where it was impossible to use it and the one-year warranty period had also expired. Therefore, the Rs. 11.35 million paid by the Corporation as expenses for purchasing and transporting this jack machine had become a futile expenditure.

3.5 Deficiencies in Contract Administration

Audit Observation	Comments of the Management	Recommendation
(a) Inventory balance of 21 suspended projects as at 31 December 2023 valued at Rs.56.52 million had remained in idle.	The project completion process is currently being carried out and the removal of goods and raw materials cannot be carried out as per the contract until the completion of those works. Similarly, since there is money to be paid for these goods and projects, difficulties will be encountered when removing work sites.	Actions should be taken to clear the stock balance by connecting the Corporation and the client institution and utilize effectively.
(b) The Corporation had suspended 75 projects during the year under review and the Corporation had to incur a loss of Rs. 436.38 million from 46 of these projects.	Noted.	It should prepare formal plans and timely implement and evaluate those plans to manage projects effectively.
(c) It was observed that the Corporation was unable to recover the excess cost of Rs. 409.50 million due to failure of issuing of bills covering the total cost	Due to the lack of continuous provision of necessary funds for projects, it has had to be maintained for a long period of time more than expected. Even though projects have	Expenditure administration should be streamlined through timely issuance of project bills.

incurred for 42 suspended projects as at 31 December 2023. Similarly, a sum of Rs.23.63 million incurred for administrative expenses, bond fees and worksite rent for 19 projects suspended in 2023, had remained irrecoverable.

been suspended, since it can't be removed from, until those projects are deactivated, guards have been deployed for that purpose.

3.6 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
A number of 109 posts remained vacant in the Corporation as at 31 December 2023, including the posts of Deputy General Manager (Design and Production) and Deputy General Manager (Mechanical). Actions had not been taken to fill these positions or revise the number of positions as appropriate.	Officers have been appointed to the posts of Deputy General Manager (Mechanical) and Deputy General Manager (Planning and Production) of the Corporation on acting basis. Recruitments for the posts of Chief Engineer (Concrete Yard), Chief Engineer (Estimate), and Heavy Vehicle Operator has been made in the year 2024 and, a letter has been sent seeking the approval of the Department of Management Services to provide appointments to employees currently working on a contract basis and casual basis in the Corporation for other posts.	Actions should be taken to re-review the role of the institution and fill vacancies or to revise the number of positions.

3.7 Vehicle System Management

Audit Observation	Comments of the Management	Recommendation
(a) Actions had not been taken to register 03 tractors valued Rs. 1.20 million purchased in	Actions will be taken to register 03 tractors in the future and as the vehicles of	Immediate actions should be taken to register purchased

2021 at the Motor Vehicle Registration Department up to 21 October 2024 and arrangements had not been made to take over 04 cars received to the Corporation from the Divineguma Development Department and Subsidiary Company, to the Corporation.

the Divineguma Development Department that had not been used for many years were given to us with the aim of training technicians and students, this vehicle is in condition of unfit for driving. Actions will be taken to repair and take over these vehicles.

cars and to take over other vehicles as appropriate.

(b) Due to failure to carry out repair works of 27 vehicles at a cost of Rs. 63.9 million during the period from 2019 to the end of 2023, it had been taken out of running and steps had also not been taken to dispose of them.

Since it was not possible to allocate funds for vehicle repair work in the past period, it has not been possible to carry out those repairs.

Immediate actions should be taken to repair or dispose of these vehicles as suitable.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Observation

The annual financial statements for the year under review had been submitted to the Auditor General on 24 July 2024, with 97 days late in contrary to Paragraph 6.6 of the Operations Manual for State-owned Enterprises, Public Enterprises Circular No. 01/2021, dated 16 November 2021.

Comments of the Management

The entity has intended to prepare the financial statements after settling the balances payable to and receivable from customers included in the previous year's financial statements and actions have been taken accordingly.

Recommendation

Financial statements should be submitted to the Auditor General on the due date in accordance with the Public Enterprises Circular.

4.2 Annual Report

Audit Observation	Comments of the Management	Recommendation
<p>The Annual Report of the Corporation for the year 2022 had not been tabled in Parliament even by October 2024 in contrary to Paragraph 6.6 of the Operations Manual for State-owned Enterprises, Public Enterprises Circular No. 01/2021, dated 16 November 2021.</p>	<p>Forty five copies of the Annual Report 2022 have been submitted to the Ministry of Transport and Highways.</p>	<p>Annual reports should be tabled in Parliament on the due date in accordance with the Public Enterprises Circular.</p>