

State Engineering Corporation of Sri Lanka - 2020

The audit of operating activities of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2020 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. 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 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 draft annual 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.

1.2 Failure to submit Financial Statements to the audit.

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003; financial statements together with the draft annual report of the Institute for the year under review shall be submitted to the Auditor General with copies to the Line Ministry and the Public Enterprises Department within 60 days from the end of the financial year. However, the financial statements for the year 2020 and 2021 had not been submitted even by the 31 March 2023.

2. Operating Review

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

Reference to Laws, Rules and Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Employees' Provident Fund Act, No. 15 of 1958 and Employees' Trust Fund Act, No. 46 of 1980.	(i)When calculating the EPF and ETF contributions, cost of living allowances paid to the employees for the period of January 2006 to July 2015 had not been taken in to accounts by the Corporation. So, as per the calculation done by the	Management is searching financial avenues for payment of payable amount without affecting to day today operational expenses.	Corporation should be complied with the relevant regulatory requirements.

Corporation amount of Rs. 349.79 million and Rs.174.89 million had to be paid by the Corporation as the arrears of EPF and ETF Contributions and Surcharges thereon respectively. However, neither contributions nor surcharges aggregating to Rs. 524.68 million had been paid by the Corporation even by 31 March 2023.

(ii) Further, a contribution of Rs.169.02 million and a surcharge of Rs.71.87 million were payable by the Corporation to the Employees Provident Fund as at 31 December 2020 had been remained without being remitted. Accordingly, total unpaid contributions as at 31 December 2022 was Rs.607.62 million, and even by 31 March 2023. It had not been paid.

Management is Action should be searching financial taken to remit avenues for payment contributions on of payable amount time and surcharges without affecting to as terms of the day today operational Employees' expenses. Provident Fund Act.

(b) Paragraph 2(c) of the internal Circular of cheques with orders, 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, as per the advanced schedule submitted to audit as at 31 December 2020, advances totaling Rs.271.28 million had remained unsettled over 30 days. Out of that Rs.14.27 million and Rs. 225.91 million were remained unsettled for one to five years and more than five years respectively by 31 December 2020. Further, as per the schedule credit balances of cheques with order advances were Rs. 197.69

Although the cheques Advances should be are written in advance settled within the date, these are not specific time period particularly in advance and disciplinary payments, and action should be transactions are ended taken against the once goods are responsible officers delivered and internal who should be documentation is time settled those. consumed. Delays in submission of documents are recognized throughout the process and actions are taken to mitigate case by case.

million and reasons for credit balances were not revealed in audit.

- (c) Paragraph 4 of the internal Circular of Special Cash advances, No. 122/1979 of December 1979. 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 over 05 years amounting to Rs.10.99 million had remained unsettled even up to end of the year under review. Special cash advances settlement process has been taken to control and it was resulted to reduce particular amounts in subsequent years. Action should be taken to settle the special cash advances within the period as per the circular.

2.2 Performance

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 and they are as follows: (i) Investigation, planning, designing and construction of building, civil engineering and other engineering projects (ii) Providing 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.

2.2.1 As per the report submitted by the Corporation, the following are the summary of work performance with regards to main activities performed in Construction Division, Construction Component Division and Mechanical & Electrical Division during the year under review in order to achieve the above objectives.

Se. No	Description	Income			Expenditure		Net Profit / (Loss)		
		2019 Rs.Mn	2020 Rs.Mn	Change %	2019 Rs. Mn	2020 Rs. M	2019 Rs. Mn	2020 Rs. Mn	Change %
01	Precast Yard Ekala	240.15	105.02	(56.27)	245.49	196.72	(5.34)	(91.89)	(1620.78)
02	Precast Yard Rathmalana	78.87	50.35	(36.16)	105.94	90.21	(27.08)	(39.86)	(47.19)
03	Dankotuwa Carpentary & Mix yard	13.14	9.94	(24.35)	27.41	32.87	(14.27)	(22.92)	(60.62)

04	Dematagoda Concrete Slipper Yard	221.39	-	(100.00)	226.09	16.78	(16.78)	(4.70)	71.99
05	Welikanda Precast Yard	2.43	0.02	(99.18)	7.78	4.7	(5.35)	(4.70)	(12.15)
06	Aluminium Work- Ratmalana	34.60	19.88	(42.54)	64.88	39.18	(30.28)	(19.31)	36.23
07	Peliyagoda main work shop	80.31	21.43	(73.32)	66.46	56.07	13.84	(34.64)	(350.29)
08	Peliyagoda Operation Site	64.73	7.12	(89.00)	103.29	52.83	(38.57)	(45.71)	(18.51)
09	Rathmalana work shop	57.18	6.84	(88.04)	49.93	26.16	7.25	(19.33)	(366.62)
10	Transport & Logistic Division	61.65	12.90	(79.08)	55.43	39.91	6.22	(27.01)	(534.24)
11	Fire Service Building Site	13.74	5.21	(62.08)	16.22	11.57	(2.48)	(6.36)	(156.45)
	Total	868.19	238.71	(72.49)	968.92	567.0	(112.84)	(316.43)	(180.42)

Following observations are made.

