

Transactions Report of the State Engineering Corporation of Sri Lanka - 2024

The audit of operating activities of the State Engineering Corporation of Sri Lanka (“Corporation”) for the year ended 31 December 2024 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. 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 04 May 2021 on Cabinet Paper no.CMP/21/0631/306/037. My comments and observations which I consider should be tabled in Parliament appear in this report.

1. Financial Statements

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

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, each audited entity 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 on that entity. In terms of Sub-section 16 (2) of the said Act, the Chief Accounting Officer is required to submit the annual financial statements to the Auditor General along with the draft annual reports, within such period as may be provided by rules. In pursuance of Sub-section 38 (1) (d) of the Act, the Chief Accounting Officer shall ensure the timely preparation and submission of annual and other financial statements and in addition the Chief Accounting Officer shall be required to submit annual reports to Parliament pertaining to the audited entity.

2. Assets and Liabilities of the Corporation

As per the last audited Financial Statements presented by the Corporation as on 31 December 2021 the details of the Corporation’s assets, liabilities, income and expenditure are as follows.

| Item | Value Rs. |
|---------------------------------------|------------------------------|
| Assets | |
| Non-current Assets | 8,134,706,205 |
| Current Assets | <u>9,133,915,803</u> |
| Total Assets | <u>17,268,622,008</u> |
| Liabilities | |
| Non-current Liabilities | 2,950,719,702 |
| Current Liabilities | <u>14,000,922,709</u> |
| Total Liabilities | <u>16,951,642,411</u> |
| Equity | <u>316,979,597</u> |
| Total Equity & Liabilities | <u>17,268,622,008</u> |

| | |
|----------------------------------|-------------------------------|
| Income and Expenditure | |
| Total Income | 3,162,787,854 |
| Total Expenditure | <u>4,385,832,061</u> |
| Profit/ (Loss) before tax | <u>(1,223,044,207)</u> |

2.1 Failure to submit Financial Statements to the audit.

| | Audit Observation | Management Comment | Recommendation |
|-----|---|--|---|
| (a) | In terms of Section 6.6 of the Operational Manual for State Own Enterprises introduced by the Public Enterprises Circular No 01/2021 dated 16 November 2021 and above 1.1 paragraph, financial statements together with the draft annual report of the Institute for the year under review shall be submitted to the Auditor General within 60 days from the end of the financial year. However, the financial statement for the year 2022 had been submitted on 14 November 2025 and financial statements for the years 2023 and 2024 had not been submitted even by the 31 December 2025. | Due to delay in presenting Financial Statement 2021 up to 2023 of NEMO was resulted to noncompliance with Operational Manual for State Own Enterprises 01/2021. However, the management of SEC has decided to outsource accounting professional organization for the preparation of Financial Statements of NEMO. Accordingly an amalgamated financial statement 2022 has been forwarded to the Auditors, and NEMO financial statement for the years 2023 and 2024 are expected to submit at the end of December 2025 and January 2026 respectively, by the presentation of amalgamated Financial Statements delay will be addressed subject to audit reports. | Action should be taken to submit financial statements with draft annual report to the Auditor General in accordance with the circular instructions. |

2.2 Accounts Payables

| | Audit Observation | Management Comment | Recommendation |
|-----|---|---|---|
| (a) | The Corporation had not settled loans as per agreed, borrowed from the state banks amounting to Rs.3,177.43 million from the year 2018 to year 2024 and the interest outstanding for that was Rs.2,138.75 million as at 31 December 2024. | There were part payments of loan through installments during the year 2024. And it is evident note no. 18 of financial position as at 31.12.2024. | Management should take suitable and immediate actions to settle the loans and outstanding interest. |

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

| Reference to Laws, Rules and Regulations etc. | Non-compliance | Management Comment | Recommendation |
|--|--|--|--|
| (a) Employees' Provident Fund Act, No. 15 of 1958 and Employees' Trust Fund Act, No. 46 of 1980. | (i) Surcharges of Rs.30.55 million and Rs.6.16 million were payable by the Corporation to the Employees' Provident Fund and the Employees' Trust Fund respectively as at 31 December 2024 due to non-remittance of contributions of Rs.61.1 million and Rs.12.32 million with regard to the cost of living allowances paid to the employees since January 2006 to July 2015. | Surcharges on liabilities are accepted, and constructive arrangements have been taken to redeem them. As such liabilities and surcharges on ETF has being settled on installments basis continuously. | Corporation should be complied with the relevant regulatory requirements and contributions and surcharges should be settled without delay. |
| | (ii) A contribution of Rs.66.92 million and a surcharge of Rs.45.8 million relevant to previous years were payable by the Corporation to the Employees Provident Fund as at 31 December 2024. | The amounts represent remaining staff (After VRS) due contribution, which part of this Rs. 143.0 was paid and balance is being paid on installment basis @ 3.16 million a month since 30.05.2024. | Action should be taken to remit contributions on time and pay surcharges as terms of the Employees' Provident Fund Act. |
| | (iii) Contributions amounting to Rs.2.75 million and Rs.0.47 million were payable to Employees' Provident Fund and the Employees' Trust Fund, respectively, for the year 2023 and 2024 in respect of the staff of NEMO. | NEMO has used to remit EPF on manual system, which was terminated by the EPF authorities with the digitalization. Therefore preliminary activates, such as authorization, nominate officials,(Since NEMO staff has left on VRS) system | Corporation should be complied with the relevant regulatory requirements and contributions and surcharges should be settled without delay. |

