

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the State Development and Construction Corporation (“the Corporation”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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 Audit Scope (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Corporation , and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standard

Reference to particular Standard	Management Comment	Recommendation
<p>(a) LKAS 01 – Presentation of Financial Statements</p> <p>Contrary to the provisions of section 32 of LKAS 01 ,credit balances amounting to Rs.34,203,486 against debtors and debit balances amounting to Rs.21,675,922 and Rs.280,709,569 against accrued and creditors were off steted.</p>	<p>The credit balance of debtors amounting to Rs.34, 203,486 and the debit balance of trade creditors amounting to Rs.49, 673,711 had been separately presented in the financial statements. It is noted to present debit balances of accrued expenses amounting to Rs.1,428,851 separately shown in the financial statements in year 2020.</p>	<p>Due attention to be paid to bring all balances to the financial statements in order to avoid possible material misstatements</p>
<p>(b) LKAS 08 – Accounting Policies, Changes in Accounting estimates and errors</p> <p>The comparative information had not been restated and the relevant disclosure had not been done in respect of the prior year adjustment of Rs. 85,010,739 made in the changes in equity statement during the year under review as per the section 45 and</p>	<p>It is noted to disclose prior year adjustments in the financial statements in year 2020.</p>	<p>The Corporation should ensure that the entity is adherent with Sri Lanka Accounting Standards and action should be taken to disclose.</p>

section 49 of LKAS 08. Further, the majority of the above adjustment were done through the stocks adjustment account thus creating an credit balance amounting to Rs.116,808,031 in the stock adjustment account shown under inventories.

(c)LKAS 16 – Property, Plant and Equipment.

Fully depreciated computer accessories and software, office furniture, machinery and equipment, motor vehicle and other assets amounting to Rs.7,827,715, Rs.12,493,686, Rs.122,478,634, Rs.180,936,803 and Rs.55,470,130 respectively are being continuously used by the Corporation without reassessing the useful economic lifetime of those assets and accounted them accordingly as per the provisions of Section 51 of LKAS 16.

84 Machineries and Equipment and 17 motor vehicles shown zero value or one rupee in the fixed assets register and continuously using by the corporation had not been revalued and brought to the financial statement of the year under review.

Arrangements will be done to revalue the fully depreciated assets and get their value into the books.

The Corporation should ensure that the entity is adherent with Sri Lanka Accounting Standards.

(d)SLFRS 10 - Consolidated Financial Statements

Devcoshowa (Pvt) Ltd the fully own subsidiary of the Corporation had been inactive for a long time and the board had taken a decision to wind up the company in 2006. The winding up process was not get completed and the consolidated financial statements were not prepared by the corporation.

Devcoshowa (Pvt) Ltd is a non-operating company for a long period of time and therefore consolidated accounts has not been prepared. From the year 2017 impairment has been carried out for receivable balances. By now liquidation process is being carried out for the company & therefore a suitable action will be taken for the receivable balances in the winding up procedure.

The Corporation should ensure that the entity is adherent with Sri Lanka Accounting Standards.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
(a) The value of the 343 number of stock items at site number 1163 had not been brought to the financial statements.	Audit finding is correct. We will make arrangements to stop the type of issues in the future.	Due attention to be paid to bring all balances to the financial statements in order to avoid possible material misstatements
(b) The accrued expenses amounting to Rs.20,247,079 had shown in the financial statements without being identify to whom or the purpose to be paid.	No Comment	Necessary measures to be initiated to ensure the accuracy and reliability of accounting treatments made in the financial statements.

1.5.3 Unreconciled Control Accounts or Records

Audit Issue	Management Comment	Recommendation
(a) There is a difference amounting to Rs.64, 994,218 relating to the Economic Service Charges (ESC) and surcharges on ESC between the schedule submitted to the audit and financial statements as at 31 December 2019.	Payment of ESC has not been done due to the financial issues faced by corporation. However these ESC due payments and surcharges are not get into the financial statements due to the ESC credit could not be taken as payments are not done.	Attention to be paid to reconcile the ledger balances with schedules before preparing the financial statements
(b) A difference of Rs.1, 940,779 was observed between the ESC payable balance in the financial statement for the year under review and the ESC schedule submitted to the audit.	The difference arose due mistake done in the calculation of ESC. However we will be rectified it when we are submitting the ESC return to the Inland Revenue Department.	Attention to be paid to reconcile the ledger balances with schedules before preparing the financial statements
(c) A difference of Rs.7, 750,209 was observed between the VAT payable balance shown in the financial statements and detailed schedule submitted to the audit for the year under review.	The difference between the final accounts and ledger schedule was mainly due to the surcharge of VAT. We are not consider the surcharge of VAT to the accounts as we are going to get waive off from the IRD.	Necessary measures to be initiated to ensure the accuracy and reliability of accounting treatments made in the financial statements
(d) According to the detailed schedule submitted to the audit a sum of Rs.206, 449,781 and Rs.1, 587,692 were shown as surcharges on Value Added Tax (VAT) and Nation Build	The surcharge of VAT and NBT arose due to the nonpayment of VAT and NBT. We suffer working capital issues mainly in last two three years. However we are going to find out the solution for	Necessary measures to be initiated to ensure the accuracy and reliability of accounting treatments made in the financial statements

