

**Chairman's comments on the
Auditor General's report - 2002 in terms of section
14 (2) (c) of the Finance Act No. 38 of 1971.**

2.2 Comments on Accounts

2.2.1 Accounts Receivable and Payable

- (a) Confirmation letters have been sent to obtain confirmation. The response has been poor.
- (b) '- Do -
- (c) Funds not collected for reason such as work deficiencies. Further ,most of clients do not settled their dues due to laps of budgetary provisions and reduce of capital expenditure by the treasury.
- (d) Action is being taken.
D.G.M.(C.C.)'s letter is attached in this regards.

2.2.2 Lack of Evidence for Audit.

All confirmation letters have been sent to obtain confirmation. The response has been poor.

**2.2.3 Non - compliance with Laws, Rules, Regulation
and Management Decisions**

- (a) The previous quotation called and approved rates were below the present rates. Supplier also agreed to supply material on previous rates, Therefore Corporation Purchased material at lower price without paying higher price to the suppliers.
- (b) Noted for compliance in future.

3 Financial and Operating Review

3.1 Financial Results

Due to reduction of expenditure

3.2 Profitability

Noted

3.3 Turnover

Due to reduction in capital expenditure of the government.

3.4 Liquidity Position

Noted

3.5 Performance

Noted

3.6 Plant Capacity Utilization

There is a separate unit to control and maintain the Plants belongs to the Corporation. This unit comprise with Plant Engineer and Plant Store Keeper. Therefore corporation plants are utilised in their maximum capacity. However, most of the plants were purchased prior to 1980 and they could not be used due to the technical reasons. Therefore, when necessity arises machinery were hired from the outside. Action has been taken to dispose the old plants.

3.7 Identified Losses

Due to poor liquidity position of the Corporation these projects were not completed in time. Therefore liquidity damages were charged by the clients.

3.8 Apparent Irregularities

(a) No comments

(b) Materials valued - Rs. 2,613.64

Due to urgency of work this work material were purchased from the quotation submitted by one supplier with the approval of the Manager.

Tyres and Tubes - Rs. 81,000.00

These urgent purchases were made with the approval of the D.G.M.(M & E). The Board of Directors empowered the authority to such purchases to the D.G.MM.

(c) Client did not pay this G.S.T. payment to the Corporation.

3.9 Funding Arrangement for Provision for Payment of Gratuity

This was due to the liquidity problem face by the Corporation in the past. Noted for implementation.

3.10 Budgetary Control

Observations are noted for future compliance and steps have been taken to show the budgetary comparison on quarterly accounts.

4 Systems and Control

Noted for compliance in future.

.....
sgn: W.M.T.Alwis
Finance Manger

.....
sgn: Ariyaseela Wickremanayake
Chairman

**STATE ENGINEERING CORPORATION OF SRI LANKA
CHAIRMAN'S REPORT 2002**

The State Engineering Corporation of Sri Lanka completed 40 years of service on 1st January 2002. The slow growth of the economy of the country had a marked impact on the performance of the Corporation in the year under review. Although a Turnover of Rs. 1629.0 M expected, with all the constraints we were able to achieve a Turnover of Rs. 901.0 M for the year.

This resulted in overall revenue declining by Rs. 727.4 M. Of the 4 revenue earning groups the Construction and the Construction Component group recorded a lesser income when compared to previous year. The Mechanical Group and the Consultancy Group recorded a higher revenue than the previous year. Anyhow all 3 groups other than Mechanical and Electrical group have recorded a net operating profit.

The Turnover recorded by each group during past 5 years is given below:

| Group | 2002 | 2001 | 2000 | 1999 | 1998 |
|-------------------|--------|--------|--------|--------|--------|
| Construction | 561.96 | 730.15 | 776.45 | 657.48 | 519.0 |
| Mech. & Elect. | 146.11 | 143.20 | 103.01 | 130.23 | 190.89 |
| Const. Components | 148.39 | 181.23 | 208.91 | 229.08 | 227.80 |
| Consultancy | 45.15 | 40.47 | 37.59 | 38.3 | 32.87 |

