State Engineering Corporation of Sri Lanka - 2014

The audit of financial statements of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 (2) of the State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (C) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub – sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

2. Financial Statements

2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report , the financial statements do not give a true and fair view of the financial position of the State Engineering Corporation of Sri Lanka as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The instances of deviating from the following accounting standards were observed.

(a) Sri Lanka Accounting Standard 01

Although balances of the assets and liability accounts should not be set off against each other, an unusual debit balance of Rs.141 million existed in the liability accounts and an unusual credit balance of Rs.59 million existed in the assets accounts by the end of the year under review had been set off against each other. As such, the current liabilities and the current assets shown in the financial statements as at 31 December 2014 had been understated by those amounts.

(b) Sri Lanka Accounting Standard 02

The stock should be valued at cost or net realizable value, whichever is less. Nevertheless, the stock of finished goods and raw materials existed as at 31 December 2014 had been brought to accounts by the Corporation at cost.

(c) Sri Lanka Accounting Standard 08

As the useful life of non-current assets had not been reviewed annually, 3,047 items of fixed assets costing Rs.57.3 million were further being used despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimate.

(d) Sri Lanka Accounting Standard 19

Considering the fact that the assumptions used as the basis for the Actuarial Valuation Reports carried out in the preceding year were further remained unchanged, no provision whatsoever had been made for the gratuity. Nevertheless, among those assumptions the basic criterion such as employees' turnover and the period of the service of the employees of the Corporation had significantly varied during the year under review.

(e) Sri Lanka Accounting Standard 37

Although provision for contingent liabilities should be made in respect of the commitments which could be specifically recognized, no provision whatsoever had been made in the financial statements for Rs.24.9 million relating to 02 court cases filed against the Corporation.

2.2.2 Accounting Deficiencies

The following accounting deficiencies were observed.

(a) Since there was an unusual credit balance of Rs.501.3 million in the debtors balance as at the end of the year under review, the debtor value as at that date had been understated by that amount.

(b) As the inter departmental current accounts had not been correctly reconciled among each Division of the Corporation, debit balance of the inter departmental current accounts amounting to Rs.12.8 million had been shown in the financial statements as at the end of the year under review.

(c) In the valuation of the closing stock, adjustments had not been made in respect of the recognized impairments of stock totalling Rs.20.8 million in the financial statements.

(d) A sum of Rs.184.7 million payable to the Employees' Provident Fund and the Employees Trust Fund had not been brought to account.

(e) Rental and other charges receivable from the Cement Company and the Lanka Cement Corporation for renting out buildings of the Corporation had been understated and overstated by Rs.2,130,556 and Rs.710,677 respectively in the accounts.

(f) According to the financial statements of the year under review, a sum of Rs.1,933.7 million due from the customers and a sum of Rs.2,454.5 million due to the customers in respect of ongoing projects had been understated in the accounts.

(g) A loss of Rs. 6.95 million relating to 05 projects and a profit of Rs.15.43 million relating to 09 projects pertaining to the preceding years had been adjusted to the profit of the year under review without being accounted retrospectively.

(h) According to the financial statements presented, the temporary difference of tax used for the computation of deferred tax assets as at 31 December 2014 totalled Rs.392.5 million and the over provision of tax credited to the income statement for the temporary tax effect thereupon was Rs.32.87 million. According to the audit, temporary difference of tax totalled Rs.190.8 million and therefore, the overprovision of the tax to be adjusted for the year amounted to Rs.8.7 million. Accordingly, the temporary difference for the deferred tax relevant to fixed assets and the value of the brought forward tax losses had not been correctly computed and as such the overprovision of tax adjusted to the profit of the year and the deferred tax assets had been overstated by Rs.24.2 million.

(i) According to the assessment notification reports sent by the Department of Inland Revenue, although a sum of Rs.148.5 million had to be paid as the defaulted tax under the tax categories of Value Added Tax, Nation Building Tax, Pay As You Earn Tax, Turnover Tax, Defence Levy and Nation Security Levy and a sum of Rs.40.5 million as fine on them had to be paid by the end of the year under review, provision for fine had been made only for Rs.3.7 million in the financial statements.

