State Engineering Corporation of Sri Lanka

1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1:2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka State Engineering Corporation as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1:2 Comments on Financial Statements

1:2:1 Non-compliance with Sri Lanka Accounting Standards

(a) Even though the Corporation had prepared a cash flow statement in terms of the Accounting Standard No. 9, the allocations amounting to Rs.37.66 million and Rs.55.37 million in the Labor Sub-contract Provision Account and the Employees' Gratuity Provision Account respectively, had not been adjusted to the operating profit in the cash flow statement.

(b) According to the Standard No. 14, temporary changes in taxes should be shown under the Deferred Tax Account. Nevertheless, the changes in taxes during the year under review had not been adjusted in the Deferred Tax Account.

(c) According to the Standard No. 18 whenever the book value of fixed assets reach zero level, those should be revalued. Nevertheless, the fixed assets costing Rs.295, 454,457 had been shown at a nominal value of Rs. 1 instead of being revalued.

(d) According to the Standard 22, whenever an investment is at risk, it should be disclosed in the financial statements. Nevertheless, the non-receipt of any return on the investment of Rs.5,958,715 made by the Corporation in a foreign company, that had not been disclosed in the financial statements despite the elapse of two years.

1:2:2 Accounting Policies shown in the Financial Statements

The following observations are made in this connection.

(a) Even though the Corporation had accounted for the expenditure incurred on contracts where the work completed had been less than 20 per cent, as expenditure for the year during the preceding years in terms of Note No. 1.4(b), the profit on such contracts as well had been computed unrealistically in the year under review based on the percentage of work done. A sum of Rs.85, 494,442 had been shown as the profit on such contracts.

(b) Even though full provision for doubtful debts had been made for sundry debtors and the balances receivable older than 05 years in terms of Note 1.3(c) no provision had been made for the balances less than 05 years old. The balances older than 04 years and less than 05 years old as at 31 December 2011 amounted to Rs.184, 849,534. As those balances would be older than 05 years in the ensuing year, making provision on doubtful basis would have a direct impact on the profit of the Corporation.

1:2:3 Accounting Deficiencies

The following deficiencies were observed.

(a) Bank charges and commission totalling Rs.13, 330,171 which should have been shown under finance expenses had been shown under sundry expenses.

(b) Action had not been taken to identify and rectify the unusual credit balances of 16 debtors' accounts totalling Rs.170, 055,132 appearing in the Debtors Control Account.

(c) Unusual credit balances totalling Rs.12, 967,320 in the Purchases Imprest Account, the Special Cash Advances Account, the Sub-contracts Mobilization Advance Account and Travelling Expenses Advance Account and an unusual debit balance of Rs.5, 913,707 in the Refundable Deposit Account existed.

(d) The overstatement of the profit for the year 2009 on the Modernization of the Building of the Department of Inland Revenue Project amounting to Rs.66, 531,602 due to the incorrect adjustment of the inter-departmental profit margin in the computation of the profit of the Corporation had not been deducted from the retained profit for the year under review.

(e) The operating loss of 07 Work-in-progress Projects of the Construction Division for the year under review amounting to Rs.29,696,866 had been shown as an operating profit of Rs.14,622,174 and as such the total profit of the Corporation had been overstated by a sum of Rs.44,319,040.

(f) The value of work done amounting to Rs.7,333,084 of 04 projects of the Construction and Accessories Division with bid value of Rs.7,246,130 completed in the year under review had been omitted in the Contract Accounts.

1:2:4 Inappropriate Disclosures

The Corporation had failed to explain to audit about funds transfer balance amounting to Rs.5, 745,250 shown under the sundry debtors and balances receivable.

1:2:5 Unreconciled Control Accounts

The following balances of accounts did not reconcile with the related schedules.