developments were time consumed. Allocation of pass words is yet to be finalized. Once the password become activated remittance will posted. Hence situations are beyond entity control.

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| (b) | Public Enterprises Circular No. 01/2021 dated 16 November 2021 (i). Annexure 1 of Chapter 5 | The Corporation had not taken steps to get the Annual Action Plan approved after the year 2023. The budget for the year 2025 had been prepared and submitted to the Line Ministry and the Treasury without preparing the Action Plan. | The Corporation was referred to restructuring process after 6 month from VRS offered as per the cabinet decision no. 23/1561/604/152 and dated 2023.08.18. Following the series of discussion and related activities with SOERU (State Own Enterprises Restructuring Unit) matter was standstill from last September 2024. Again it has been initiated with the supervision of Secretary to the Prime Minister Office, and relevant references as well as actions are being followed up. | Corporation should prepare and get approval for action plan and budget accordingly. |
| | | | As such indefinite business pathway situation was prevented long term planning activities. However as to run an existing operation at least with in a BEP level short term plan an annual budget is utilized as a control tool. | |
| (c) | Paragraph 08 of the Internal Circular of cheques with orders, No. 2020/48 of 18 December 2020 issued by | Once the advances are given by cheques together with orders, such advances should be settled within a period of 30 days. However, over 30 days advances totaling Rs.961.61 million of debit balances had remained unsettled up to 31 | Continuous Follow up action is being taken to reduce and bring to long outstanding advances with in a respective period. With due consideration of the present operation environment after VRS of 2023 limited staff are | Advances should be settled within the specific time period and disciplinary action should be taken against the responsible officers. |

General Manager. December 2024 and engaged for entire work is disciplinary actions had not given a huge challenge to been taken against the activate said paragraph 8 responsible officers. alone, and General Manager himself chaired and supervised progress and leaving certain time to take it manageable level with consideration of paragraph 10.

- (d) Paragraph 4 Once the special 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 given as special cash advance over 01 year amounting to Rs.10.62 million of debit balance had remained unsettled even up to end of the year under review.
- According to the records, current cash advance are closely monitored and get them settled around the reasonable period or stipulated period. The reported items represented extraordinary long outstanding have been referred legal or disciplinary actions. And certain items have been referred to accounting reconciliations will be ended up in the year end 2025.
- Advances should be settled within the specific time period and disciplinary action should be taken against the responsible officers.

3. Operating Review

3.1 Objectives of the Corporation

In term of Section 3(2) of State Industrial Corporation Act No.49 of 1957, the main objectives of the Corporation had been published in the Gazette No.1543 dated 28 March 2008, are as follows: (i) Investigation, planning, designing and construction of building, civil engineering and other engineering projects in Sri Lanka or abroad, (ii) Providing provision of consultancy and project management services in all fields of engineering in Sri Lanka or abroad, (iii) Undertake property development works. (iv) Manufacture and sale in Sri Lanka or abroad 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..

- 3.2** Following observations are made with related to the non-implementation of above objectives and achievement of the aforesaid objectives related to permanent sites and workshops, performed in Construction Division, Construction Component Division and Mechanical & Electrical Division during the year under review.