(j) Provisions for debtors impairment amounting to Rs.122.7 million had been made for a sum totalling Rs.27.6 million of the 81 individual debtors used for the computation of the debtors' impairment value and as such, overprovision of Rs.95.1 million had been made.

2.2.3 Unexplained Differences

Although according to the schedule furnished to audit for the temporary deference on the property, plants and equipments used for the computation of the deferred tax, the balance was Rs.92.55 million, according to the computation carried out in audit, it was Rs.364.69 million Accordingly, a difference of Rs.272.14 million was observed.

2.2.4 Unreconciled Control Accounts

When comparing the balances shown in the financial statements with the balances of the relevant schedules and ledger accounts, the following differences were observed.

Item	Balance as per the financial statements Rs. Millions	Balance as per the schedule Rs. Millions	Balance as per the Ledger Account Rs. Millions
Value Added Tax Payable	319.2	362.3	-
Other Income Receivable	97.8	-	73.9
Accrued Expenses and other provisions	1,133.8	-	1,143.7
Gratuity Paid	10.1	14.3	-
Trade Creditors	810.5	811.2	-

2.2.5 Lack of Evidence for Audit

Evidence indicated against the following items of accounts valued at Rs.7,082.41 million had not been made available to audit.

	Item of Account	Value Rs.Millions	Evidence Not made available
(a)	Capital receipts derived from shifting Precast Yard, Narahenpita to another location.	22.65	Files containing the source of receipts and Register of Transfer.
(b)	Withholding tax	62.71	Copies of the Withholding tax certificates.

(c)	Payments relating to Bank Account Nos. 6437 and 6662	39.00	Payment vouchers
(d)	Goods and Services Tax and Value Added Tax deducted from the debtors value.	998.12	
(e)	Trade and other creditors balance	320.7	
(f)	Foreign Purchase Control Account	40.4	Schedules
(g)	Refundable Tender Deposits	98.47	
(h)	Provision for accrued expenses	788.46	
(i)	Pre-Payments	20.47	
(j)	Closing Stock	17.26	Annual Board of Survey Reports
(k)	Bank Account Balances- Foreign	7.84	Bank Confirmations, Bank Statements, Bank Reconciliations, Trust Consultation Papers
(l)	Bank Account Balances- Local (i) Current accounts and savings accounts and call deposits.	49.77	Certificates of saving accounts or copies of pass books, bank balance confirmation letters.
	(ii) Bank overdrafts	0.98	Balance confirmation letters.
(m)	Trade debtors balance	4,545.65	Balance confirmation letters
(n)	Advances and Service Advances paid to the suppliers	17.79	Schedules and age analysis
(o)	Money received from the customers	52.14	Schedules and age analysis
		7,082.41	

2.3 Accounts Receivable and Payable

The following observations are made

(a) Out of the balance of trade debtors of Rs.4,545.9 million existed by the end of the year under review, more than 95 percent remained receivable from the Government institutions. Out of that, a sum of Rs.1,907.9 million represented the balances older than 3 years.

(b) The above debtor balance included a sum of Rs.1,044.7 million due from the Sri Lanka Cricket since the year 2011 in respect of 07 projects implemented by the Construction and Construction Component Division and it had not been recovered up to 31 December 2014. According to the financial statements of the Sri Lanka Cricket as at 31 December 2014, the amount payable to the Corporation for the aforesaid projects was Rs.567.6 million and as such , a difference of Rs.477.1 million was observed.

(c) The total provision made for the impairment of debtors of the Mechanical and Electrical Division had been at a higher level as 87 per cent of the total debtors value.

(d) A rental income of Rs. 1.04 million and Rs.0.9 million remained receivable from the shopping complex with 97 stalls constructed on the pedestal flyover at Maradana by the end of the year under review and as at 30 July 2015 respectively.

(e) The space reserved for the advertisement boards at the flyover, Maradana had been given to a private institute without calling for quotations and that institute had sublet that space to another private institute and obtained a sum of Rs.600,000. Nevertheless, a formal action had not been taken to recover that money to the Corporation.