	Particulars of Account	Balance shown in the Accounts	Balance according to Schedule	Difference
		Rs.	Rs.	Rs.
(a)	Sub-contracts Accrued Expenses Account	9,614,880	47,279,306	37,664,426
(b)	Payables to Customers	1,383,039,997	1,441,131,897	58,091,900
(c)	Receivables from Customs	844,539.910	1,434,401,912	589,862,002

1:2:6 Unexplained Differences

The following unexplained differences were observed.

(a) The following items appearing in the financial statements presented for the year 2010 did not reconcile with the comparative items in the financial statements for the year 2011.

	Particulars of Accounts	Balance as at 31 December 2010 according to the Accounts for the year 2011	Balance as at 31December 2010according to the Accounts for the year 2010	Difference
		Rs.(Millions)	Rs.(Millions)	Rs.(Millions)
(i)	Fixed Deposits	21.12	17.63	3.49
(ii)	Other Debtors Receivables and Advances	901.97	907.93	(5.96)
(iii)	Cash and Cash Equivalents	335.91	333.44	2.47

(b) The value shown in the direct confirmations sent in response to the letters for confirmation of balances sent by the Corporation to the debtors in the year under review did not reconcile and the respective institutions had not agreed to those balances.

Particulars of Accounts	Balance in the Account as at 31 December 2011	Directly Confirmed Balance	Difference
	Rs.(Millions)	Rs.(Millions)	Rs.(Millions)
Department of Cultural Affairs	1.09	7.14	6.05
University of Moratuwa	22.69	2.72	19.97
State Pharmaceuticals Manufacturing Corporation	0.96	0.70	0.26
University of Kelaniya	29.38	5.95	23.43

(c) According to the financial statements of the National Housing Development Authority as at 31 December 2011, the State Engineering Corporation had been shown as a debtor for Rs.233, 195,041. Nevertheless, the financial statement of the State Engineering Corporation as at that date did not show the National Housing Development Authority as a creditor for that amount.

1:2:7 Accounts Receivable and Payable

The following observations are made.

(a) Out of the current and non-current assets of the Sri Lanka State Engineering Corporation, the debtors balance represented a high value. The trade debtor balance as at the end of the year under review amounted to Rs.4, 657.374 million and out of that, a sum of Rs.316.137 million had been debtors' balances older than 05 years. The special feature of this is that more than 95 per cent of the debtors are state institutions. The progress of debt recovery had been at a very low level and as compared with the preceding year the trade debtors had increased 37 per cent. Out of the trade debtors balance amounting to Rs.3,397 million as at 31 December 2010, no recoveries whatsoever had been made in the year 2011.

(b) Out of the total trade creditors balance amounting to Rs.122.759 million balances amounting to Rs.2.582 million had been outstanding for more than 05 years. No effective course of action had been taken for the settlement of these credit balances.

(c) The Corporation was liable as at the end of the year under review to pay a sum of Rs.396.26 million to the sub-contract creditors and out of that, the balances older than 05 years amounted to Rs.41.623 million. The Sub-contract creditors' balance as at the beginning of the year amounted to Rs.125.44 and by the end of the year that creditors balance had increased by Rs.216 million.

(d) A sum of Rs.22.512 million payable to and a sum of Rs.5.356 million recoverable from the Urban Development Authority had been carried forward by the Corporation continuously from the year 2000. No effective course of action whatsoever had been taken either to settle or set off the amounts.

(e) Action had not been taken even during the year under review as well for the settlement in the amounts totalling Rs.9.305 million brought forward in the accounts over long periods as payable under the Temple of Tooth Relic Control Account, the Buddha Sasana Ministry Control Account, the Department of Inland Revenue Control Account and the Department of Buildings Account.

1:2:8 Payments of Advances

The Corporation had paid large advances very often for various purposes and adequate action had not been taken for the settlement of such advances paid. The details are as follows.

(a) The balance of the advances paid to suppliers by the last day of the year under review amounted to Rs.14,666,768 and out of that, a sum of Rs.1,246,816 had been older than 05 years while advances amounting to Rs.1,552,701 represented advances paid between 04 to 05 years ago. The Corporation had not taken proper courses of action for the settlement of these balances.