The Annual Turnover compared with the Profit/(Loss) for past 5 years is as follows:

| Year | Turnover (in Rs. Million) | Profit/(Loss) After Taxation |
|------|---------------------------------|---------------------------------|
| 2002 | 901.62 | (44.99) |
| 2001 | 1095.07 | (58.66) |
| 2000 | 1126.09 | 22.57 |
| 1999 | 1055.60 | 6.54 |
| 1998 | 970.26 | 2.61 |

Construction Group

Mr. H.L.Lamabadusuriya - Actg. Deputy General Manager (Construction)
Mrs. G.A.L.Nonis - Manager (Construction)
Mr. P.L.P. Liyanage - Manager (Construction)

The Construction Group being the major contributor towards the revenue of the Corporation has achieved a turnover of Rs. 561.9 M during the period under review. Although there is a drastic decline, the group has contributed 62% share of the turnover. Although there is a decline in the turnover the group has managed to reduce the Net Loss of Rs. 21.4 M incurred in previous year to Rs. 3.2 M in the current year.

The major projects completed by the Construction Group in the year under review were:

| | Project | Project Value (in Rs. Million) |
|------|-----------------------------|-----------------------------------|
| 1232 | Air-Force Head Quarters | 160.7 |
| 1266 | Gen. Hospital Matara | 37.4 |
| 1268 | -do- Gokarella | 10.1 |
| 1326 | Market Complex Anuradhapura | 37.8 |

The following are the projects completed more than 90% of the contract value.

| | <u>Project</u> | <u>Project Value</u> |
|------|-------------------------------------|----------------------|
| 1155 | Railway Housing Complex Maligawatta | 58.8 |
| 1205 | Hospital Chilaw | 25.0 |
| 1253 | Advance Tech. Institute Labuduwa | 145.1 |
| 1265 | Secretarial building Badulla | 67.4 |
| 1267 | Accident Ward Kurunegala | 16.9 |
| 1284 | Govt. Printing Press Borella | 36.5 |
| 1330 | National Museum site | 67.8 |
| 1344 | Technical College Gampaha | 37.5 |
| 1358 | Shopping Complex Horana | 35.2 |
| 1381 | Galle Face Development Project | 11.0 |
| 1387 | Printing Press Kurunegala | 16.6 |

Mechanical & Electrical Group:

Mr. A.S. Mudalige - Deputy General Manager (M & E)
Mr.K.D.R.L.Wickramanayake - Actg. Chief Engineer - Mechanical

The Mechanical & Electrical Group has earned a revenue of Rs. 216.1 M for the year under review. There is an increase in turnover when compared to the previous year turnover of Rs. 213.0 M. Also the group has managed to reduce the operating loss to Rs. 3.6 M when compared with the previous year operating loss of Rs. 14.3 M.

The Group has completed the following projects during the year under review.

| <u>Project</u> | <u>Project Value (in Rs.Million)</u> |
|---|--|
| Renovation to Law College | 11.0 |
| Security Fence - Madiwela | 34.4 |
| Regulatory Structures across Kittampahuwa Canal | 15.5 |
| Retaining wall-Madiwela | 32.5 |
| Piling Work - Dematagpda | 5.8 |
| Piling in Water - Madiwela | 5.9 |
| Appollo Hospital | 4.0 |

In addition the following projects have been handled by the Group.

| <u>Project</u> | <u>Project Value (In Rs. Million)</u> |
|--|---|
| C.P.C. Tank No. 65 Sapugaskanda | 17.3 |
| Construction of Bridge – Atakohota-Goluwamulla | 38.3 |
| Construction of Bridge – Imaduwa | 14.9 |
| Sewerage & Storm Water System for NAITA | 8.4 |
| Installation of Gates – Mau-Ara | 32.1 |
| Piling for Maligawatta Hospital | 18.7 |
| Construction of Bridge – Siyambalagoda | 24.3 |
| Stoplogs – Polgolla | 5.7 |
| Spillway Gates – Rantambe | 7.5 |
| Refurbishment of Sugathadasa Stadium | 19.7 |

Construction Component Group :

Mr.W.J.S. Fernando - Deputy General Manager -Construction Components
Mr.A.A. Piyadasa - Manager - Construction Components

The Construction Component Group has recorded a turnover of Rs. 173.9 m which shows a drop of Rs. 48.9 M in turnover when compared to the previous year turnover of Rs. 22.8 M. Out of the 6 Pre-cast Yards operating all over the island only the Pre-cast Yard Ekala has gained an operating Profit of Rs. 14.1. The rest of the yards have incurred losses during the period under review. After charging group overheads, administration expenses and provision for bad and doubtful debts., the group has ended up with a net loss of Rs. 9.1 M.