(f) The balance of the Cheques With Order Advance Account relating to the advances granted to the Suppliers up on (orders for the) purchase of raw materials required for the projects of the Corporation on the basis of settling them within 30 days amounted to Rs.412.8 million, at the year under view out of which Rs.239.6 million had exceeded a period of one year.

(g) A part of the main building of the Corporation had been given on rent to the Lanka Cement Company from 01 January 2007 to 31 December 2008 and to the Sri Lanka Cement Corporation from 01 January 2007 to 31 December 2009 and the rental and the other charges receivable thereon had been Rs.21.7 million and Rs.8.5 million respectively by the end of the year under review. Nevertheless, no legal action whatsoever had been instituted to recover those amounts up to date.

(h) Although an accumulated cost of Rs.208.8 million had been incurred in respect of 71 projects of the Construction, Construction Component, Mechanical and Electrical, Equipment and Machinery Divisions since the year 2005, no invoices had been submitted to recover the receivable money even by the end of the year under review. Out of these projects, 15 projects had elapsed a period of 3 years from their commencement.

(i) A sum of Rs.19.9 million shown in the financial statements as economic service charges payable since the year 2012 had not been settled even by the end of the year under review.

(j) Out of the money retained by the contractors of the projects completed by 31 December of the year under review and the advances totalling Rs.1,512.7 million, a sum of Rs.931.2 million had been older than three years, whereas a formal action had not been taken to recover that money.

(k) As the mobilization advances issued to the sub-contractors had not been settled within the due period, those had been brought forward in the accounts and the net value of that account as at 31 December 2014 was Rs.414.1 million, out of which, a sum of Rs.413.2 million had been older than three years and out of the advance amount granted to the labour sub-contractors, the unsettled advance balance as at 31 December 2014 was Rs.195.1 million.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

	Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a)	Section 14 (1) of the Finance Act, No.38 of 1971	The Corporation had not furnished a draft of the Annual Report along with the annual financial statements to the Auditor General.
(b)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
	(i) Financial Regulation 396	Action in terms of the financial regulation had not been taken on unrealized 69 cheques totalling Rs.7.9 million which had lapsed a period of 06 months from the date of issue.
	(ii) Financial Regulation 756	Stocks of raw material valued at Rs.2.9 million relating to 13 work sites and stocks of finished goods valued at Rs.14.4 million relating to 02 work sites had not been subjected to the annual board of survey.
	(iii) Financial Regulation 245	According to the audit test check carried out on the payment vouchers prepared for the year under review, payments had been made relating to 12 payment vouchers valued at Rs.5.7 million without proper examination and certification.
(c)	Paragraph No.01 of the Public Enterprises Circular No.PED/PEN/2011/01 dated 11 February 2011.	The Corporation had incurred advertising and promotion expenditure amounting to Rs.13.78 million during the year under review contrary to its objectives.

(d)	Management Services Circular No. 05/2014 (1) dated 21 November 2014	
	(i) Paragraph 01 and 3.1	An overpayment of Rs. 4 million had been made to the employees of the Corporation as bonus contrary to the Provisions of the circular.
	(ii) Paragraph 3.3	In the payment of bonus, the financial statements for the preceding year should be furnished to the Auditor General before 28 February. Nevertheless, financial statements for the year 2013 had been furnished on 10 December 2014, that was, after the payment of bonus for the year 2014.
(e)	Procurement Agency Circular No. 08 dated 25 January 2006.	
	(i) Paragraph 2.14.1	For the purchase of Steel exceeding Rs. 100 Million in value since the year 2011 to the year 2014, the approval of a procurement committee appointed by the Cabinet had not been obtained.
	(ii) Paragraph 7.9.5 and 7.9.6	In the purchasing activities, priority should be given to the local bidders. Nevertheless, in the purchasing of steel in the years 2012, 2013 and 2014, without being purchased steel from the Melwaire Roling (Pvt.)Ltd. with fully local ownership, steel had been purchased at a higher price from the Ceylon Steels Company with only 6.25 per cent local ownership.
	(iii) Paragraph 5.4.4 (1)	For 09 sub-contracts carried out relating to the C-City project during the year under review, advances from 40 per cent to 75 per cent of the contract value had been given to the sub-contractors.
(f)	Internal Circular No. 2014/100 dared 04 August 2014 of the General Manager of the Corporation	In making recruitments to the post of Assistant Quantity Surveyor, although 03 year experience from the completion of National Technology Certificate is required for that purpose, 06 candidates with the experience from 1 ½ years to 2 ½ years had been recruited for these posts.
(g)	Public Enterprises Circular No.108 dated 12 May 1996	Donations amounting to Rs. 11.29 million had been made without the approval of the Cabinet of Ministers.