(b) The issue of cheques along with the orders placed before the receipt of goods had been done over and over again and the balance of the cheques Issued with the Orders Account as at 31 December 2011 amounted to Rs.423, 598,569. The age analysis of that amount had not been furnished to audit.

(c) Even though cash advances should be paid only to the officers in charge of cash at work sites, in addition to that advances had been paid to different officers. The balance of such advances paid by the end of the year under review amounted to Rs.9,904,849.

(d) The mobilization advances paid by the Corporation for the sub-contracts had been brought forward in the books year after year due to the non-settlement of the advances during the specified period. As such the value of the Sub-contract mobilization advances lapsed for more than 05 years amounted to Rs.3, 900,599. Out of the advances paid to the labor sub-contractors, the balance of the unsettled advances as at 31 December 2011 amounted to Rs.241, 367,741.

1:2:9 Lack of Evidence for Audit

The audit evidence indicated against the items of accounts shown below had not been furnished to audit.

	Items in the Financial Statements	Value	Evidence not made available
		Rs.(Millions)	
(a)	Cheques with Orders Advance Account	423.59	Age Analysis
(b)	Festival Advance Account	2.12	Age Analysis
(c)	Distress Loan Account	7.59	Age Analysis
(d)	Capital Receipts for the shifting of Precast Yard Narahenpita to another location.	22.65	Source and Files including transfer documents.
(e)	Balance of the Account No. 9934 included in the Cash and Cash Equivalents.	1.88	Bank Account, Bank Statements, Bank Reconciliations and Confirmation of Balance.
(f)	Cash balance of Sri Lanka State Engineering Corporation (Qatar) Company Ltd.	5.95	Bank Confirmations, Bank Statements, Bank Reconciliations, Credit Advices.

1:2:10 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliances with the following laws, rules etc. were observed.

	Reference to Laws, Rules etc.	Non-compliance
(a)	Paragraph 11 of the Finance Act, No. 38 of 1971.	The concurrence of the Ministry of Finance and Planning had not been obtained for the sum of Rs.141, 707,608 invested by the Corporation in the year under review.

(b)	Circular No. 28(ii) of 01 August 2006 of the Department of Management Services and the Letter No. DMS/E3/43/4/265/1 dated 25 November 2009 of the Director General of the Department of Management Services.	Despite being informed to desist from the creation of posts or filling vacancies without the approval of the Department of Management Services, 330 employees had been recruited to 20 unapproved posts created. Those had been paid a sum of Rs.124, 312,146 as salaries during the year 2011.
(c)	Letter No. DMS/E3/43/4/265/1 dated 14 February 2011 of the Department of Management Services.	Even though the number of unskilled employees that can be recruited had been revised and reduced from 500 to 460, the number deployed in service even as at 31 December 2012 had been 775 and exceeded the approved number by 315. The Chairman informed that employees had been recruited on contract basis according to the exigencies of services of work sites in faraway places and that their services will be terminated after the completion of work of those work sites.
(d)	Letter No. BD/356/303/23 dated 28 April 2004 of the Department of National Budget.	Even though the balance remaining after the payment of compensation out of the money received for the Voluntary Retirement Scheme should be remitted to the Treasury, the balance sum of Rs.20,278,812 had not been remitted to the Treasury even by 31 December 2011.

2. Financial and Operating Review

2:1 Financial Results

The operation of the Corporation for the year under review had resulted in a pre-tax net profit of Rs.252.97 million as compared with the corresponding net profit of Rs.133 million for the preceding year, thus indicating as increase of Rs.119.97 million in the financial results for the year under review.

2:2 Analytical Financial Review

The following observations are made.

(a) The profit for the year under review had been overstated by a sum of Rs.44.319 million as the Corporation had not computed the profit in the output percentage system in terms of Sri Lanka Accounting Standard No. 13 in the computation of the contract profit of the Constructions Division for the year under review.