Consultancy Group :

Mr.D.R.N. Ferdinando - Deputy General Manager – Consultancy
Mr.G.T.R.de Silva - Chief Engineer – Design
Mr.M.W.J.de Silva - Chief Architect
Mr. Thilak P.Kollonne - Chief Quantity Surveyor

The consultancy Group has recorded a revenue of Rs. 49.4 M. There is an increase of Rs. 5.7 M in revenue when compared to the revenue of Rs. 43.7 M recorded in the previous year. There is an increase of Rs.0.9 M in internal consultancy fees and increase of Rs. 4.8 M in external consultancy fees. An operating profit of Rs. 14.3 M has been gained against the previous year profit of Rs. 5.6 M which shows an increase of 155% in profit. The group has earned a net profit of Rs. 7.5 M after charging group expenses and provision for bad and doubtful debts for the year under review.

The Consultancy work undertaken involved feasibility studies, preliminary investigations, condition reports, architectural,reports, structural, electrical and infrastructure service designs, project management, and quantity surveying, consultancy services. The value of the projects for which consultancy services were provided during the year under review was approximately Rs.3000 Million.

Internal Audit Division

Mr. G.S.S. de Silva – Chief Internal Auditor

The annual Audit Programme for the year under review, approved by the Board of Directors, was submitted to the Auditor General for his concurrence, which concurrence was duly received.

During the year 2002, the Chief Internal Auditor submitted 58 reports to the Chairman. Summarized versions of those reports were submitted every quarter, to the Audit and Management Committee and also to the Board of Directors.

Summarized Statements of the Internal Audit Reports, covering the half yearly periods 01.01.2002 to 30.06.2002 and 01.07.2002 to 31.12.2002 were also submitted to the Auditor General.

The subjects/incidents covered in the 58 reports are given below: The number of reports in which the subject was covered is shown within brackets.

- Quality of goods purchased (1)
- Payments for sub-standard/under delivered purchases (1)
- Uneconomic purchases (2)
- Misappropriation of cash (1)
- Cash shortages (1)
- Errors in payment of emoluments (3)
- Errors in payment of allowances (2)
- Attendance (4)
- Overpayments to sub-contractors/under billing to Clients (12)
- Non-settlement/delayed settlement of cash advances (6)
- Unsatisfactory control over cash custody (1)
- EPF/ETF payments (1)
- Shortcomings in accounting for/recording of fixed assets (2)
- Unsatisfactory maintenance of stores (1)
- Shortage of stores/stocks (1)
- Theft of stores/goods (2)
- Insurance of cash (1)
- Cash Books (2)
- Making fraudulent claims for purchases (1)

- Delays in billing to Clients (1)
- Deficient payment procedures resulting in inability to recover INPUT GST (2)
- Shortcomings in VAT (1)
- Doing private work for gain using Corporation's assets (1)
- Non recovery of loans/advances given to employees (2)
- Miscellaneous (6)

Pre-audit checks were carried out on:

- Final Payments due to 127 employees
- In respect of approximately 1600 employees, verification of the number of days of unutilized sick leave and of the correctness of the computations of amounts payable for such unutilized leave.
- Release of Final Payments on 85 sub-contracts.

Internal Audit officers were present at 140 tender openings at the Head Office and at 29 tender openings at the sites.

In-house training sessions were held periodically, to enhance the theoretical knowledge and practical skills of the internal audit staff. The younger staff was encouraged to study for recognized qualifications in accountancy. We are happy to report that some of them were successful in passing the Final Stage Examination of the AAT Sri Lanka.

Personnel & Administration Division

Mr. C.S. Munasinghe – Deputy General Manager
(Human Resources & Administration)

At the end of the year under review, the Corporation had in its cadre 1516 permanent employees and 129 employees on contract basis, in addition to 1389, on casual basis.