(h) Payment of Gratuity Act, No.12 of 1983 Section 4	Payment of Gratuity for 44 employees left the service in the year 2014, had been delayed for a period ranging from 03 days to 352 days, whereas any fine had not been paid in that respect.

3. Financial and Operating Review

3.1 Financial Results

Operations of the Corporation for the year under review had resulted in a net profit of Rs.74.5 million as compared with the corresponding net profit of Rs.122.7 million in the preceding year, thus indicating a deterioration of the operation results by Rs.48.2 million or 39 per cent in the year under review as compared with the preceding year.

Although other income had increased by Rs.177.7 million and income tax expenditure had decreased by Rs.53.7 million in the year under review as compared with the preceding year, the operating profit of all other Divisions other than the Construction Component Division had significantly deteriorated. Accordingly, deterioration of the gross profit of the Corporation by Rs.180 million and increase in the administrative expenditure by Rs.111 million had mainly attributed for the deterioration of the financial results.

3.2 Analytical Financial Review

As compared with the preceding year, the operating profit of the Construction Division, Special Operation Division, Mechanical and Electrical Division, Equipment and Machinery Division and the Consultancy Services Division had decreased by Rs.120.8 million or 75 per cent, Rs.65.5 million or 37 per cent, Rs.4.8 million or 33 per cent, Rs.6.9 million or 15 per cent and Rs.47.8 million or 51 per cent respectively during the year under review.

3.3 Legal Action Instituted Against or by the Corporation

Thirteen cases filed against the Corporation were awaiting adjudication as at 31 December of the year under review out of which there were 05 cases with unresolved claims value of Rs.161.2 million. Further, the Corporation had filed cases against 04 outside persons and the claim thereof amounted to Rs.3.1 million.

4. Operating Review

4.1 Performance

The following observations are made

(a) The operating profit of Rs.20.9 million of the Aluminum Factory, Ratmalana belonging to the Construction Division in the year 2013 had become a loss of Rs.1.8 million during the year under review. Although the turnover of the site had increased by 16.5 per cent as compared with the preceding year, increase in the cost of sales and other expenses by a higher percentage had mainly affected this position.

(b) The Bricks and Carpentry Products Yard, Dankotuwa belonging to the Construction and Component Division had sustained a loss of Rs.4.3 million even in the year under review and this yard had suffered losses during 16 years out of the past 17 years. The accumulated loss as at 31 December of the year under review amounted to Rs.32.05 million and the increase in the cost of sales by higher percentage than the percentage of increase in the income of the site had affected this position.

(c) Three sites belonging to the Mechanical and Electrical Division situated at Rathmalana and Peliyagoda had suffered an operating loss of Rs.5.3 million in the year 2014 and Dolomite Procesing Yard at Mathale had suffered a loss of Rs.4.26 million. Accordingly, the accumulated loss in this site as at 31 December of the year under review was Rs.65.93 million.

(d) The operating loss of Rs.4.8 million of the Asphalt and Crusher Machinery site, Galpatha belonging to the Special Operation Division in the year 2013 had been an operating loss of Rs.3.7 million during the year under review. Accordingly, the accumulated loss of this site had been Rs.8.5 million by the end of the year under review.

(e) Eighteen regional offices and sites including the Kolonnawa Main Stores of the Equipment and Machinery Division had sustained a loss of Rs.87.54 million during the year under review.