(b) The Bank overdraft and the cash and cash equivalents of the Corporation as at 31 December 2011 amounted to Rs.137.91 million and Rs.270.86 million respectively. According to the Bank Statements issued by the Bank as at 28 February 2013, the bank overdraft amounted to Rs.478.78 million and the cash balance as at that date amounted to Rs.8.15 million due to the failure of the Corporation to maintain a good financial management. This position was observed as adversely affecting the going concern of the Corporation.

3. Operating Review

3:1 Performance

The following observations are made.

(a) The review of the operations of the Matale Dolomite Precast Yard of the Corporation revealed that except for the year 2006, it had incurred losses in all the fourteen years and the loss for the year under review amounted Rs.5 million. The accumulated loss for the period amounted to Rs.37.6 million.

(b) The Dankotuwa Brick and Carpentry Products Yard had incurred a loss of Rs.450, 674 in the year under review and out of the 15 preceding years, losses had been incurred in 13 years. The accumulated loss amounted to Rs. 23.45 million. The use of bricks of this Yard for construction works in the year under review as compared with the year 2010 had decreased from Rs.6, 014,891 to Rs.3, 972,305 and represented 31 per cent.

(c) The Peliyagoda Work Site of the Mechanical and Electrical Division had incurred a net loss of Rs.16, 250,138 in the preceding year and a loss of Rs.3, 430,002 had been incurred in the year under review as well.

(d) The Welikanda Precast Yard opened in the year under review under the Constructions and Components Division had incurred a net loss of Rs.1,851,510.

(e) The operating and maintenance expenditure incurred by 21 Depots and 05 work sites of the Machinery and Equipment Division amounting to Rs.235.30 million had exceeded the turnover amounting to Rs.179.43 million while 06 Depots and one Work Site had not earned income and incurred expenditure whatsoever in the year under review.

(f) The income of the Consultancy Division and the Construction and Components Division for the year under review as compared with the preceding year had decreased by 43 per cent and 40 per cent respectively due to the non-receipt of new projects.

(g) The review of the income, total expenditure, salaries and wages, gross profit and the net profit of 12 permanent work sites of the Construction, Mechanical and Electrical and Construction Components Divisions revealed that the total expenditure of all those work sites as compared with the income had ranged from 78 per cent to 143 per cent and 04 work sites had incurred losses. In addition, the expenditure on salaries and wages of 05 Work Sites as compared with the total expenditure ranged between 50 per cent and 70 per cent.

3:2 Management Inefficiencies

The following observations are made.

(a) Even though the Corporation had obtained a Tax Direction in terms of Section 153 of the Inland Revenue Act, No. 10 of 2006, the client institutions had remitted sums amounting to Rs.71, 208,053 as the Withholding Tax direct to the Department of Inland Revenue as at 31 December 2011 due to the failure to make the client institutions aware of the Direction.

(b) The application made on 16 December 2011 by the Corporation to the Department of Inland Revenue to obtain an order for preventing the recovery of the Withholding Tax from the interest on fixed deposits had been rejected "due to the failure of the Corporation to settle its tax liabilities properly". As such, the Banks had deducted a sum of Rs.509, 536 as the Withholding Tax on interest in the year under review alone and remitted to the Department of Inland Revenue. The accumulated balance of the Withholding Tax on Interest Income Account as at 31 December 2011 amounted to Rs.6, 417,251.

(c) The overpayment of Nation Building Tax amounting to Rs.13, 567,215 due to the failure to compute the tax accurately as at the end of the year under review had been shown in the accounts as a balance receivable.

(d) Value Added Tax amounting to Rs.20, 665,484 had been overpaid in the years 2002 and 2003 due to the failure to consider Turnover Tax amounting to Rs.29, 516,563 in the computation of the Value Added Tax. The Corporation had failed to settle that amount even by the end of the year under review.

