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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No.

CAE/C/SEC/ 2022/FS/39

ඔබේ අංකය
உமது இல.
Your No.

දිනය
திகதி
Date

28 April 2026

Dem (F)
[Handwritten Signature]



The Chairman
State Engineering Corporation of Sri Lanka

Report of the Auditor General on the Financial Statements and other legal and regulatory requirement of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2022 in terms of Section 12 of the National Audit Act, No.19 of 2018

The above mentioned report and financial statements are sent herewith.

L.S.I Jayaratna
L.S.I Jayaratna
Auditor General

Copy : The Secretary- Ministry of Finance, Planning and Economic Development
The Secretary- Ministry of Housing Construction and Water Supply





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දිනය
திகதி
Date

23 April 2026

Chairman

State Engineering Corporation of Sri Lanka

Report of the Auditor General on the Financial Statements and other Legal and Regulatory Requirement of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2022 in terms of Section 12 of the National Audit Act, No.19 of 2018.

1. Financial Statements

1.1 Disclaimer of Opinion

The audit of the financial statements of the State Engineering Corporation of Sri Lanka ("Corporation") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. The National Equipment and Machinery Organization (NEMO) had been amalgamated to the Corporation as its unit according to the decision of Cabinet of Ministers dated 27 April 2021 on Cabinet Paper No. CMP/21/0631/306/037. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course.

I do not express an opinion on the accompanying financial statements of the Corporation. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

- (a) Contrary to the Paragraph No.32 of Sri Lanka Accounting Standard 01, the debit balances of 08 Ledger Accounts had been offset against those credit balances amounting to Rs. 342.84 million. Further, the credit balances of another 08 Ledger Accounts aggregating to Rs. 531.55 million had been offset against those debit balances. Therefore, the current liabilities and current assets of the financial statement had been understated respectively by those amounts.
- (b) Contrary to the paragraph 51 of Sri Lanka Accounting Standard 16, the Corporation had not reviewed the residual value and useful life of certain fixed assets, which had a carrying amount of Rs.400.68 million as at the end of the year under review. Further, assets with a total cost of Rs.1,132.10 million had been fully depreciated but are still in use. However, no action had been taken to rectify the estimation error or to disclose the gross carrying amount of these fully depreciated assets, as required under paragraph 79(b) of the standard.
- (c) There is an unidentified difference of Rs.2.08 million in the value of fixed assets between the financial statements and fixed asset register of the Corporation.
- (d) Although balances of current accounts being maintained among the divisions of the Corporation should be tallied with each other by the end of the year under review, a debit balance of Rs. 133.09 million had remained under other receivable in the financial statements as "Inter group current accounts" further a difference of Rs.194.44 million was observed between the current account balance in the financial statements of the Corporation and National Equipment and Machinery Organization (NEMO). However, reasons for the difference were not revealed to the audit.
- (e) Differences of Rs.1,019.89 million and Rs.582.63 million were observed respectively in the balances due from customers and balances due to customers between the financial statement and profit calculation schedule, in the NEMO unit as at 31 December 2022.
- (f) Although savings accounts balances valued Rs. 0.87 million were confirmed by the People's Bank as at 31 December 2022, these balances had not been included in the financial statement as at 31 December 2022.

As a result of these matters, I was unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded amounts and the elements making up the statement of financial position, statement of comprehensive income, statement of changes in equity and cash flows.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Corporation.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Corporation's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion on these financial statements.

2. Report on Other Legal and Regulatory Requirements

2.1 National Audit Act, No. 19 of 2018 includes specific provisions for following requirements.

2.1.1 I have not obtained all the information and explanation that considered necessary for the purpose of audit and I was unable to determine whether proper accounting records have been kept by the Corporation as per the requirement of section 12 (a) of the National Audit Act, No. 19 of 2018.

2.1.2 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.3 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018, except the audit matters of (a), (b), (c), (d), (e), (i) and (j) described in the basis for Disclaimer of Opinion section of my report.

2.2 Based on the procedures performed and evidence obtained was limited to matters that are material, nothing has come to my attention;

2.2.1 To state that any member of the governing body of the Corporation has any direct or indirect interest in any contract entered into by the Corporation which is out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 To state that the Corporation has not complied with any applicable written law, general and special directions issued by the governing body of the Corporation as per the requirement of section 12 (f) of the National Audit Act, No. 19 of 2018 except for;

**Reference to Laws, Rules
Regulations and Management
Decisions etc.**

Non-compliance

(a) Value Added Tax Act No.14 of 2002

Action had not been taken to remit the Value Added Tax totaling Rs.1,423.33 million to the Department of Inland Revenue even as at 31 December 2024.