The number of employees on permanent and contract basis, as compared with the previous two years, was as follows :

| | <u>2002</u> | <u>2001</u> | <u>2000</u> | |
|---|-------------|-------------|-------------|----|
| Engineers | 112 | 116 | 103 | |
| Architects | 12 | 14 | 16 | |
| Quantity Surveyors | | 14 | 16 | 14 |
| Accountants | 10 | 11 | 10 | |
| Administrative Officers | 13 | 19 | 18 | |
| Other Staff Grades | 46 | 47 | 45 | |
| Superintendents(Civil/Mech./Elect.) | 121 | 126 | 94 | |
| Draftsmen & Asst. Quantity Surveyors | | 58 | 62 | 63 |
| Foremen | 29 | 29 | 30 | |
| Clerical & Allied grades | 207 | 204 | 199 | |
| Security employees | 155 | 160 | 154 | |
| Minor employees | 57 | 59 | 66 | |
| Skilled employees | 407 | 400 | 434 | |
| Unskilled employees | <u>404</u> | <u>429</u> | <u>465</u> | |
| Total | <u>1645</u> | <u>1692</u> | <u>1711</u> | |

Career advancement :

10 B.Sc. (B.E.) Graduates of the University of Moratuwa were afforded facilities to undergo one year's training prior to their return to the University for the M.Sc. In addition, 15 B.Sc. (Eng.) Graduates of the Moratuwa and Peradeniya Universities were provided with industrial training.

A further 95 apprentices of the National Apprenticeship & Industrial Training Authority, Technical Colleges and University affiliated institutions were provided with practical training in the relevant fields.

A large number of employees were nominated for training courses and seminars conducted by several external agencies. The subject areas included Project Management, Safety at Construction Sites, Effective Communication for Professionals, Computer Analysis in Structural Designs of Highway Bridges. Skills Upgrading, Construction Management for Managerial Personnel, Advanced Concrete Technology and VAT Implementation.

Reimbursement of Medical Expenses :

A sum of Rs. 1,173,725.44 was paid to employees as reimbursement of their medical expenses.

Distress Loans :

A total sum of Rs. 962,500.00 was paid to employees as Distress loans.

In December a reduced annual bonus of Rs. 1000/- was paid to each eligible permanent employee and an attendance incentive was paid to casual employees based on their period of service and attendance in the previous year.

CONCLUSION

The year under review was a bad year for the construction industry in general, as there was an appreciable drop in the construction activities in the country during this year. The poor cash flow due to the non-settlement of our bills by the clients, which were mainly State Organizations, drastically affected the progress of work in most of the ongoing projects, thereby reducing the turnover.

There is a drop of 17% in the turnover, compared to the last year. The overall loss has also been reduced by 23%.

The Corporation at present depends on the state sector for most of its work. But with the present policies of the government, we no longer can expect Government jobs on negotiated basis. Hence the Corporation has to get geared to compete with the private sector for future work, which will be mostly foreign funded projects.

Finally I take this opportunity to thank all officers and employees of the Corporation for their contribution in the year under review.