(f) The accumulated profit amounting to Rs.33.15 million received by the Vavunia, Kurunegala and Kuliyapitiya regional offices of the Equipment and Machinery Division in the preceding year had deteriorated upto Rs.11.65 million by 65 per cent during the current year and Ampara,Thamankaduwa, Kalmunai, Kundasale and Horana regional offices and the Main Stores at Kollonnawa had not earned any income during the year under review. Nevertheless, an expense of Rs.4.4 million had been incurred for these sites during the year under review.

(g) Out of ongoing projects implemented by the Corporation during the year under review, 55 projects relating to the Construction Division, Construction Component Division, Mechanical and Electrical Division and Equipment and Machinery Division had sustained losses during the year under review and that loss amounted to Rs.426.4 million.

4.2 Financial Management

The following observations are made

(a) Due to the absence of a loan recovery mechanism and working capital management system, the Corporation had obtained overdraft facilities of Rs.353.7 million during the year under review and overdraft up to Rs.450 million had been obtained as at 31 December of the year under review even exceeding the above overdraft facility. An interest amounting to Rs.56 million had been paid in respect of these bank overdrafts.

(b) The bill discounting facility of Rs.100 million obtained due to the unfavourable liquidity position of the Corporation had been maintained on an interest rate of 16 per cent even in the year under review and the total interest paid in that respect amounted to Rs.16.28 million.

(c) Notwithstanding the existence of a bank overdraft of Rs.450 million as at 31 December of the year under review, a fixed deposit, a savings/call deposit totalling Rs.172.6 million, short term investments of Rs.13.6 million, share market investment for market value of Rs.7.93 million had also been maintained. Return on investment amounting to Rs.11.3 million only had been earned from the above investments.

(d) A balance totalling Rs.7.8 million in two bank accounts maintained by the Corporation in Qatar and Nepal for the commencement of construction projects in foreign countries had remained idle even by the end of the year under review.

4.3 Project Management- C-City Project, Peliyagoda

The following observations are made

(a) Even though this project was scheduled to be commenced on 06 July 2013 and completed on 31 January 2014, the project had been discontinued without completion even by 03 September 2015, the date of the physical verification. Accordingly, a sum of Rs.557.5 million had been spent by 31 December 2014, but any construction had not been carried out in relation to 12 out of the 18 items of works. Hence, the Corporation had failed to achieve the objectives of the project.

(b) Agreements had been entered into to commence the sub-contracts for the installation of elevator and the Duras on the first floor on 10 December 2014 and to complete the work on 15 January 2015 and mobilization advances of Rs.1.63 million and Rs.7.47 million had been paid respectively for that purpose. Since the period of validity of the advance bond submitted for these agreements had expired, the Corporation had sustained a loss of Rs.9.11 million and action had not been taken to recover the fine of Rs.2.63 million which could have been recovered in respect of the delayed period.

4.4 Management Activities

The following observations are made

(a) Althouh lands, 688 perches in extent valued at Rs. 79.61 million belonging to the National Housing Development Authority and other Government Institution and buildings valued at Rs. 32.31 million had been taken into the accounts of the Corporation, action had not been taken to take over their ownership to the Corporation.

(b) Although a land area, 01 Acre and 88 perches in extent of the land in which the Anuradhapura sales center and the circuit bungalow are maintained and a land area, 7 Acres in extent of the land, Peliyagoda vested in the Corporation with the objective of commencement of the central branch and the central workshop under the Land Acquisition Act, No.28 of 1964 had been encroached by outside persons, the management had not taken proper action in this connection.

(c) As proper methodology had not been adopted in the preparation of invoices relating to the Constructions, Constructions and Component, Equipment and Machinery and Mechanical and Electricals Divisions, there were instances where invoices had been submitted with extremely higher or extremely lower value than the cost. This situation had given rise to the unusual over calculation and under calculation of the values receivable from and payable to the customers included in the current assets and current liabilities.