Tax (NBT) respectively. However, the provision for those surcharges had not been made in the financial statements for the year under review. working capital issue immediately with the assistance of Ministry

- (e) A difference of Rs.12, 613,582 was observed between the receivable balance from Sri Lanka Railway as per the financial statements and balance confirmation received from Sri Lanka Railway as at 31 December 2019. From the receivable balance of Rs.12, 613,582, Rs.4.6 Million has been received in year 2020. Out of the receivable amount Rs.3.8 Million is for retention. Actions have been taken to recover the balance receivable amounts. Attention to be paid to reconcile the ledger balances with confirmation before preparing the financial statements

1.5.4 Documentary Evidences not made available for Audit

Item		Management Comment	Recommendation	
Item of Account	Value (Rs.)	Evidence not made available		
(a) VAT balances carried forward	11,362,032	Schedules and age analysis since 2013	These two differences were arisen due to the VAT adjustment done to the Kegalle Road project due to correction of mistake. However necessary rectification will be done to correct the system.	
VAT Payable balance	29,568,451	Schedules and age analysis		
(b) Creditors balance	60,510,770	Individual schedule and age analysis	We may provide the required details in future.	Schedules and age analysis should be provided for audit to satisfactorily verify and accept the Creditors balance.
(c) Loan and advances balances	5,897,573	Detail schedule	Necessary arrangements will be done to prepare the schedule as early as possible.	Schedules should be provided for audit to satisfactorily verify and accept the loan and advance balances.
(d) Security deposits	919,250	Schedules and age analysis	Necessary arrangements will be done to prepare the schedule as early as possible.	Schedules and age analysis should be provided for audit to satisfactorily verify and accept the security deposit balance.

(e)	Purchase Advance (paliyagoda)	21,484,694	Age Analysis	Necessary arrangements will be done to prepare the schedule as early as possible.	Age analysis should be provided for audit to satisfactorily verify and accept the Purchase Advance balances.
(f)	Sundry Advances	15,530,195	Detail schedule	Necessary arrangements will be done to prepare the schedule as early as possible.	Detail Schedules should be provided for audit to satisfactorily verify and accept the Sundry Advance balances.
(g)	Letter of credit Margin Account	94,604,465	Detail schedule	Necessary arrangements will be done to prepare the schedule as early as possible.	Detail Schedules should be provided for audit to satisfactorily verify and accept the account balances.
(h)	Sub contract advances	15,299,042	Detail schedule	Necessary arrangements will be done to prepare the schedule as early as possible.	Detail Schedules should be provided for audit to satisfactorily verify and accept the Sub contract advance balances.
(i)	Purchase Advance	296,310	Detail schedule	Necessary arrangements will be done to prepare the schedule as early as possible.	Detail Schedules should be provided for audit to satisfactorily verify and accept the Purchase Advance balances.
(j)	Payments to the contractors According to the court orders		The paid details and payable balances.		
	CML-MTD Construction	30,810,901		Arrange to provide the required details immediately	The paid details and payable balances should be provided for audit to satisfactorily verify and accept the Payments made to the contractors.
	Commercial Field Securities	1,153,843			

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Due from customers and construction debtors amounting to Rs.196, 478,484 had remained outstanding for more than 3 years as at 31 December 2019. Further a receivable balance of Rs.12, 121,011 from Kukuleganga project had remained over 07 years without being recovered. The recoverability of those balances are in doubt.	No Comment	Outstanding balances should be recovered without any delay or to be taken proper actions in this regard to ensure the reliability of those outstanding balances
(b) Debtors of concrete yard, traffic light system, liquidated damages receivable and retention receivable balances totaling to Rs.423,041,807 had remained over 3 years without being recovered. The recoverability of those balances are in doubt.	No Comment	A proper mechanism should be introduced to recover debtors , liquidated damages receivables and retention relating to projects which completed long ago without further delay.
(c) The advance payments made to the suppliers amounting to Rs.7, 851,432 had remained over 05 years without taking any action to recover even up to 31 December 2019. The future settlement of the above balance is in doubt.	No Comment	Actions to be taken to recover the advance payment made to the suppliers without delay.
(d) Out of the advance receivable balance of Rs.61,501,342 shown in the financial statements as at 31 December 2019 , Rs.12,711,603 had remained over 05 years without being settled. The accuracy and the existence of those balances cannot be ascertained in the audit.	No Comment	A proper mechanism should be introduced to recover advance receivables relating to projects which completed long ago without further delay.

1.6.2 Payables

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
(a) Mobilization advances received amounting to Rs.21,373,283 with regard to 15 completed and suspended projects had remained without been settled and the possibility for settlement of these advances is in doubt.	No Comment	Actions to be taken to settle the all possible long outstanding mobilization advances without delay.
(b) Out of the due to customer balances of Rs.99, 902,523, Rs.74, 021,473 had remained over 03 years without being settled. Further creditors balance of Rs.23, 467,283 and payable balance of Rs.2, 859,268 had remained over 05 years. The accuracy and the existence of that balance cannot be ascertained in the audit.	No Comment	Actions to be taken to settle the all possible long outstanding creditors balance without delay.