Ariyaseela Wickramanayake
Chairman
STATE ENGINEERING CORPORATION OF SRI LANKA

State Engineering Corporation of Sri Lanka
Balance Sheet as at 31 December 2002

| | Notes | 2002 Rs. | 2001 Rs. |
|-------------------------------------|-------|-----------------------------|-----------------------------|
| Assets | | | |
| Non-current Assets | | | |
| Property, Plant and Equipment | 2 | 75,845,977 | 94,338,935 |
| Investments in Shares | 3 | <u>1,200,000</u> | <u>200,000</u> |
| | | 77,045,977 | 94,538,935 |
| Current Assets | | | |
| Inventories | 4 | 127,542,187 | 114,198,127 |
| Trade Debtors | 5 | 503,178,933 | 484,212,669 |
| Retention | 6 | 238,052,200 | 220,386,963 |
| Other Debtors & Receivables | 7 | 91,928,059 | 93,833,606 |
| Cash & Cash Equivalents | 8 | <u>60,137,622</u> | <u>198,902,322</u> |
| | | 1,020,839,001 | 1,111,533,687 |
| Total Assets | | <u>1,097,884,978</u> | <u>1,206,072,622</u> |
| Equity and Liabilities | | | |
| Capital and Reserves | | | |
| Voted Capital | 9 | 70,000,000 | 70,000,000 |
| Reserves | 10 | 31,373,968 | 30,373,968 |
| Accumulated Profit/(Losses) | 11 | <u>(76,309,117)</u> | <u>(31,341,530)</u> |
| Total Equity | | 25,064,851 | 69,032,438 |
| Non-Current Liabilities | | | |
| Due to Customers | 12 | 122,603,448 | 157,776,149 |
| Long Term borrowings | 13 | 49,082,293 | 101,988,238 |
| Deferred Liabilities | 14 | <u>110,014,105</u> | <u>108,058,750</u> |
| | | 281,699,846 | 367,823,137 |
| Current Liabilities | | | |
| Bank Overdraft | 15 | 80,998,055 | 63,019,644 |
| Trade Creditors | 16 | 228,882,828 | 234,415,879 |
| Other Creditors & Payables | 17 | 123,411,104 | 111,665,955 |
| Mobilisation Advances | 18 | <u>357,828,294</u> | <u>360,115,569</u> |
| | | 791,120,281 | 769,217,047 |
| Total Equity and Liabilities | | <u>1,097,884,978</u> | <u>1,206,072,622</u> |

Approved and signed for and on behalf of the Board

Ariyaseela Wickremanayake
CHAIRMAN

S.Jagadhiswaram
VICE-CHAIRMAN

W.M.T. Alwis
Finance Manager

AUDITOR GENERAL'S DEPARTMENT

My No. } HP/G/SEC/FA/2002

Your No. }

Date} 31st March 2003.

The Chairman
State Engineering Corporation of Sri Lanka

Report of the Auditor General on the Accounts of the State Engineering Corporation of Sri Lanka for the year ended 31st December 2002 in terms of Section 14(2)(c) of the Finance Act No. 38 of 1971.

The audit of accounts of the State Engineering Corporation of Sri Lanka for the year ended 31st December 2002 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. My 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. A detailed report in terms of Section 13(7)(a) of the Finance Act will be furnished to the Chairman of the Corporation in due course.

1.2 Responsibility for Financial Statements and Audit

The Board of Directors are responsible for presenting the financial statements in accordance with Sri Lanka Accounting Standards. My responsibility is to express an opinion on the financial statements presented to audit.

1.3 Scope of Audit

Audit opinion, comments and findings in this report are based on a review of the financial statements presented to audit and substantive tests of samples of transactions. The scope and the extent of such review and tests were such as to enable as wide an audit coverage as possible within the limitations of staff. Other resources and time available to me. The audit was carried out in accordance with Sri Lanka Auditing Standards, methods and practices to obtain reasonable assurance as to whether the financial statements are free of material misstatements. The Audit included examination of evidence supporting the amounts and disclosures in financial statements and assessment of accounting principals and significant estimates and judgment made in the preparation of financial statements, evaluation of their overall presentation and determining whether accounting policies adopted were appropriate, consistently applied and adequately disclosed. Sub-sections (3) and (4) of Section 13 of the Finance Act No. 38 of 1971 give discretionary powers to the Audit General to determine the scope and extent of the audit.

2. Accounts

2.1 Audit Opinion

Except for the effects on the financial statements of the matters referred to in para 2.2 of this report, I am of opinion so far as appears from my examination and to the best of my information and according to the explanation given to me, the financial statements have been prepared and presented in accordance with Sri Lanka Accounting Standards and the stated accounting policies as set out in notes (From Notes No. 1-2 to 1.11) to the financial statements and give a true and fire view of the financial position of the Corporation as at 31st December 2002 and the financial results and cash flow for the year then ended.

2.2 Comments on Accounts

2.2.1 Accounts Receivable and Payable

Following observations are made in audit.

- (a) The position with regard to the confirmation of debtors, and other receivables was not satisfactory as net balances totaling Rs. 608,197,553 had not been confirmed by the parties concerned.
- (b) Balances of trade creditors and other payables aggregating to Rs. 34,379,365 and Rs. 108,289,335 respectively had not been confirmed by the parties concerned.
- (c) Balances of trade debtors and other receivables aggregating to Rs. 32,880,999 and Rs. 16,317,907 respectively had been outstanding for over five years. Balances of cheques drawn to pay advances for orders placed aggregating to Rs. 1,293,281 had been outstanding over 1 to 3 years.
- (d) Turnover Tax and Defence Levy aggregating to Rs. 49,914,529 due from the Department of Railways had not yet been settled.