4.5 Idle and Under Utilized Assets

The following observations are made

(a) Although asphalts and crusher machinery work site had been established with an investment of Rs.372 million in the year 2012 as a project of the Special Operation Division, its production activities had been confined to a very limited period of 64 days from its inception and the production had been discontinued by 05 January 2015. Accordingly, asphalts and crusher machine valued at U$D 3.27 million granted by the Ministry of Economic Development for the site and the relevant accessories thereto remained underutilized due to the discontinuation of the production. Similarly, the crusher machine valued at U$D 1.02 million 04 trucks remained idle without being utilized for any production activity up to date. Further, a sum of Rs.4.5 million had been paid as the rental for a period of 5 years for that land area and a sum of Rs.2.3 million had been paid as the security deposit. The sum of Rs.3.4 million paid within the period in which production had not been carried out had been a fruitless expenditure.

(b) Out of the total land area , 14 acres and 1.3 perches in extent of the site in which the Ekala Precast Yard was situated, one third of the land area only had been used for the operating activities and the remaining area had overgrown with weeds.

4.6 Uneconomic Transactions

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The following observations are made.

(a) In using a land area, 2.5 acres in extent from the land situated in Peliyagoda and vested in the Corporation by the Government, a technological services garden and several low cost housing structures had been constructed and completed for the Institute for Construction Training and Development on 31 January 2014. Those buildings had remained idle without being utilized for any effective purpose even by the end of the year and a sum of Rs. 2.2 million was due from the Construction Training and Development Institute for the construction. Further, the Corporation had spent a sum of Rs. 1.2 million from the year 2014 up to September 2015 for the security services of the land that remained idle.

(b) Out of the Marketing Development Officers recruited with the objective of expanding civil works island wide without the approval of the Department of Management Services, 30 officers had served during the year under review and a sum of Rs. 11.14 million had been paid as their salaries. Nevertheless, the turnover of the production sites located in Matale and Dankotuwa had not increased even in the year under review and they were running at continues losses. Although a sum of Rs. 8.89 Million had been spent as business promotion expenses during in the year under review, no new effective projects whatsoever had been initiated.

4.7 Identified Losses

The following observations are made.

(a) As the contract costs had been incurred exceeding the contract value of 44 projects, accumulated loss of Rs.564.81 million had been incurred by the end of the year under review.

(b) Since the payments of gratuity had not been made within the prescribed period, a sum of Rs.165,970 had to be paid as surcharges.

(c) As the construction contract had not been completed on due dates during the year under review, the Corporation had to pay Rs.8.38 million as the liquidating damages.

4.8 Resources of the Corporation given to other Government Institutions

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The following observations are made

(a) Contrary to the provisions in the Paragraph 9.4 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the Corporation had released 38 vehicles to the Ministry of Construction and Engineering Services during the year under review. Expenditure of Rs.31.78 million had been incurred as fuel expenses and hire charges of the vehicles and a sum of Rs.9.83 million had been paid as salaries and overtime allowances to 22 drivers released to the Ministry.

(b) The number of officers belonging to the posts of Consultant, Media Officer, Photographer and Marketing Officer who had drawn salaries from the Corporation without reporting for service during the year under review was 46 and a sum of Rs.17 million had been paid as their salaries during the year under review. In addition, a sum of Rs.870,000 had been paid as salaries and allowances for a Coordinating Secretary to the Minister of the Line Ministry without the approval.

4.9 Personnel Administration

(a) The following observations are made

The approved cadre as at 31 December of the year under review stood at 2,943 and the actual cadre stood at 3,047. Accordingly, there was an excess of 104 employees. However, there were 175 vacancies of the permanent staff of the Corporation as at that date and the number of employees recruited on contract basis and casual basis without the approval being 271 and 08 respectively, an excess cadre had caused to.

(b) Employees had been recruited on contract basis from the year 2006 for 09 posts representing the top management of the Corporation and as there were vacancies of 69 officers relating to 16 posts since the year 2009, it had directly affected to the performance of the Corporation. The employees turnover of those officers as well had stood at a higher value during the period from the year 2010 to 2014.