(e) Agreement with regard to the amount of tax payable for the year 2011 had not been reached with the Department of Inland Revenue even by 31 October 2011 due to the failure of the Tax Management of the Corporations to settle the tax liabilities of the past years properly and due to the weaknesses in the Tax Management. The Department of Inland Revenue had, by letter

No. 409007970/DTRT dated 20 February 2012 informed that a tax liability of Rs.291,450,532 inclusive of penalty amounting to Rs.77,831,984 had arisen on 71 Assessment Notices relating to the arrears of Turnover Tax, Security Levy, National Security Levy, Value Added Tax, Economic Service Charge and Nation Building Tax due to the failure of the Tax Management of the Corporation to settle appropriately the tax bills of the past years prior to the year 2009.

(f) A tax liability of Rs.88,363,835 inclusive of penalty amounting to Rs.33, 538,338 had arisen on 15 Assessment Notices issued by the Department of Inland Revenue on the tax liability after the year 2009.

(g) Goods and Services Tax amounting to Rs.2,119,535, National Security Levy amounting to Rs.3,541,485, Value Added Tax payable at 10 per cent amounting to Rs.438,636,859 and Value Added Tax payable it 20 per cent amounting to Rs.43,933,142 existing from the year 2010 remained unreconciled and unchanged even by 31 December 2011.

3:3 Operating Inefficiencies

The following observations are made in this connection.

(a) Roofing sheets valued at Rs.3,318,000 only had been received for a sum of Rs.6,944,000 paid before the receipt of goods to a private institution for the purchase of roofing sheets for the Project on the Construction of Houses for the Displaced Persons in the Menik Farm at Chettikulam. A case had been filed for the recovery of the overpayment of Rs.3, 626,000 made by the Corporation. This amount was being settled in installments and a further sum of Rs.1, 946,690 remained receivable from the Company as at the end of the year under review.

(b) The expenditure incurred by the Corporation on fuel, hired motor vehicle charges and transport allowances during the year amounted to Rs.121, 249,049 and that represented a high value of 59 per cent of the net profit earned.

3:4 Uneconomic Transactions

The following observations are made in this connection.

(a) The Corporation had been active from the year 2008 to earn profits by launching construction projects in foreign countries and a sum of Rs.13,130,730 had been spent in that connection. Nevertheless, the Corporation had not been able to launch constructions, secure procurements or earn any income even by the end of the year under review. All the expenditure incurred had become fruitless.

(b) The Corporation had failed to recover the sum of Rs.5, 958,715 deposited in an account in a Bank in Doha in 2009 for the Bank transactions of the Sri Lanka State Engineering Corporation (Qatar) Company Ltd. established for launching foreign construction projected abroad.

(c) Forty nine persons had been recruited as Marketing Promotion Officers without the approval with a view to expanding civil work projects Island-wide and a sum of Rs.19, 048,240 had been paid to them as salaries in the year under review. Nevertheless, the turnover of the production work sites at Dankotuwa and Matale had not increased at a satisfactory level even during the year under review and had been incurring losses continuously. No new civil projects had been commenced. In addition, a sum of Rs.3, 587,141 had been spent as business promotion expenses.

3:5 Identified Losses

The following observations are made in this connection.

(a) In view of the failure to follow a good management practice on the operational activities, 64 construction works undertaken by the Corporation in the years 2009 and 2010 had incurred losses amounting to Rs.301.3 million. Even though the Chairman informed that the losses had resulted from additional work and price fluctuations and that can be later recovered from the clients, no such later recoveries had been made from any of the 64 projects up to 31 December 2011. While the loss on those projects remained as it is, a loss of Rs.130.74 million had been incurred on 19 projects in the year 2011.