| Audit Observation | Management Comment | Recommendation |
|--|--|---|
| (a) Corporation had not been engaged in operational activities related to the above objectives of (iii), (v) and (vii) as well as Objectives (i), (ii), and (iv) in abroad. | Not commented | Action should be taken to achieve the objectives established in the Gazette. |
| (b) According to the draft revenue calculation sheet of the Corporation, 10 projects implemented by the construction division and 03 projects implemented by the construction component division had incurred cumulative losses amounting to Rs.601.87 million and Rs. 259 million respectively as at 31 December 2024. | The respective audit paragraph is referred tender value exceeded 10 numbers of Construction projects, which based on cost operated during the year. However, Management has referred particular projects to be finalized at the earliest date. | Action should be taken to minimize the cost of the projects and identify new income generating sources. |
| (c) Since Peliyagoda C-City project which implemented with the public private partnership had been failed and a Cabinet Memorandum had been submitted to transfer this land to the Urban Development Authority and settle the Corporations liabilities. Although Approval had been received for this by the Cabinet Decision No. අම/25/0921/814/043 dated 17 June 2025, the transferring process had not been done timely as per the action plan given by the Urban Development Authority due to the matter relating to without clear ownership of the land. | As results of series of discussion had with respective transferee entity, while documentation in relation land transfer activities with respective governments agencies such as Local Government Authorities, Divisional Secretariats, Department of Lands and it's Line Ministry, along with SEC Line Ministry are ongoing and daily followed by the Head of an Operation Division (DGM) and Chairman/CEO is closely monitored and review daily progress. In further Members of Corporate Management is attend the matter through steering committee chaired by the General Manager to assist to Board Sub Committee, whom take care of land transfer matter. | Action should be taken to implement the cabinet decision in a fruitful manner. |
| (d) Although the Chairman had assured the committee on Public Enterprises held on 10 August 2018 the errors in | A requirement of an installation of elevator becomes changed at the client side, and the matter has | Action should be taken to implement the projects according to |

the installation of the elevator of the Inland Revenue Department would be corrected promptly, it had not been completed on time because of the delay in the construction work of the Corporation. A case had been filed against the Corporation under the Commercial High Court No. CHC/98/2017/MR, to claim of Rs.97 million due to the DIMO Company for automobile elevator supplied.

been referred alternative requirements and proposals were offer to the client. Several discussions were conducted with the intervention of Ministry of Finance.

agreement signed with the client with minimizing the losses regarding the matters.

Mean times there have been arranged a settlement plan with Sub contractor before litigation is finalized, and to be carried out with the physical verification of elevator main components having an intention of alternative /similar work in order to mitigate damages for both parties.

- (e) After analyzing the draft income and expenditure details for the year 2023 and 2024 submitted by Corporation regarding the work performance of permanent sites and workshops, it was observed that a total profit of Rs.99.15 million had been earned during the year under review and it was decreased by Rs. 9.78 million compared to the previous year profit of Rs.108.93 million. However only seven sites have been made profits and other eleven sites had operated on losses.

Although Permanent yards were earned profits it could not be reached to expected level due to in sufficient working capital.

Action should be taken to minimize the cost of the sites.

And all Maintenance site related to Facility Management 1823 Custom Building, 1087 Sugathadasa Stadium, 2300 Treasury Building and 2457 Load Testing Service are continued as a general business pattern.

The Management has reviewed all loss making sites and intends to either divert its business or close down respective function being handed over any other institution to continue.

3.3 Identified Losses

| Audit Observation | Management Comment | Recommendation |
|---|---|---|
| (a) A surcharge of Rs.930.05 million had been imposed by the Department of Inland Revenue up to end of the year under review due to non-remittance of Income Tax, Value Added Tax, Economic Services Charge, Nation Building Tax and GST payable on time amounting to Rs.11.79 million, Rs.1,423.33 million, Rs.97.75 million, Rs.65.21 million and Rs.25.68 million respectively as at 31 December 2024. | Penalties were imposed on the payables of respective taxes mentioned in the audit paragraph. Actions have already been established to redeem taxes. | Corporation should comply with regulatory requirements and action should be taken to settle the taxes promptly. |

3.4 Idle Assets

| Audit Observation | Management Comment | Recommendation |
|---|---|--|
| (a) Stock balance of materials and finished goods valued at Rs.99.88 million and Rs.59.32 million respectively were existed without moving more than two years according to the stock verification report as at 31 December 2024. | Action has been taken to reduce nonmoving item through internal use of operation. | Action should be taken to utilize these assets for effective manner or to take correct accounting treatment. |

3.5 Resources Released to Other Organizations

| Audit Observation | Management Comment | Recommendation |
|--|--|---|
| (a) Forty-Eight (48) employees of the Corporation had been released to the Ministry of Urban Development and Housing, Government Factory, Department of Building, Urban settlement Development Authority Cultural fund, contrary to the instructions given in paragraph no 3.5 of Operation Manual for State Owned Enterprises introduced by the PED | Based on the request made by the institutions under the Ministry of Linear Affairs, these 48 employees have been released on the basis of salary reimbursement by the Ministry. Continuous discussion has been held with the secretary to the Ministry as well as with the honorable Minister regarding the payment of their salaries. The | Action Should be taken to comply with the circular instructions and those salaries should be recovered from respective government institutions. |

circular No. 01/2021 of 16 November 2021. However, the salaries amounting to Rs.60.67 million incurred by the Corporation as at 31 December 2024 had not been recovered.

amount to be reimbursed to our institution is Rs. 60.67 million. Necessary actions are being continuously taken to recover these dues.

