

State Engineering Corporation of Sri Lanka - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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 material accounting policy information, 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. The National Equipment and Machinery Organization (NEMO) had been amalgamated to the Corporation as its unit according to the decision of Cabinet of Ministers dated 27 April 2021 on Cabinet Paper No.CMP/21/0631/306/037. My comments and observations which I consider should be report to parliament appear in this report.

Due to the delay in submitting the financial statements in 2021, a report on the operational activities of the year 2021 under category 2nd installment - Part XLVI was tabled in parliament on 27 November 2023 and moreover, this report is issued in accordance with the provisions of Article 154(1) of the constitution of the Democratic Socialist Republic of Sri Lanka.

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

My opinion is disclaimed based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the auditor’s responsibilities for the audit of the Financial Statements section of my report.

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 stability 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 responsibility is to conduct an audit of the Corporation's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

1.5 Audit Observations on preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
<p>(a) Contrary to the Paragraph No.32 of Sri Lanka Accounting Standard – 01, the debit balances of credit control account-COBOL, Ministry pool vehicle account, creditors control account, current account with U.D.A, sub control account, sub contract retention account, direct payment vendor account, mobilization advance payable and trade and other payables of National Equipment and Machinery Organization (NEMO) unit had been offset against the credit balances of those accounts. Hence, the current liabilities had been understated by Rs. 413.17 million. Further, the credit balances of refundable deposit, special cash advance, sub contract mobilization</p>	<p>Due to error in omission and or lack of identification correct vendor or correct path, was caused to appear as debit balances in the accounts payables and credit balances in the accounts receivables.</p> <p>The corrective action is being under taken for debit balances in the accounts payable and credit balances in the accounts receivables also.</p> <p>Posting errors encountered in the NEMO balance sheet are noted to correct in the fourth coming financial statements as appropriate.</p>	<p>The Corporation should not offset assets and liabilities, or income and expenses, except where required or permitted by the SLFRS.</p>

advance, advance payment to suppliers, advance for services, cheque with order advance, contract labour imprest and labour sub control advance, trade debtors, project debtors and retention receivable of NEMO aggregating to Rs. 789.54 million had been offset against the debit balances of those accounts. Therefore, the current assets of the financial statement had been understated by that amount.

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| <p>(b) Contrary to the paragraph 51 of Sri Lanka Accounting Standard (LKAS) 16 – Property, Plant and Equipment, the Corporation had not reviewed the residual value and useful life of certain fixed assets, which had a carrying amount of Rs. 414.60 million as at the end of the year under review. Further, assets with a total cost of Rs. 1,106.38 million had been fully depreciated still in use. However, no action had been taken to rectify the estimation error or to disclose the gross carrying amount of these fully depreciated assets, as required under paragraph 79(b) of the standard.</p> | <p>Assessment of useful life and residual value of assets are being undergone, and respective accounting treatment will be carried out accordingly. Further disclosure requirement of fully depreciated assets still in use is fulfilled in the year 2022.</p> | <p>The residual value and the useful life of an asset should be reviewed at least at each financial year end and should disclose the gross carrying amount of fully depreciated assets accordance with the relevant Standards.</p> |
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1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) There is an unidentified difference of Rs. 2.44 million in the value of fixed assets between the financial statements and fixed asset register.</p>	<p>Establishment of appropriate value of the fixed assets will be presented in the Financial statements by the reconciliation of general ledger based value and subsidiary register values in 2022.</p>	<p>Action should be taken to prepare the fixed asset register and financial statement accurately after reconciling them.</p>
<p>(b) Although balances of current accounts being maintained among the divisions</p>	<p>Current account balances of the divisions to be correspondence and tallied</p>	<p>Action should be taken to reconcile and adjust the differences in the current</p>

of the Corporation should be tallied with each other by the end of the year under review, a debit balance of Rs.104.69 million had been remained under other receivable in the financial statements as “Inter group current accounts” further a difference of Rs.153.46 million was observed between the current account balance in the financial statements of the Corporation and National Equipment and Machinery Organization (NEMO). However, reasons for difference were not revealed to the audit.

each other is accepted and close monitoring system is established and followed up action is back ward operated up to 2022 and 2021.

Similar action in relation to divisional current accounts is introduced through monthly confirmation and followed up action is back ward operated up to 2022 and 2021.

account balances among the divisions and current account balances between the corporation and NEMO.