(b) The entire Value Added Tax amounting to Rs.168.99 million receivable on the value of work done amounting to Rs.1,408 million of the work site for the Modernization of the Khettarama International Cricket Stadium of Rs.1,444 million bid value had not been received by the Corporation from Sri Lanka

Cricket Board. The reason adduced for that had been that Sri Lanka Cricket Board receives tax exemption on Value Added Tax. Nevertheless, according to the letter No. FP/06/20/03/03/19(SP-Vol .ii) of the Director General of the Ministry of Finance and Planning, Sri Lanka Cricket Board had been exempted only for work done during the 03 months from 01 February 2011 to 01 May 2011, and as such it was evident that exemption was not applicable for the work done prior to that period. As such the non-receipt of the Value Added Tax of Rs.168.99 million for work done can be considered as a loss to the Corporation. A further sum of Rs.321.5 million exclusive of the Value Added Tax for the work done on the project remained receivable by the Corporation as at 15 March 2013 from Sri Lanka Cricket Board.

3:6 Transactions of Contentious Nature

The following observations are made.

(a) Even though sums totalling Rs.5, 885,178 had been paid on 16 June 2011 to the Insurance Corporation of Sri Lanka to provide life insurance cover and medical insurance cover for the employees of the Corporation only for a period of one year from 16 June 2011 to 15 June 2012, that insurance cover had not been in operation after 15 June 2012. The Chairman informed that it is expected to introduce a new insurance scheme by holding discussions with the management after receiving the proposals of the Trade Unions.

(b) According to an agreement entered into with a private company on 10 November 2006 for the computerization of the Accounts, Administration and Stock Control Divisions, work should have been completed within 03 months from the date of the agreement. But the salaries system only had been computerized even by the year 2010 and a sum of Rs.1, 785,574 had been paid to the company for that purpose. As that computer system was not effective the management of the Corporation had decided to convert to a new information system (Sage Licensed Vendor) by paying an advance of Rs.1, 222,412 in the year2012 to another private company. Even though such new information system had been introduced, the Corporation had failed to furnish any of the quarterly accounts for the year 2012 even by 31 March 2013.

3:7 Deficiencies in Contract Administration

The following observations are made in this connection.

(a) The commencement of construction works before the preparation of the bills of quantities is a widely followed practice of the Corporation and the work had been continued by obtaining advances for work done from the clients. This practice is a deviation from the appropriate procedure for the execution of construction contracts. There were instances of the Corporation incurring losses due to incurring expenditure exceeding the values shown in the bills of quantities prepared later.

(b) A loss of Rs.85.55 million had been incurred as at 31 December 2011 due to incurring expenditure exceeding the bid values on 21 construction contracts. The Chairman stated that the objective of the Corporation which has built a large goodwill in the construction sector is to give constructions of quality level to the country and despite losses are incurred on certain projects, all efforts are being made to maintain the Corporation at the profitable level.

(c) The consultancy work of certain construction work undertaken by the Corporation is done by the Consultancy Division of the Corporation. Even though the bills for work done prepared by the Construction Division should be certified within 21 days by the Consultancy Division. Nevertheless, there were delays ranging from 03 months to 03 years in the certification of the bills of 17 projects and that had directly impacted on the collection of money from the clients. Examples are given below.

Project Number	Particulars	Date of Submission of Bills to the Consultancy Division	Number of Days delay in the Certification of Bills	Value of Bill submitted
				Rs.
1620	Image House of Seruwila Raja Maha Vihara	2010.03.02	1084	2,585,943
1622	Circuit Bungalow Seruwawila	2010.07.22	921	2,320,583
1615	Surgical Theatre Building University of Rajarata	2010.09.09	881	12,657,400

3:8 Supply of Resources of the Corporation to other Government Institutions

The Corporation had released 25 motor vehicles up to the end of the year under review to the Ministry of Constructions and Engineering Services contrary to the provisions in Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003. A sum of Rs.11, 677,577 comprising Rs.5,344,302 for fuel and Rs.6,353,275 for hire charges had been spent for these motor vehicles. Ten drivers had been released on full-time basis to the Ministry for the motor vehicles obtained on hire basis and the Corporation had spent a sum of Rs.3, 337,981 as their salaries, overtime and combined allowances.

3:9 Human Resources Management

Category of Employees	As at 31December 2010	As at 31December 2011
Permanent	1,671	1,693
Contract	517	721
Casual	95	28
Total	2,283	2,442

The following observations are made in this connection.

