

State Engineering Corporation of Sri Lanka - 2021

The audit of operating activities of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2021 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 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.

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, 2021 and 2022 had not been submitted even by the 31 August 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 Corporation an 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 August 2023. | The discussion had with Commissioner General of Labour Department and it was carried out by the internal auditor. | Corporation should be complied with the relevant regulatory requirements. |

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| | <p>(ii) A contribution of Rs.421.78 million and a surcharge of Rs.147.39 million were payable by the Corporation to the Employees Provident Fund as at 31 December 2021 had been remained without being remitted. Further, total unpaid contributions as at 31 December 2022 was Rs.607.62 million, and even by 31 August 2023. It had not been paid.</p> | <p>Reported EPF payables as at 31 December 2021 was brought to the discussion with commissioner of labor along with payment plan dated 06 December 2022 is now being undergone.</p> | <p>Action should be taken to remit contributions on time and surcharges as terms of the Employees' Provident Fund Act.</p> |
| <p>(b) Paragraph 08 of the Internal Circular of cheques with orders, No. 2020/48 of 18 December 2020 issued by General Manager.</p> | <p>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 2021, advances totaling Rs.518.81 million had remained unsettled over 30 days. Out of that Rs.11.24 million and Rs.224.84 million were remained unsettled for one to five years and more than five years respectively by 31 December 2021. Further, as per the schedule credit balances of cheques</p> | <p>Action has been instituted to reduce Cheques with order and settle available balance within the month. General Manager circular No. 2023/07 Dated 02 February 2023 was issued subsequently introducing alternative arrangement to overcome the situation.</p> | <p>Advances should be settled within the specific time period and disciplinary action should be taken against the responsible officers who should be settled those.</p> |

with order advances were Rs.206.54 million and reasons for credit balances were not revealed in audit.

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| (c) | Paragraph 4 of the internal Circular of special cash advances, No. 122/1979 of 20 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 given as special cash advance over 05 years amounting to Rs.11.31 million had remained unsettled even up to end of the year under review. | Action was instituted to reduce outstanding amounts within a month. | Action should be taken to settle the special cash advances within the period as per the circular. |
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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, 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 permanent sites and workshops, performed in Construction Division, Construction Component Division and Mechanical & Electrical Division and Road & Bridge Division during the year under review in order to achieve the above objectives.

| Se. No | Description | Income | | | Expenditure | | Net Profit / (Loss) | | |
|--------|----------------------------------|---------------|---------------|-----------------|-------------------|-------------------|---------------------|-----------------|-----------------|
| | | 2020 Rs.Mn | 2021 Rs.Mn | Difference % | 2020 Rs. Mn | 2021 Rs. Mn | 2020 Rs. Mn | 2021 Rs. Mn | Difference % |
| 01 | Precast Yard Ekala | 105.02 | 113.87 | 8.43 | 196.92 | 191.98 | (91.90) | (78.11) | 15.01 |
| 02 | Precast Yard Rathmalana | 50.35 | 66.54 | 32.15 | 90.21 | 97.26 | (39.86) | (30.72) | 22.93 |
| 03 | Dankotuwa Carpentry & Mix yard | 9.94 | 7.91 | 20.42 | 32.87 | 44.33 | (22.93) | (36.42) | (58.83) |
| 04 | Dematagoda Concrete Slipper Yard | - | 82.33 | - | 16.78 | 88.33 | (16.78) | (6.00) | 64.24 |
| 05 | Welikanda Precast Yard | 0.02 | 1.27 | 6250 | 4.7 | 3.11 | (4.68) | (1.84) | 60.68 |
| 06 | Aluminium Work-Ratmalana | 19.88 | 56.55 | 184.46 | 39.18 | 75.93 | (19.30) | (19.38) | (0.41) |
| 07 | Peliyagoda main work shop | 21.43 | 53.16 | 148.06 | 56.07 | 49.77 | (34.64) | 3.39 | 109.79 |
| 08 | Peliyagoda Operation Site | 7.12 | 22.40 | 214.61 | 52.83 | 61.77 | (45.71) | (39.37) | 13.87 |
| 09 | Rathmalana work shop | 6.84 | 28.80 | 321.05 | 26.16 | 52.44 | (19.32) | (23.64) | (22.36) |
| 10 | Transport & Logistic Division | 12.90 | 14.49 | 12.32 | 39.91 | 37.31 | (27.01) | (22.82) | 15.51 |
| 11 | Fire Service Building Site | 5.21 | 23.60 | 352.98 | 11.57 | 22.39 | (6.36) | 1.21 | 119.02 |
| | Total | 238.71 | 470.92 | 97.28 | 567.2 | 724.62 | (328.49) | (253.70) | 22.77 |

| Audit Observation | Management Comments | Recommendation |
|--|--|---|
| <p>After analyzing the income and expenditure details regarding the work performance of permanent sites and workshops, it was observed that a total loss of Rs.253.70 Million had been incurred during the year under review and it was an improvement of 19.82 percentage compared to the previous year. Further only two sites have been made profits and others had operated on losses.</p> | <p>Action had been taken by the management to mitigate the situation with close monitoring of the monthly performance and reporting to board of directors.</p> | <p>Action should be taken to minimize losses and to identify new income generating sources.</p> |

