

State Engineering Corporation of Sri Lanka – 2022

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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, a report on the operational activities of the year 2022 under category 2nd installment - Part XLII was tabled in parliament on 28 April 2025 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 my 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

As described in paragraph 1.5, I was unable to confirm or verify by alternative means, material items included in the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flow statement. As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows.

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 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 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 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
(a)	Contrary to the Paragraph No.32 of Sri Lanka Accounting Standard 01, the debit balances of 08 Ledger Accounts had been offset against those credit balances amounting to Rs. 342.84 million. Further, the credit balances of another 08 Ledger Accounts aggregating to Rs. 531.55 million had been offset against those debit balances. Therefore, the current liabilities and current assets of the financial statement had been understated respectively by those amounts.	Due to posting error in omission and 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 receivable. Therefore the corrective action is being under taken.	The Corporation should not offset assets and liabilities, or income and expenses, except where required or permitted by the SLFRS. This should be rectified in the subsequent financial statements.
(b)	Contrary to the paragraph 51 of Sri Lanka Accounting Standard 16, the Corporation had not reviewed the residual value and useful life of	The matter was brought to SEC Audit & Management Committee and it's subcommittee to review	The residual value and the useful life of an asset should be reviewed at least at each financial year end

certain fixed assets, which had a carrying amount of Rs.400.68 million as at the end of the year under review. Further, assets with a total cost of Rs.1,132.10 million had been fully depreciated but are 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.

through technically competent assessment. With the results of assessment committee the requirement will be fulfilled. Compliance to the disclosure requirement under the paragraph 79(b) is completed in 2023.

and should disclose the gross carrying amount of fully depreciated assets in accordance with the relevant Standards.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	There is an unidentified difference of Rs.2.08 million in the value of fixed assets between the financial statements and fixed asset register of the Corporation.	It was noted to take corrective action in the year 2025.	Action should be taken to prepare the fixed asset register and financial statement accurately after reconciling them.
(b)	Although balances of current accounts being maintained among the divisions of the Corporation should be tallied with each other by the end of the year under review, a debit balance of Rs. 133.09 million had remained under other receivable in the financial statements as "Inter group current accounts" further a difference of Rs.194.44 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 the difference were not revealed to the audit.	Reconciliation of Inter Group Current Accounts and Inter Company Current Account balances shall be corresponded each other is accepted.	Action should be taken to reconcile and adjust the differences in the current account balances among the divisions and current account balances between the Corporation and NEMO.

- | | | | |
|-----|--|---|---|
| (c) | Differences of Rs.1,019.89 million and Rs.582.63 million were observed respectively in the balances due from customers and balances due to customers between the financial statements and profit calculation schedule, in the NEMO unit as at 31 December 2022. | Until projects are completed balances of Due to and Due from customers brought forwarded through Balance Sheet is the result of different between adjusted income and certified bills on percentage of completion method. | Action should be taken to prepare the accounts accurately after reconciled with relevant schedules. |
| (d) | Although savings accounts balances valued Rs.0.87 million were confirmed by the People's Bank as at 31 December 2022, these balances had not been included in the financial statement as at 31 December 2022. | Disclosure requirement will be fulfilled in the immediate subsequent year and adjusted in the books of accounts in 2025. | Action should be taken to disclose all bank accounts details in the financial statements. |
| (e) | Differences amounting to Rs.3.12 million and Rs.3.27 million were observed respectively between the EPF and ETF payable schedules and the corresponding balances reported in the financial statements of the NEMO unit. | EPF and ETF payable related to NEMO will be reconsidered through alternative action process since none of responsible or competent staff to deploy after VRS. | Action should be taken to prepare the accounts accurately after reconciled with relevant schedules. |
| (f) | A credit balance of Rs.33.58 million had been presented as "collection of client" under deposits, prepayments and advances, without identifying relevant client. Further, a debit balance of Rs. 14.60 million included as Rounding off and Loan Granted and Credit balance of Rs. 8.72 million as Bank transfer under other receivable. | This can be clarified as direct payments made by the Client for the consultants certificate have been posted to separated account was represented as collection of clients account has been subsequently adjusted at the posting of invoices. | Action should be taken to prepare the Financial statements accurately after reconciled with relevant schedules. |