Audit Observation

(i) It was observed that after analyzing the income and expenditure details regarding the work performance of permanent sites and work sites, all the sites were incurred losses aggregating Rs. 316.43 million during the year under review. It was indicated a down turn of profits/(loss) within the range of (12.15) percent and (1,620) per cent among the sites compared with the preceding year.

Management Comments

Corona virus pandemic situation have been experienced all Sri Lankan society during the period.

Recommendation

Action should be taken to minimize losses and to identify optional opportunities of business to existence of business.

- (ii) Income had been reduced by Rs.629.48 million or 72.5 per cent compared with previous year. But total expenditure had been reduced by Rs. 401.92 million or 41.48 per cent only.
- Expenses are made due to factory maintenance, repairs and security as fixed cost.
- Action should be taken to control the expenses properly.

2.3 Cash Flow of the Corporation

Audit Observation	Management Comments	Recommendation
According to the information furnished to audit, the Construction Division, Construction Component Division, Mechanical & Electrical Division and Consultancy Division had shown negative cash flows of Rs.122.94 million, Rs.76.08 million, Rs.120.34 million and Rs.54.40 million respectively as at 31 December 2020.	The total cash deficit as per the Statement of Financial Position as at 31 st December 2020 was reported as Rs.119 million.	Proper working capital management should be implemented to cash management with close supervision.

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

Audit Observation	Management Comments	Recommendation
Action plan and Progress report including sufficient information of the projects implemented by of the National Equipment and Machinery Organization (NEMO) division for the year under review had not been furnished to the Audit to determine the accuracy, completeness, relevance and authority for the expenditure of projects.	Project information had been submitted.	Sufficient information of the projects to determine the accuracy, completeness, relevance and authority for the expenditure of projects should be submitted to the audit.

2.5 Identified Losses

Audit Observation	Management Comments	Recommendation
A surcharge of Rs.143.10 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	Although the surcharges have been imposed due to default of taxes, these can be waived off at the time of settlements of	Action should be taken to remit taxes on time and surcharges as terms of tax law.

Tax and GST on time amounting to Rs.10.56 million, Rs.969.89 million, Rs.97.75 million, Rs.65.26 million and Rs.2.12 million respectively from the year 2014 to 2020.

2.6 Idle Assets

Audit Observation	Management Comments	Recommendation
Stock of aluminum bars and ceiling sheets owned to the Corporation which were not valued remained at the main stores of the NEMO since 2017 without being utilized.	Management comments had not been submitted.	Action should be taken to utilize these assets in an effective manner.

2.7 Delays in Projects

Audit Observation	Management Comments	Recommendation
(a) Although the three projects with an estimated cost of Rs. 1,382.49 million under the Construction Division, had been expected to complete as at 31 December 2020 as per Action Plan, completion date of those projects had been extended up to 30 June 2023.	Projects were granted extension of time.	Steps should be taken to complete the projects as per agreements entered into with clients.
(b) Expected progress of 05 projects with an estimated cost of Rs.633.83 million in Constructions Component Division had not been achieved as at 31 December 2020. However, those projects have been temporarily suspended due to lack of budget allocations, changes of ownership of the lands and dissolution of the State Ministries etc.	Corona virus pandemic situation have been experienced all Sri Lanka society during the period.	Action should be taken to avoid interruptions on the continuous implementation of Projects as per the agreements.

2.8 Resources Released to Other Organizations

Audit Observation	Management Comments	Recommendation
Twenty nine (29) employees of the Corporation had been released to the Ministry of Housing and Construction, Building Department, Government Factory and Central Cultural Fund contrary to the instructions given in Guideline 8.3.9 of the	Actions have been taken to recover and withdraw employees	Action Should be taken to comply with the circular instructions and salaries should be

Public Enterprises Circular No. PED/12 of 02 June 2003. gradually. reimbursed from
 Further, the salaries amounting to Rs.35.97 million incurred by respective government
 the Corporation had not been reimbursed. institutions.

3. Human Resource Management

Audit Observation	Management Comments	Recommendation
(a) Six senior management positions were vacant in approved cadre and they remained as at 31 December 2020. An action had not been taken to recruit or review the cadre requirement.	Management comments had not been submitted.	Action should be taken to recruit essential senior management level with proper approval.
(b) According to Section 1.2 of Chapter II of the Establishments Code an appointment should be made only for a post in the approved cadre, Contrary to that, 362 excessive employees had been appointed as at 31 December 2020.	Management comments had not been submitted.	Recruitment should be made within the approved cadre.
(c) 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 11 employees to 09 un-approved posts.	Management comments had not been submitted.	Management should comply with the rule and regulations regarding the recruitments.

4. Accounting and Good Governance

4.1 Tabling of Annual Reports

Audit Observation	Management Comments	Recommendation
The Annual Reports for the year 2018 had not been tabled in Parliament even by 31 March 2023 in terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12 of 02 June 2003.	Management comments had not been submitted.	Action should be taken in accordance with the circular instructions.