2.2.2 Lack of Evidence for Audit

Debtors and other receivables aggregating to Rs. 608,197,513 and creditors and other payables aggregating to Rs. 142,668,700 could not be satisfactorily vouched or accepted in audit due to absence of the confirmations.

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

Following instances of non-compliance were observed in audit.

- (a) Construction materials required for the work sites of the Corporation valued at Rs. 1,690,157 had been purchased during the year under review on the basis of quotations called for in the year 1999 though the State Engineering Corporation Circular No. 2000/53 of 28th August 2000 precludes the purchase of materials for work sites on the basis of old quotations.
- (b) Monthly Returns on Goods and Services Tax which should be furnished to the Auditor General before the fifth day of the following month in terms of Public Finance Circular No. 364(1) of 1st June 1999 had not been so furnished.

3. Financial and Operating Review

3.1 Financial Results

The operations of the Corporation during the year under review had resulted in a net loss of Rs. 44.9 million after tax as compared with the net loss of Rs. 58.6 million for the previous year thus reducing net loss by Rs. 13.6 million. This can be analyzed as follows.

| | <u>Year ended 31st December</u> | | |
|---|--|-----------------------|--------------------------------------|
| | 2002 Profit/(Loss) | 2001 Profit/(Loss) | Variance Favourable /(adverse) |
| | <u>Rs. M</u> | <u>Rs. M</u> | <u>Rs. M</u> |
| (a) <u>Net Operating Profit</u> | | | |
| (i) Profit from Construction Contracts | 30,118 | 12,821 | 17,297 |
| (ii) Profit from Production | 1,790 | (1,391) | 3,181 |
| (iii) Profit from Architectural and Consultancy Services | 14,635 | 6,996 | 7,639 |
| (iv) Profit from Mechanical and Electrical Services | (3,658) | (14,386) | 10,729 |
| (b) Other Income | 4,040 | 4,467 | (0,428) |
| (c) Interest Income | 12,815 | 22,505 | (9,690) |
| | <u>59,740</u> | <u>31,012</u> | <u>28,728</u> |

Less

(d) Expenditure

| | | | | |
|-------|--------------------------------------|----------|----------|----------|
| (i) | Administrative Expenses | 51,153 | 53,512 | 2,359 |
| (ii) | Provision for Bad and Doubtful Debts | 16,732 | 22,309 | 5,577 |
| (iii) | Provision for Contingent Liabilities | 0.5 | (1,064) | (1,564) |
| (iv) | Interest Expenses | 36,348 | 14,919 | (21,429) |
| | | _____ | _____ | _____ |
| | | (44,993) | (58,664) | (13,671) |
| (e) | Provision for Taxation | - | - | - |
| | | _____ | _____ | _____ |
| | Net Loss after Tax | (44,993) | (58,664) | (13,671) |
| | | ===== | ===== | ===== |

3.2 Profitability

An analysis of the financial results of the Corporation under each category for the period 1998 to 2002 is given below.

| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M |
| (a) <u>Construction</u> | | | | | |
| (i) Total Turnover | 562 | 730 | 776 | 657 | 519 |
| (ii) Operating Profit | 49 | 40 | 50 | 62 | 57 |
| (iii) Less : Group Overheads | 20 | 28 | 23 | 20 | 20 |
| (iv) Net Operating Profit | 29 | 12 | 27 | 42 | 37 |
| (v) Profitable (Net Operating Profit to total turn over) | 5.16% | 1.64% | 3.47% | 6.39% | 7.12% |
| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
| | Rs. M | Rs. M | Rs. M | Rs. M | Rs. M |