1.5.3 Going concern of the Corporation

Audit Issue	Management Comment	Recommendation
The net loss incurred by the Corporation for the year ended 31 December 2022 was Rs.1,509.30 million and the Retained Earnings (Debit balance) of the Corporation as at 31 December 2022 amounting to Rs.9,123.41 million. Moreover, the current liabilities exceeded the current	The loss incurred situation become harder due to National economic constrains experienced during the year 2022. In this context restructuring proposal was made to the cabinet in 2022 and approved. Subsequently it was refreshed and superseded by	Action should be taken by the management to minimize the cost of construction projects and finance cost for increase the profit strategically as a self-finance institution.

assets of the Corporation as at that date by Rs.5,463.13 million, including Rs.132.30 million overdraft and interest bearing borrowings of Rs.3,207.05 million. Due to the financial difficulties faced by the Corporation, a sum of Rs.465.90 million had been granted by Treasury during the year under review to facilitate the payment of salaries.

another approval being offering VRS for employees at the 4th quarter in 2023. Further action are being undergone to eliminate un productive fixed cost and expedite land transfer activates in line with smooth operation of current cash flow by minimizing cost of finance, while increasing job portfolio over 5.5 Billion at present.

1.5.4 Documentary Evidences not Made Available for Audit

	Item	Amount (Rs. Mn)	Evidence not Available	Management Comment	Recommendation
(a)	Deposits prepayments and advances	786.06	Detailed schedules, Age analysis	Noted for the adopt relevant accounting treatments.	A comprehensive schedule containing all necessary details should be submitted for audit.
(b)	Current Liabilities	1693.20	Detailed Schedule, Age analysis	Noted for the adopt relevant accounting treatments.	do
(c)	Bank balances	5.06	Bank Confirmations, Bank statements and Bank reconciliation statements.	Noted for the adopt relevant accounting treatments.	Bank Confirmations, Bank statements and Bank reconciliation statements should be submitted for audit appropriately.
(d)	Income	412.99	Detailed Schedule	Noted for the adopt relevant accounting treatments.	A comprehensive schedule containing all necessary details should be submitted for audit.
(e)	Trade Receivable (NEMO)	231.09	Detailed Schedule	Noted for the adopt relevant accounting treatments.	do
(f)	Deposits prepayments and advances	1,068.45	Detailed Schedule	Noted for the adopt relevant accounting treatments.	do

(g)	Current Liabilities	1,458.04	Detailed Schedule, Age analysis	Noted for the adopt relevant accounting treatments.	do
(h)	Property plant and equipment	372.88	Fixed assets register.	Noted for the adopt relevant accounting treatments.	The Fixed assets register should be maintained and updated on a regular basis to ensure the accuracy and completeness of assets records.
(i)	Opening balance of current asset and current liabilities	411.90	Detailed schedules	Noted for the adopt relevant accounting treatments.	A comprehensive schedule containing all necessary details should be submitted for audit.

1.6 Accounts Receivables and Payables

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Trade debtors relating to Seven groups amounting to Rs.1,565.57 million, had remained unrecovered for over 03 years and represent 64 per cent of the total debtor balance of Rs.2,441.56 million in the financial statements as at 31 December 2022.	The balances of trade debtors were further reduced by collection in subsequent period amounting Rs.675 million was resulted to decline it up to Rs.1,766.66 million as at 31 December 2025.	Proper actions should be taken and followed to recover receivables promptly.
(b)	Advances amounting to Rs.1,013.45 million had been recorded under various classifications as deposits, prepayments, and advances. Out of that balances aggregating to Rs.589.05 million had remained outstanding over three years.	The accounts have been reviewed and reconciled in accordance with the existing advance source documents for the year 2025. In updating the accounting system for the year 2026, including the settled balances, it has been requested to revise the age analysis limit from the 3years to 5years.	Action should be taken to settle and clear these balances promptly.
(c)	The balance of Rs.5.40 million which was included in other receivables under U.D.A Site No. 1575 since the year 2009, had not been recovered up	Expenditure over run for the shifting from filling station premises at Maligawatta to Nuge Road is expecting recovery from	Action should be taken to collect the receivable balances.