(a) The number of employees approved for the Corporation up to 31 December 2011 by the Department of Management Services had been 2,249 and 193 employees exceeding the approved cadre had been deployed in service.

(b) Recruitment to 04 posts of Deputy General Manager and the post of Internal Auditor in the top management of the Corporation had been made on contract basis.

4.	Accountability and Good Governance

4:1	Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the draft accounts should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless the financial statements for the year 2011 had been presented for audit only on 01 March 2013, that is, after a delay of one year.

4:2	Corporate Plan

According to the Circular No. PED/47 dated 18 December 2007 of the Department of Public Enterprises and Chapter 5 of the Public Enterprises Guidelines on Good Governance, an updated Corporate Plan prepared in detail should be furnished to the Auditor General, the Secretary of the Committee on Public Enterprises and the Director General of Public Enterprises at least 15 days before the commencement of the financial year. But it had not been so done. The Corporate Plan prepared for the years 2010 to 2015 had been furnished in the year 2011.

The following deficiencies were observed in that plan as well as the Corporate Plan for the period 2012 – 2015 furnished in October 2012.

(a)	The following objectives had not been included in the Corporate Plan in accordance with the Act, No. 49 of 1957.

(i)	Maintaining a Centre for vehicles and plant and machinery repairs and servicing centre with facilities for the sale of petroleum products.

(ii)	Functioning as an agency for any company or a Corporation or persons who operate a business which manufactures any kind of equipment or plant and machinery or related spare parts or tools used for technical purposes.

(b)	The following action had not been taken in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003 as amended by the Public Enterprises Circular No. PED/47 of 18 December 2007.

(i)	The connectivity between the activities of the Corporate Plan with the Action Plan and the Budget had not been included.

(ii) The progress of the activities of the Corporate Plan at the end of each year and an evaluation of the activities not implemented and the areas of slow progress had not been carried out and a report thereon had neither been prepared nor brought to the notice of the Board of Directors.

(c) Even though the targets of activities of the Corporate Plan to be achieved by each officer had been indicated, the quantitative values of the targets had not been indicated.

(d) The manner of achievement of the profits indicated in the projected Profit and Loss Statement of the Corporate Plan and the connectivity from year to year had not been explained.

4:3 Action Plan

The Corporation had not prepared a Corporate Plan and an Action Plan by revising then annually since the year 2006. As such it was observed that it had performed without a proper understanding of the objectives to be achieved in the year with a clear vision and the manner of the achievement of such objectives during each year.

4:4 Internal Audit

The following observations are made in this connection.

(a) The activities included in the Annual Audit Programme had not paid sufficient attention to the Performance Audits while audit queries relating to performance evaluations had also not been issued.

(b) Even though audit queries relating to the work sites only had been issued during the year, sufficient attention had not been paid for the examination of the final accounts for the year.

4:5 Procurement Plan

The Corporation had not prepared a Procurement Plan for the year 2011 in terms of Section 4.2 of the Government Procurement Guidelines.

4:6 Budgetary Controls

Significant variances were observed at a reconciliation of the data of the financial statements presented with the amounts in the budget. That is, a reconciliation of the budgeted amounts with the actual amounts for the year under review revealed that the actual profit of Electrical and Mechanical Division had increased by 1266 percent, while the profits of the Constructions, Special Operations and the Machinery and Equipment Divisions had deteriorated by 35 per cent, 29 per cent and 54 per cent respectively. Similarly, operating losses had been estimated for 04 permanent work sites in the preparation of the annual budget. As such the budget had not been prepared realistically while it had also not been made use of as an effective instrument of financial control.

4:7 Tabling of Annual Reports

The Corporation had not tabled the Annual Report for the year 2010 in Parliament even by the end of the year under review.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in the following areas of systems and controls.

(a) Accounting
(b) Accounts Receivable and Payable
(c) Cash Management
(d) Tax Management
(e) Budgetary Control and Corporate Plan
(f) Contract Administration