(c) In terms of Management Services Circular No.28(ii) dated 01 August 2006 and the Letter No.DMS/E3/43/4/265/1 dated 25 November 2009 of the Director General of the Management Services, creation of posts and filling of vacancies shall not be done without the approval of the Department of Management Services. Nevertheless, 23 unapproved posts had been created and 70 employees had been recruited for those posts.

(d) In terms of the Department of Management Services Letter No.DMS/E3/43/4/265/1 dated 14 February 2011, the number of permanent unskilled employees was 260, whereas the actual cadre employed as at 31 December of the year under review was 531.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Public Enterprises Circular No.PED/12 dated 02 June 2003, although the annual financial statements should be furnished to the Auditor General within 60 days from the close of the year of accounts, financial statements pertaining to the year under review had been furnished to the Auditor General on 19 February 2016, after a delay of 356 days.

5.2 Corporate Plan

The Corporate Plan prepared in terms of the Public Enterprises Circular No.PED/12 dated 02 June 2003 and PED 47 dated 18 December 2007 for the period 2012-2015 had not been updated relating to the year under review.

5.3 Action Plan

The Corporation had not prepared an Action Plan for the year under review. However, within the Corporate Plan prepared for the period 2012-2015 the Action Plans for each year had been summarized, whereas the Corporation had failed to carry out 98 activities required to be performed for the achievement of the targets of the Corporation during the year under review. Further, out of the objectives expected to be achieved by carrying out those activities, the objectives such as acquisition of standards, improvement of design concepts, advancement of systems, being strong in financial terms, contributing to the National Development Programme, expansion of business affairs, being strategical in the market and absorption and retention of human resources could not be achieved.

5.4 Budgetary Control

As significant variances ranging from 10 per cent to 100 per cent between the budgeted and the actual income and expenditure was observed, budget had not been made use as an effective instrument in Management Control.

5.5 Procurement Plan

The following observations are made.

(a) Although a Procurement Plan had been prepared in terms of Section 4.2.1 of the Procurement Agency Circular No. 08 dated 25 January 2006, it had been forwarded for the approval of the Ministry on 09 May 2014.

(b) Although it had been planned to acquire items valued at Rs.2,624.55 million in the annual procurement plan, the actual expenditure incurred thereon had been Rs.379.7 million or 14.4 per cent of the expected value. Further, it had been planned to acquire motor vehicles valued at Rs.70.74 million, whereas no expenditure whatsoever had been incurred for this purpose. Accordingly, it was observed that the procurement plan had not been prepared to suit the requirements and the financial viability of the Corporation.

5.6 Annual Reports

The Corporation had not tabled the Annual Report relating to the year 2012 even by 08 April 2015.

5.7 Unresolved Audit Paragraphs

The following observations are made.

(a) Although Value Added Tax of Rs.168.99 million remained receivable to the Corporation from the Sri Lanka Cricket Institute for the services supplied in the year 2010, action had not been take to recover that money even by the end of the year under review.

(b) In order to grant life insurance and medical insurance for the employees of the Corporation only for the period of one year from 16 June 2011 to 15 June 2012, a sum totalling Rs.5.9 million had been paid to the Sri Lanka Insurance Corporation on 16 June 2011 and the Corporation had not taken action to maintain insurance coverage thereafter date.

(c) As the Corporation was interested in earning income by commencing construction projects in foreign countries since the year 2008, a sum of Rs.13 million had been incurred as the preliminary expenditure for that purpose. Nevertheless, the Corporation had failed to initiate a construction in any country or to obtain any contract.

(d) Attention had not been drawn on the directives such as obtaining bank overdrafts under higher interest rates, minimizing losses of the Dolomite Processing Yard, making donations without the approval of the Cabinet of Ministers in terms of the Public Enterprises Circular No.108, release of motor vehicles of the Corporation to the Line Ministry without the approval of the Ministry of Finance and Planning, making recruitments without the approval of the Department of Management Services, issued at the meeting of the Committee on Public Enterprises held on 23 November 2012.

6. 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 respect of the following areas of control.

(a) Stock Control
(b) Contract Administration
(b) Working Capital Management
(c) Financial Control
(d) Personnel Administration
(e) Procurement Process
(f) Tax Management