	to 31 December 2025.	UDA will be adjusted, while confirmation process is completed.	
(d)	Although the retention receivable balance as at 31 December 2022 amounted to Rs.1,309.24 million, the detailed schedules relating to this balance were not submitted for audit on a project- wise basis. Accordingly, it was not possible to verify whether these balances were associated with completed projects or ongoing projects. Furthermore, it was observed that retention receivables amounting to Rs. 682.71 million had been outstanding for over five years.	Recovery of retention is determined and finalized at the process of issuing certification for Practical Completion/ Final stages.	Action should be taken to collect the retention receivable balances periodically.
(e)	The balance due from customers and the balance due to customers as at 31 December 2022 on non- performing projects were Rs.1,208.08 million and Rs.507.31 million respectively. These balances are remained until completion or terminate the relevant projects.	Accepted and finalization action are being carried out.	Action should be taken to finalize the inactive projects and get certified final bills promptly.

1.6.2 Payables

	Audit Issue	Management Comment	Recommendation
(a)	Over 03 years current liabilities of Rs.1,859.23 million and Rs.10.56 million of Income tax had remained unsettled since the year 2013. Further out of the accrued expenses and other provisions of Rs.57.69 million, as at 31 December 2022, only Rs.5.03 million was accrued in the year under review. The remaining Rs.52.66 million was the balance accrued before the year under review, and had not been paid as at 31 December 2022.	Considering current cash flow and continuity of current projects and jobs, the corporate management has taken policy decision to settle current liabilities of which effect to current operation and rest of others will be differed until find sources from extra ordinary process like proceed from land transfer according to the priority basis.	Action should be taken to settle the outstanding balances without further delay.

- | | | |
|---|---|---|
| <p>(b) Mobilization advance totaling Rs.899.82 million received from the clients had remained unsettled for over 05 years without been settled even as at 31 December 2022. Further out of that, Rs.29.40 million was relevant to over 90 percent completed projects.</p> | <p>Following reasons are caused to non-recovery of long period held Mobilization advances, find beyond SEC controlled. Client suspends projects without being applied appropriate termination procedure, projects dragged couple of years due to short of fund allocation and changes in scope or purpose of work, once project is commenced of partially completed. etc.</p> | <p>Action should be taken to settle mobilization advances according to standard bidding documents/ procurement guideline 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.	Advances issued by cheques aggregating to Rs.979.05 million as at 31 December 2024 had remained unsettled, of which Rs.134.18 million had been outstanding for 3 to 5 years, and Rs.182.52 million for over 5 years.	Special attention is paid to settle all these long outstanding keep settlements with in the allowed period.	Necessary measures must be implemented to get settled these advances as per circular instructions.
(b)	Paragraph 4 of Internal Circular of special cash advances, No. 122/1979 of 20 December 1979.	When the special cash advances are issued for the supply of goods or services, such advances should be settled within 14 days. However, special cash	Although the long outstanding amounts appeared in the year 2024, at the date of audit report is served it has been reduced up to Rs.5.51 million and recovery actions are being continued.	do -

advances
outstanding for
over 01 year
amounting to
Rs.10.62 million
had remained
unsettled as at 31
December 2024.

1.8 Non Compliance with Tax Regulations

Audit Issue	Management Comment	Recommendation
(a) Action had not been taken to remit the Value Added Tax totaling Rs.1,423.33 million to the Department of Inland Revenue even as at 31 December 2024.	All past due VAT have been planned to settled through the proceeds from proposed land transfer activities authenticated by the Ministers of Cabinet No 403/25/0921/814/043 dated 17.06.2025, which has been further accepted by the cabinet appointed sub Committee CGIR represented as member.	The Corporation should remit value added tax as per Value Added Tax Act No.14 of 2002.
(b) No action had been taken to settle the Nation Building Tax liability of Rs.65.21 million payable to the Department of Inland Revenue in respect of 2019 and prior years.	Settlements are undergone with the discussion with tax authorities according to the restructuring process as mentioned above.	The Corporation should comply with tax law.

2. Financial Review

2.1 Financial Results

The financial result of the year under review amounted to a loss of Rs.1,509.88 million and the corresponding loss in the preceding year amounted to Rs. 1,739.55 million. Therefore an improvement amounting to Rs.229.67 million of the financial result was observed. The main reasons for this improvement were decreasing cost of sales and administrative expenses.