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| (c) | Stock items of 238 numbers had not been valued and brought to the financial statement due to the unavailability of unit prices as at 31 December 2021. | Action has already been instituted to state relevant rates at the earliest date to rectify the matter without repetition. | Action should be taken to correct the stock value and revised figures should be presented in the subsequent financial statements. |
| (d) | Due to the non-accuracy of stock unit pricing, the raw material and finished goods stocks were overstated by Rs. 0.44 million, and Rs. 2.04 million respectively. Hence the total stock was overstated by Rs. 2.48 million. | Although stock valuation sheets have been attached to the respective verification file with incorrect one by error in omission, However action has been taken to leave correct valuation sheet and updated Audit sub office. | do |
| (e) | The salary payable of the NEMO unit amounting to Rs.123.82 million, included undisclosed and unexplained EPF of Rs.25.93 million, ETF of Rs.0.13 million, bank transfers of Rs.2.38 million and salary control accounts of Rs.11.26 million respectively. Further, an amount of Rs.163.06 million of interest payable had been erroneously included in the salary payable balance. | Payable accounts under current liabilities are taken in to correct in the forthcoming financial statements as appropriate. | Action should be taken to prepare the financial statement correctly without classification errors. |
| (f) | According to the financial statement and profit calculation schedule, a difference of Rs.868.01 million and | In the profit calculation statement of 2021, it was considered projects operate | Action should be taken to prepare the accounts accurately after reconciled |

Rs.451.58 million were observed in the balances due from customers and balances due to customers in the NEMO unit as at 31 December 2021. during the year under review only. Therefore the differences are represented previous year balances of non-operated projects. with relevant schedules.

- (g) Trade receivable balance of the NEMO unit as per the financial statements of the year under review was Rs.339.96 million. However as per the schedule submitted to the audit, it shows a credit balance of Rs. 118.64 million. Accordingly, a difference of Rs.458.59 million was observed between two balances. Receivable accounts under current assets are taken in to correct in the forthcoming financial statements as appropriate. Action should be taken to prepare the accounts accurately in the future after reconciled with relevant schedules.

1.5.3 Documentary Evidences not made available for Audit

Item	Amount (Rs. Mn)	Evidence not available	Management Comment	Recommendation
(a) Fixed asset NEMO	372.79	Fixed asset register, Board of survey report.	Once NEMO under SEC in 2022, survey was conducted with the results or its report respective information can be extracted.	Fixed asset register should be maintained and assets should be verified physically.
(b) Other receivable	765.05	Detail schedules, Age analysis	Management comments had not been submitted.	A comprehensive schedule containing all necessary details should be submitted for audit.
(c) Current liabilities	676.02	Detailed Schedule, Age analysis	do	do
(d) Bank balances	7.45	Bank Confirmation, Bank statement and Bank reconciliati on.	do	Bank Confirmation, Bank statement and Bank reconciliations should be submitted for audit.

(e)	GST/ VAT	909.63	Detail Schedule	do	A comprehensive schedule containing all necessary details should be submitted for audit.
(f)	Deposit, Prepayment and advances	92.38	Detail Schedule	do	do
(g)	Mobilization advance payable- NEMO	443.77	Detail Schedule	do	do
(h)	Creditor control account- NEMO	631.96	Detail Schedule	do	do
(i)	Sub contract payable – NEMO	6.50	Detail Schedule	do	do
(j)	Receivable –NEMO	322.07	Detail Schedule	do	do
(k)	Current Liabilities	136.17	Detail Schedule	do	do

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	The trade debtors relating to 07 divisions amounting to Rs.1,461.02 million had remained over 03 years without being recovered and it represent 56 per cent of the total debtor balance of the financial statements as at 31 December 2021.	The Covid 19 Virus pandemic situation second wave experience the year under review was prevented to debt collection as different kind of limitations like transport, travelling and gathering and regional lock downs imposition by the government.	Proper actions should be taken and followed to recover receivables promptly.

Therefore instruction is given to make suitable program for confirmation and recovery process active.

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| <p>(b) Advances amounting to Rs.1,119.24 million had been recorded under various classifications as deposits, prepayments, and advances. Out of that balances aggregating to Rs.443.83 million had remained outstanding over five years, and Rs.552.31 million over three years respectively.</p> | <p>The accounting settlement of these particular balances and all balance sheet item be cleared up to representing current situation before restructuring process commence enable corporation to perform and enter in to open market competition as financial autonomous entity.</p> | <p>Action should be taken to settle and clear these balances promptly.</p> |
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1.6.2 Payables

Audit Issue	Management Comment	Recommendation
<p>(a) The current liabilities balance outstanding over 03years as at the end of the year under review was Rs.1,784.74 million.</p>	<p>The accounting settlement of these particular balances and all balance sheet item be cleared up to representing current situation before restructuring process commence enable the corporation to perform and enter in to open market competition as financial autonomous entity.</p>	<p>Action should be taken to settle the outstanding balances without further delay.</p>
<p>(b) Mobilization advance totaling Rs.928.53 million received from the clients had been remained over 05 years without been settled even as at 31 December 2021.</p>	<p>Management comment had not been submitted.</p>	<p>Action should be taken to settle mobilization advances according to standard bidding documents without further delay.</p>

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 08 of the internal circular of cheques with orders, No. 2020/48 of 18 December 2020 issued by general manager.	As at 31 December 2021, advances issued by cheques aggregating to Rs.518.81 million had remained without being settled and out of that a sum of Rs.11.24 million had remained outstanding for 1 to 5 years, and Rs. 224.84 million for over 5 years.	Special attention is paid to settle all these long outstanding.	Necessary measures must be implemented to get settled these advances as per circular instructions.