3.6 Cheque with order advance

| Audit Observation | Management Comment | Recommendation |
|--|---|---|
| (a) Although a debit balance should have been reflected in the Cheque with order advance account, it was observed that an unusual credit balance of Rs. 696.72 million existed as per the schedule submitted for audit as at 31 December 2024. | Significant differences have been identified, and that was existed when extraction particular schedule by error of omission. Therefore corrective action was established and corrected schedule will be forwarded at the end of 2025. | All unusual credit balances should be cleared promptly. |
| (b) As per the Cheque with order advance schedule provided by the Corporation as at 31 December 2024, advances had been issued to officer of the Corporation who had retired under the voluntary retirement scheme in 2023. It was observed, upon verification of the advance register, that these advances had been settled in the year 2023. It was further noted that differences existed between the advance amounts recorded in the register and the amounts reflected in the schedule. | Similar error is recognized on the in-corrected schedule. | Corporation should prepare an accurate list of advance receivables and necessary action should be taken to recover outstanding amounts without delay. |

3.7 Special cash advance

| Audit Observation | Management Comment | Recommendation |
|---|---|---|
| (a) Although a debit balance should have been reflected in the Special cash advance account, it was observed that an unusual credit balance of Rs. 8.64 | At the reconciliation process the credit balances have been reduced up to Rs. 6.96 million and further action are being taken to show | All unusual credit balances should be cleared promptly. |

million existed as per the schedule submitted for audit as at 31 December 2024. clear picture of the said advances.

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|-----|--|---|---|
| (b) | It was observed that the Corporation had not taken steps to recover these balances from the relevant individuals prior to their retirement, as the names of several officers included in the 2023 voluntary retirement register continued to appear in the Special Cash Advance Schedule as at 31 December 2024. | Recovery actions have been initiated through reconciliation process. And hopefully accomplishment is expected by the end of 2025. | Corporation should prepare an accurate list of advance receivables and necessary action should be taken to recover outstanding amounts without delay. |
|-----|--|---|---|

3.8 Human Resource Management

| Audit Observation | Management Comment | Recommendation |
|---|--|---|
| (a) According to Management Services Circular, No. 28 (ii), dated 01 August 2006 the recruitments should not be done without proper approval of the Department of Management Services. However, ignoring that provision, the Corporation had recruited 04 employees for 04 un-approved posts as end of the year under review. | They have been recruited according to the 2014 and 2019 Public Administration Circulars. A letter dated 12 August 2025 has been forwarded to the Department of Management Services to obtain approval for the four officers engaged in duties in those additional positions. | Recruitments should be made within the approved cadre in accordance with the circular instructions. |
| (b) Including General Manager and 04 Deputy General Manager positions 1,856 no of staff were vacant in approved cadre as at 31 December 2024. After the voluntary retirement of the officers of the Corporation in the year 2023, no new staff had been approved for the Corporation and the several posts had been existed as acting and assignment basis for a long time. | A letter dated 12 August 2025 has been sent to the Department of Management Services, based on the recommendation of the Line Ministry, to obtain approval for the new cadre for the voluntary retired officers on 31 August 2023. After receiving approval for the cadre, steps will be taken to recruit suitable persons for the existing vacancies in position based on the work load requirement and duty necessities. | Corporation should get approval for new cadre and recruitments should be done accordingly. |

3.9 Procurement Management

| Audit Observation | Management Comment | Recommendation |
|---|------------------------------------|--|
| (a) The Corporation had not prepared a procurement plans for the year under review. In terms of section 4.2.1 of Procurement Guideline-2006 | Instruction is given to compliance | Procurement plans should be prepared in accordance with Procurement Guideline. |

4. Accountability and Good Governance

4.1 Tabling of Annual Reports

| Audit Observation | Management Comment | Recommendation |
|---|--|--|
| (a) The Annual Report for the year 2020 had not been tabled in Parliament even by 20 November 2025 in terms of Section 6.6 of the Operational Manual of State Owned Enterprises introduced by the PED Circular No. 01/2021 of 16 November 2021. | The annual report is at the printing stage, it will be forwarded to the Cabinet of Ministers' review soon. | Annual reports should be tabled within the time period in accordance with the circular instructions. |