(b) Construction

| | | <u>Components</u> | | | | |
|-------|--|-------------------|---------|--------|---------|---------|
| (i) | Total Turnover | 174 | 223 | 245 | 230 | 228 |
| (ii) | Operating Profit | 9 | 7 | 35 | 40 | 38 |
| (iii) | Less – Group Overheads | 7 | 8 | 6 | 6 | 5 |
| (iv) | Net Operating Profit/ (Loss) | 2 | (1) | 29 | 34 | 33 |
| (v) | Profitability (Net Operating Profit/ (Loss) to Total turnover) | 1.15% | (0.45)% | 11.83% | 14.78% | 14.47% |
| (c) | <u>Mechanical and Electrical</u> | | | | | |
| (i) | Total Turnover | 218 | 213 | 148 | 130 | 191 |
| (ii) | Operating Profit (Loss) | 5 | (5) | 6.8 | (0.7) | (5) |
| (iii) | Less – Group Overheads | 8 | 9 | 6.2 | 7.6 | 9 |
| (iv) | Net - Operating Profit (Loss) | (3) | (14) | 0.6 | (7) | (14) |
| (v) | Profitability (Net Operating Profit/ (Loss) to total turnover) | (1.37)% | (6.57)% | 0.4% | (5.38)% | (7.32)% |

3.3 Turnover

The turnover during the year under review was Rs. 901.6 million as compared with Rs. 1,095.6 million in the previous year thus showing a decrease of Rs. 193.5 million as analyzed below.

| Major Activities | Year 2002 (Actual) | Year 2001 (Actual) | Increase/ (Actual) |
|-------------------------------|-----------------------|-----------------------|-----------------------|
| | <u>Rs. (M)</u> | <u>Rs. (M)</u> | <u>Rs. (M)</u> |
| (i) Construction Contracts | 561,960 | 730,156 | (168,196) |
| (ii) Mechanical & Electrical | 146,116 | 143,201 | 2,915 |
| (iii) Construction Components | 148,394 | 181,238 | (32,844) |
| (iv) Consultancy | 45,157 | 40,475 | (4,682) |
| Total | <u>901,628</u> | <u>1,095,070</u> | <u>193,443</u> |

3.4 Liquidity Position

Current liabilities represented 77 percent of the current assets, as at the end of the year under review compared with that 69 percent of as at end of the preceding financial year thus showing a deterioration in the liquidity position.

3.6 Plant Capacity Utilization

A proper procedure to determine the optimum utilizable capacity of the plants of the Corporation was not in operation. The services of over 3,750 employees had been terminated since October 1985. All the work sites directly operated by the Corporation had been closed down and it was observed that machinery and equipment had been hired from outside parties.

3.7 Identified Losses

The following losses were identified.

| | <u>Loss</u> Rs. |
|---|--------------------|
| (a) Losses incurred in relation to major construction contracts | 14,948,000 |
| (b) Liquidated damages due to delays in completion of contracts | 5,218,960 |

3.8 Apparent Irregularities

Following observations are made in audit.

- (a) A motor vehicle purchased by the Corporation for Rs. 1,375,050 during the year 2002 had been released to the National Water Supply and Drainage Board. However a sum

of Rs. 114,345 being the salary of the other allowances of the driver of that motor vehicle for the year under review had been paid by the Corporation.

- (b) Construction materials valued at Rs. 2,613,644 had been purchased during the year under review without following the prescribed tender procedure while tyres and tubes valued at Rs. 81,000 had been also purchased during the year under review without obtaining the approval of the Tender Board.
- (c) Goods and Services Tax amounting to Rs. 332,641 due on the value of work certified during the period from August 2001 to July 2002 in connection with the contract (work site No. 1386) for the construction of the maternity home of the Co-operative Hospital, Kurunegala had not been paid to the Corporation by the client.

3.9 Funding Arrangement for Provision for Payment of Gratuity.

Provision for payment of gratuity as at 31st December 2002 amounted to Rs. 97,834,591. However, a funding arrangement had not been made by maintaining an investment portfolio to meet future obligations, as and when they arise.

3.10 Budgetary Control

Major variations were observed between the budget and the actuals thus indicating that the budget had not been made use of as an effective instrument of management control by the Corporation.

4. Systems and Control

Special attention is needed in respect of the following areas of control.

- (a) Purchase Advances

- (b) Cheques with Order Advances
- (c) Stocks
- (d) Contract Administration
- (e) Vehicles and Plant Utilization
- (f) Accounting
- (g) Receivables and Payables

(S. C. MAYADUNNE)
AUDITOR GENERAL.

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