1.8 Non Compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) Income tax payable amounting Rs.10.56 million had remained without being settled since year 2013.	Settlements are undergone with the discussion with tax authorities according to the restructuring process.	The Corporation should comply with tax law and should pay income tax timely.
(b) Actions had not been taken to remit the value added tax totaling to Rs.1,423.33 million to the Department of Inland Revenue even as at 31 December 2024 as per the Value Added Tax Act No.14 of 2002.	Revenue declined and low collection affected to timely tax remittance due to unfavorable health environment experiencing entire country and around the world. However a sum of Rs.17.2 million was paid at the hazardous period. An interim plan continued with the consent of CGIR until attend permanent plan for settlement at the restructuring process.	The Corporation should remit value added tax as per Value Added Tax Act No.14 of 2002.
(c) Actions had not been taken to remit the nation building tax totaling to Rs.65.21 million to	Settlements are undergone with the discussion with tax authorities according to the	The Corporation should pay nation building tax as per Nation Building Tax Act No.

the Department of Inland restructuring process as 09 of 2009. Revenue as at 31 December mentioned above. Discussion should be held with 2024 as per the Nation Building the Department of Inland Tax Act No. 09 of 2009. Revenue regarding dues of Nations Building Tax and proper action should be taken without delay.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a net loss (before tax) of Rs.1,223 million and the corresponding net loss(before tax) in the preceding year amounted to Rs.1,377 million. Therefore an improvement amounting to Rs.154 million of the financial result was observed. The main reasons for the improvement are the increase of building and Road construction income by Rs.467.11 million and Rs.465.37 million respectively.

2.2 Trend Analysis of major Income and Expenditure items

Information regarding the financial performance of the Corporation from the year 2020 to 2021 is shown below.

Description	2021 (Rs.Mn)	2020 (Rs.Mn)	Difference Increase/ (Decrease) (Rs. Mn)	Difference in Percentage %
<u>Income</u>				
Revenue	3,131.00	1,853.87	1,277.13	69
Other Income	25.16	400.71	(375.55)	94
Finance Income	6.64	19.43	(12.79)	66
<u>Expenses</u>				
Administrative Expenses	399.12	339.10	60.02	18
Finance Expense	285.2	530.38	(245.18)	46

2.3 Ratio Analysis

It was observed that current ratio and gearing ratio of the Corporation are in unfavorable situation. Increasing the liabilities including interest bearing borrowings and trade and other payables by Rs.1,514.24 million and decreasing total equity by Rs.1,564.99 million were the main reasons for this situation.

3. Operational Review
3.1 Operational inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The objectives of the Corporation are investigation, planning, designing and construction of buildings, civil engineering and other engineering projects, providing of consultancy and project management services, manufacture and sale of ready mix concrete, reinforced concrete and pre-stressed concrete products etc. Out of the construction projects implemented in the year under review, 35 projects incurred a loss of Rs.355.48 million and the accumulated loss from those projects as at 31 December 2021 was Rs.1,187.02 million. Further only two permanent sites have been made profits and others had operated on losses.</p>	<p>Almost all projects are dragging in operation during past years, which caused to different kind of obstacles not only by SEC own, but nationally effect health condition and economic draw back was caused to slow down project performance. As a result of low performance fixed cost related to project was accumulated during the past was incurred losses.</p>	<p>The management of the Corporation should pay its attention to mitigate the financial losses and enhance the profitability with planning and proper supervision.</p>
<p>(b) Although Rs.3,039.34 million had been spent for 127 projects that implemented before 2021, the invoices had been issued only for Rs.2,157.82 million. Because these projects remain non-operational, there is probability that the Corporation will not be able to recover the remaining amount of Rs.881.52 million.</p>	<p>Although the respective projects were not functioned particular year, by the issuing final and practical completion bills the unrecovered cost can be absorbed by the revenue. In this situation unrecovered cost mostly can be recovered.</p>	<p>Necessary measures should be taken to settle this situation with recovering dues promptly.</p>
<p>(c) The balance due from customers and the balance due to customers as at 31 December 2021 on non-performing projects were Rs.453.22 million and Rs.455.79</p>	<p>By the application of percentages of completion method for the recognition of project revenue and results, at the final bill is formed these situation will become reduced</p>	<p>Action should be taken to finalize the inactive projects and get certified final bills promptly.</p>

million respectively.

at every ends. At the dated of report is served appropriate action are being under gone to finalization of inactive projects.

(d) Although the projects, which were not included in the profit calculation statement and not implemented in the year 2021, their raw material stock balances of Rs.11.88 million had not been allocated to other projects.

The projects and status of their stocks were particularly recognized, Therefore instruction is given to correct presentation in the Financial Statements 2022.

Action should be taken to purchase raw materials for requirement and if there were balance stock unused should be allocated to other projects.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
The annual financial statements and the draft annual report should be submitted to the Auditor General within 60 days from the close of the financial year as per the paragraph 6.6 of the public enterprises circular No. 01/2021 of 16 November 2021. However, the financial statements of the year 2021 had been furnished to the Auditor General on 25 April 2025.	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. Further the board of directors and corporate management is discharged its duties and function within a mandate and safeguard of its assets.	Action should be taken for delay to furnish financial statements and draft annual report and necessary measures must be implemented to submit them as per circular instructions.