2.2 Trend Analysis of Major Income and Expenditure Items

Compared with the previous year, revenue decreased by Rs. 551.63 million in the year under review and it represent a decline of 17.62 percent. Cost of sales and administrative expenses decreased by Rs.571.10 million and Rs.55.91 million, respectively. Furthermore, net finance

expenses increased by Rs.363.79 million, representing an increase of 130.59 percent compared with the previous year.

2.3 Ratio Analysis

For the year 2022 and 2021 the entity recorded a negative net profit ratio was 59 percent and 56 percent respectively and the current ratio of the Corporation remained at 0.6:1 in both the previous year and the year under review, indicating a persistently weak short – term liquidity position.

3. Operational Review

3.1 Operational inefficiencies

	Audit Issue	Management Comment	Recommendation
(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 93 ongoing construction projects implemented as at 31 December 2022, 14 projects incurred a loss of Rs.251.84 million and the accumulated loss from those projects as at 31 December 2022 was Rs.785.62 million. Further, the Main Canal Extension at Ranminithenna in Thisa division project, which was implemented by the NEMO unit, had incurred a loss of Rs.3.29 million in the year under review and a cumulative loss of Rs. 36.95 million as at 31 December 2022.	The National economic constrains towards general price increase and import restrictions were experienced to increases losses during 2022 onwards. Management is intended to complete all tail end project with in short period while economically manage project cost before mid of 2026. Project results will be further scrutinized at the point of finalization activities.	The management of the Corporation should pay its attention to mitigate the financial losses and enhance the profitability with planning and proper supervision
(b)	After analyzing the income and expenditure details for the year 2022 submitted by Corporation regarding the work performance of permanent sites and workshops, it was observed that a total loss of Rs.172.89 million had been	Reason for the loss incurred permanent sites has been discussed individually at the submission of Audit Query 2022/AQ/01/04 dated 01.04.2024. Further actions	The management of the Corporation should pay its attention to mitigate the financial losses and enhance the profitability with better work

	incurred from twelve sites during the year under review, and only five sites have generated profits.	have been established to restate precast system and enhance / introduce proposals for permanent sites through the Strategic Business Plan at the transitional period until restructuring process is commenced.	performance.
(c)	Although Rs. 6,973.28 million had been spent for 138 projects that were implemented by the Corporation before 2022, the invoices had been issued only for Rs.5,694.28 million. Further, Rs.94.14 million had been spent for 12 projects that implemented by NEMO Division before 2022, the invoices had been issued only for Rs.65.22 million. Because these projects remain non-operational, there is a risk that the Corporation will not be able to recover the remaining amount of Rs.1,307.92 million.	The non-recovery amounts will be changed at the issuing of Practical Completion or Final Certification or when finalization of projects exercise is carried out. Projects revenue was recognized through interim certification/bills during the year under review. Once the Practical Completion of Final certification are issued further revenue might be added, will be resulted to reuse loss or profit vise versa.	Necessary measures should be taken to settle this situation with recovering dues promptly.
(d)	Projects that were not included in the profit calculation statement for the year under review and on which no costs had been incurred (i.e., projects not implemented) still recorded raw material stock balances amounting to Rs. 21.43 million. However, these materials had not been allocated or transferred to other projects.	Not commented	Action should be taken to purchase raw materials for requirement and if there were balance stock unused should be allocated to another project.
(e)	256 numbers of stock items had not been valued and brought to the financial statement due to the unavailability of unit prices as at 31 December 2022.	Immediate action to be taken to pricing all items has been deliberated to Group and Head of Sections, and results will be notified to the Auditors.	Action should be taken to value the stock and presented in the subsequent financial statements.
(f)	The cumulative expenditure of proposed Walkway Track & Landscaping Works at Jaffna (Vellaveli) project as at 01 January 2022 was Rs.3.55 million.	Cost apportion/ distribution of NEMO projects has to be further scrutinized through special activity of project finalization.	Action should be taken to record project details correctly.

However, this amount had been reduced by Rs.3.33 million and the cumulative expenditure of the project as of 31 December 2022 was stated as Rs. 0.22 million. Nevertheless, invoices had been issued to the value of Rs.6.39 million as per the profit calculation for the year 2022, indicating a discrepancy observed during the audit.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
The 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 2022 had been furnished to the Auditor General on 14 November 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.	Necessary measures must be implemented to submit financial statements and the draft annual reports as per circular instructions.