(b) Paragraph 6.6 of the Public Enterprises Circular No. 01/2021 of 16 November 2021

Although the financial statements and the draft annual report should be submitted to the Auditor General within 60 days from the end of the financial year, the financial statements of the year 2022 were furnished to the Auditor General only on 14 November 2025.

(c) Internal circulars

(i) Paragraph 08 of the Internal Circular of cheques with orders, No. 2020/48 of 18 December 2020 issued by General Manager.

Advances issued by cheque aggregating to Rs.979.05 million as at 31 December 2024 had remained unsettled, of which Rs.134.18 million had been outstanding for 3 to 5 years, and Rs. 182.52 million for over 5 years.

(ii) Paragraph 4 of Internal Circular of special cash advances, No. 122/1979 of 20 December 1979

When the special cash advances are issued for the supply of goods or services, such advances should be settled within 14 days. However, special cash advances outstanding for over 01 year amounting to Rs.10.62 million had remained unsettled as at 31 December 2024.

2.2.3 To state that the Corporation has not performed according to its powers, functions and duties as per the requirement of section 12(g) of the National Audit Act, No.19 of 2018.

2.2.4 To state that the resources of the Corporation had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12(h) of the National Audit Act, No. 19 of 2018.

- (f) After analyzing the income and expenditure details for the year 2022 submitted by Corporation regarding the work performance of permanent sites and workshops, it was observed that a total loss of Rs.172.89 million had been incurred from twelve sites during the year under review, and only five sites have generated profits.
- (g) Although Rs. 6,973.28 million had been spent for 138 projects that were implemented by the corporation before 2022, the invoices had been issued only for Rs.5,694.28 million. Further, Rs.94.14 million had been spent for 12 projects that implemented by NEMO Division before 2022, the invoices had been issued only for Rs. 65.22 million. Because these projects remain non-operational, there is a risk that the Corporation will not be able to recover the remaining amount of Rs.1,307.92 million.
- (h) The cumulative expenditure of proposed Walkway Track & Landscaping Works at Jaffna (Vellaveli) project as at 01 January 2022 was Rs.3.55 million. However, this amount had been reduced by Rs.3.33 million and the cumulative expenditure of the project as of 31 December 2022 was stated as Rs. 0.22 million. Nevertheless, invoices have been issued to the value of Rs.6.39 million as per the profit calculation for the year 2022, indicating a discrepancy observed during the audit.
- (i) Although the retention receivable balance as at 31 December 2022 amounted to Rs. 1,309.24 million, the detailed schedules relating to this balance were not submitted for audit on a project- wise basis. Accordingly, it was not possible to verify whether these balances were associated with completed projects or ongoing projects. Furthermore, it was observed that retention receivables amounting to Rs. 682.71 million had been outstanding for over five years.
- (j) No action had been taken to settle the Nation Building Tax liability of Rs.65.21 million payable to the Department of Inland Revenue in respect of 2019 and prior years.

L.S.I. Jayaratna
L.S.I. Jayaratna
Auditor General

STATE ENGINEERING CORPORATION OF SRI LANKA
STATEMENT OF COMPREHENSIVE INCOME (AMALGAMATED)
FOR THE YEAR ENDED 31ST DECEMBER 2022

		2022	2021
		(Rs.)	(Rs.)
	Note		
Revenue	4	2,579,369,544	3,130,996,585
Cost of Sales		(3,130,395,222)	(3,701,502,430)
Gross Profit		<u>(551,025,677)</u>	<u>(570,505,846)</u>
Other Income	5	27,292,532	25,155,674
Administrative Expenses		(343,206,704)	(399,124,792)
Net Finance Income/ (Expense)	6	(642,364,245)	(278,569,243)
Profit before Tax	7	<u>(1,509,304,094)</u>	<u>(1,223,044,207)</u>
Income Tax Expense	8	(580,363)	(516,501,437)
Profit for the period		<u><u>(1,509,884,457)</u></u>	<u><u>(1,739,545,644)</u></u>
Other comprehensive income			
Actuarial Gain/ (Losses) on Defined Benefit Plans		46,893,160	1,721,805
Fair Value Change of Available for sale Financial Instruments		(768,000)	(108,000)
Other comprehensive income for the period, net of tax		<u>46,125,160</u>	<u>1,613,805</u>
Total comprehensive income for the period		<u><u>(1,463,759,297)</u></u>	<u><u>(1,737,931,838)</u></u>

The Accounting Policies and Explanatory Notes form an integral part of these Financial Statements.