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

----- Reference to Laws, Rules Regulations etc. -----	----- Non-compliance -----	----- Management Comment -----	----- Recommendation -----
(a) Financial Regulations 396 of the Government of the Democratic Socialist Republic of Sri Lanka	Actions had not been taken in respect of 09 unrealized cheques valued at Rs.1, 725,904 over the period 5-9 years.	Arrangements will be done to comply to the special direction specified in the audit findings.	Due attention to be paid to comply with Financial Regulations.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003 on Public Enterprises Guidelines for Good Governance Paragraph 5.1.3	Updated Corporate Plan approved by the Board of director together with the updated annual budget had not been forwarded to the Line Ministry, Department of Public Enterprises and the Auditor General as requested.	Arrangements will be done to comply with the special direction specified in the audit findings.	Due attention to be paid to comply with Public Enterprises Circular.
(c) Management audit Circular No:DMA/2009(2) Dated 01 July 2009	Required Details of the Assets register had not been included.	Arrangements will be done to comply with the special direction specified in the audit findings.	Due attention to be paid to comply with Management audit Circular.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a loss of Rs.843, 901,384 and the profit as against to that in the preceding year was to Rs.18, 523,726. Therefore, a deterioration amounting to Rs.862, 425,110 of the financial results was observed. The reasons for the deterioration are increasing of cost of sales, administrative expenses, other expenses and financial expenses.

3. Operational Review

3.1 Identified Losses

	Audit Issue	Management Comment	Recommendation
(a)	Even though the stock value totaling to Rs.2,117,446 at site No.1158 and 255 items of stocks in the site No. 1163 at Thaligala site had been lost during the year under review and action had not been taken to investigate and recover the losses from the responsible officers.	According to the stock verification team, there were excess and shortage items. But on that date there was not store keeper and not up dated the stocks books. Therefore we were not informed any stock losses. We will see this mater and will get action if there are some issues.	Actions should be taken to eliminate the losses
(b)	A loss of Rs.131, 660,281 had been identified from 15 projects and Rs.68, 924,162 had been incurred exceeding the revised contract sum in respect of 10 projects during the year under review.	Due to the financial difficulties face by the corporation it has been unable to complete the projects on time and therefore incurred extra cost. As a result some projects have made losses.	The Management of the corporation should pay attention to mitigate the financial losses and enhance the profitability.
(c)	34 numbers of Motor vehicles, Machinery and Equipment items remained idle in corporation premises.	These items were at site due to the minor repairs. The repairs were delayed due to the lack of funds for purchase the spare parts.	The Management of the corporation should pay its attention to utilize the idle assets.

3.2 Under Utilization of Fund

	Audit Issue	Management Comment	Recommendation
(a)	An bank overdraft amounting to Rs.3, 738,883 had been obtained from the bank exceeding the approved limit.	Bank overdraft exceeding limit of Rs.3, 738,883 was due to the bank interest which are not settled as required funds not received payment from clients.	Action should be taken to maintain proper working capital management in corporation and cash flow management.

- (b) There were net cash outflows of Rs.160 Mn, Rs.39 Mn, Rs.92 Mn, Rs.62 Mn, Rs.95 Mn, Rs.40 Mn and Rs.245 Mn for months of February, April, May, July, August, September and November respectively during the year 2019 had been shown during the year. Further, the current Ratio and Quick ratio had been deteriorated during the year compared with the previous year.
- Audit finding is Correct.
- Action should be taken to maintained proper working capital management in corporation and cash flow management.

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
A sum of Rs.150.6 million were paid for 23 sub-contractors who manpower to the corporation without following the procurement procedures when selection of sub-contractors.	The Corporation has followed the procurement procedure for permanent projects like concrete yards. But construction projects could not be followed the procedure as projects are temporary basis. But they are using approved rates for payments.	Relevant selection should be taken to comply with procurement guideline.

3.4 Human Recourses Management

Audit Issue	Management Comment	Recommendation
(a) The approved cadre of the Corporation as at 31 December 2019 was 489 while the actual cadre was 628. Accordingly, this shows an excess recruitment of 139 employees to the Corporation to the various positions.	The difference of actual carder and approved carder arose due to the recruitment of contract and casual employees to permanent basis as per the government rule. Further we are recruiting contract and casual employee according to the received of new projects on temporary basis.	Actions to be taken to ascertain realistic cadre levels, and follow the reviews on a periodic basis.
(b) The approved cadre for civil engineers was 19, however 52 Civil Engineers had been recruited under contract basis.	We are recruiting Engineers and other supporting staffs to projects on contract basis as projects are functioning for limited period.	Actions to be taken to ascertain realistic cadre levels, and follow the reviews on a periodic basis
(c) 29 Security officers had been recruited exceeding the approved cadre.	The audit finding is correct.	Actions to be taken to ascertain realistic cadre levels, and follow the reviews on a periodic basis