2.3 Cash Flow of the Corporation

| Audit Observation | Management Comments | Recommendation |
|---|---------------------|---|
| <p>According to the information furnished to audit, net cash flow from operating activities were negative balance of Rs.66,716,881. Therefore, financial position will be further weakened in case of the Corporation failing to earn sufficient profit through the projects in the future.</p> | | <p>Proper working capital management should be implemented to cash management with close supervision of the management.</p> |

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

| Audit Observation | Management Comments | Recommendation |
|---|---------------------|--|
| <p>Information of the project implementation of National Equipment and Machinery Organization (NEMO) for the year under review had not been furnished to the Audit.</p> | - | <p>Sufficient information of the projects to determine the accuracy, completeness, relevance and authority for the expenditure of projects should be submitted to the audit.</p> |

2.5 Management Inefficiencies

| Audit Observation | Management Comments | Recommendation |
|---|---|---|
| (a) In respect of the loans borrowed from the state bank amounting to Rs.2,100 million from year 2016 to 2020, had not been settled and outstanding interest payable was Rs.569 million as at 31 December 2021. | The management has clearly understood Loan and its service cost could not be accommodated this limited activity situation, which is explained and action are being taken to restructure Long term liabilities including Loan to bank as well. | Management should take suitable actions to minimize losses and make profit to meet it break even. |
| (b) The bank balances amounting to Rs.378,234 were idled in 07 current accounts, and the management had not paid attention to close down these dormant bank accounts as at 31 December 2021 by reviewing half yearly to justify the need for continuity with the bank accounts as per section 8.4 of the Public Enterprises Circular No. PED 12 dated 02 June 2003. | Action is being taken to rectify the matter. | Actions should be taken in accordance with circular. |

2.6 Identified Losses

| Audit Observation | Management Comments | Recommendation |
|--|---|--|
| A surcharge of Rs.130,431,594 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 on time amounting to Rs.10,562,151, Rs.1,158,194,068, Rs.97,745,394, Rs.65,211,052 and Rs.2,120,553 respectively from the year 2014 to 2020. | Management has identified default tax and relevant surcharges related to itemize amount of taxes mentioned in the report. | Regulatory requirements should be complied by corporation. |

2.7 Idle Assets

| Audit Observation | Management Comments | Recommendation |
|---|--|--|
| Stock of aluminum bars and ceiling sheets which were not valued but owned to the Corporation remained at the main stores of the NEMO since 2017 without being utilized. | NEMO & SEC respective officials are instructed to clarify and sort out this matter and report progress to the management and auditors as well. | Action should be taken to utilize these assets for effective manner. |

2.8 Resources Released to Other Organizations

| Audit Observation | Management Comments | Recommendation |
|---|--|--|
| Forty-Six (46) employees of the Corporation had been released to the Ministry of Urban Development and Housing, Government Factory, Cultural fund, Urban settlement Development Authority and Urban Development Authority contrary to the instructions given in Guideline 8.3.9 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, the salaries and overtime amounting to Rs.55,254,044 incurred by the Corporation had not been reimbursed. | Action has been expedited to recover paid salary through Chief Accounting Officers and head of Institutions. | Action Should be taken to comply with the circular instructions and salaries should be reimbursed from respective government institutions. |

2.9 Human Resource Management

| Audit Observation | Management Comments | Recommendation |
|---|---|---|
| (a) Seven senior management positions were vacant in approved cadre as at 31 December 2021. | Acting arrangements were made as necessary and cover up duties were made by the higher officials. | Action should be taken to recruit essential senior management levels with proper approval or review the cadre as necessary. |
| (b) According to Section 1.2 of Chapter II of the Establishments Code an appointment should be made only for an exact number of employees | Recruitments was made at the service requirement and project base with the approval of Board of | Recruitment should be made within the approved cadre. |

post in the approved cadre, Contrary to that, 345 excessive employees had been appointed for 27 posts of the approved cadre as at 31 December 2021.

Directors at contract basis and temporary basis.

- (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 14 employees for 12 number of un-approved posts in the year under review.

Recruitments was made at the service requirement and project base with the approval of Board of Directors at contract basis and temporary basis.

Management should comply with the rules and regulations regarding the recruitments.