STATE ENGINEERING CORPORATION OF SRI LANKA
STATEMENT OF FINANCIAL POSITION (AMALGAMATED)
AS AT 31ST DECEMBER 2022

		31.12.2022 (Rs.)	31.12.2021 (Rs.) Restated
ASSETS	Note		
Non-Current Assets			
Property, Plant and Equipment	9	7,844,991,309	7,846,348,851
Intangible Assets	10	1,591,671	181,754
Investments in shares	11	3,336,000	4,104,000
Deferred Taxation	12	279,398,361	279,398,361
Other Financial Assets Including Derivatives	15	6,860,619	4,681,470
		<u>8,136,177,960</u>	<u>8,134,714,437</u>
Current Assets			
Inventories	13	668,351,330	636,879,772
Trade and other Receivables	14	6,988,533,027	6,838,241,040
Other Financial Assets Including Derivatives	15	1,310,410,063	1,197,426,621
Cash and Cash Equivalents	16	550,792,487	461,368,370
		<u>9,518,086,907</u>	<u>9,133,915,803</u>
Total Assets		<u>17,654,264,867</u>	<u>17,268,630,239</u>
EQUITY AND LIABILITIES			
Stated Capital	17	705,500,000	298,000,000
Capital Accretion Reserve		27,738,806	27,738,806
Revaluation Reserve		7,582,576,115	7,582,576,115
E&M Capital		(265,394,990)	(265,394,990)
Grant from Treasury - NEMO for VRS		384,343,913	325,943,913
General Reserve		3,602,690	3,602,690
Retained Earnings		<u>(9,123,406,767)</u>	<u>(7,658,960,375)</u>
Total Equity		<u>(685,040,233)</u>	<u>313,506,159</u>
Non-Current Liabilities			
Interest Bearing Borrowings	18	2,785,348,393	2,402,194,573
Employee Benefit	19	572,743,211	549,401,976
Other Financial Liabilities including derivatives	20	-	-
		<u>3,358,091,604</u>	<u>2,951,596,549</u>
Current Liabilities			
Interest Bearing Borrowings	18	421,696,853	198,284,562
Trade and Other Payables	21	10,309,341,506	9,119,621,784
Other Financial Liabilities including derivatives	20	4,106,734,654	4,277,144,536
Income Tax Payable	22	11,144,758	10,564,395
Bank Overdraft	16	132,295,725	397,912,256
		<u>14,981,213,496</u>	<u>14,003,527,533</u>
Total Equity, Liabilities		<u>17,654,264,867</u>	<u>17,268,630,241</u>

These Financial Statement are prepared in compliance with the Sri Lanka Accounting Standards.

.....
Deputy General Manager (Finance)

Directors certificate in terms of Public Enterprises Circular No PED 45. The Accounting Statements, the Accounting Policies and Explanatory Notes Form an integral part of these Financial Statements. The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and Signed on their behalf.

.....
Chairman

Eng. M.B.J.N. Fernando
B.Sc. Eng., P.G. (Dip.) in Energy Technology
Chairman/CEO
State Engineering Corporation of Sri Lanka

2

.....
Director

Director
State Engineering Corporation of Sri Lanka



STATE ENGINEERING CORPORATION OF SRI LANKA
STATEMENT OF CHANGES IN EQUITY (AMALGAMATED)
FOR THE YEAR ENDED 31ST DECEMBER 2022

	Stated Capital (Rs.)	Capital Accretion Reserve (Rs.)	Revaluation Reserve (Rs.)	General Reserve (Rs.)	E&M Capital (Rs.)	Treasury Grant NEMO (Rs.)	Retained Earnings (Rs.)	Total (Rs.)
Balance as at 01st January 2021	70,000,000	27,738,806	7,582,576,115	3,602,690	(265,394,990)	325,943,913	(5,862,494,388)	1,881,972,111
Profit for the Period								
Adjustment for Employee benefit (NEMO)							(1,739,545,644)	(1,739,545,644)
Capital Contributed by Government	228,000,000						(55,060,710)	228,000,000
Other Comprehensive Income - Actuarial Loss							1,721,805	1,721,805
Other Comprehensive Income - Fair Value Changes							(108,000)	(108,000)
Total other comprehensive income for the period							1,613,805	1,613,805
Balance as at 31.12.2021 as previously reported	298,000,000	27,738,806	7,582,576,115	3,602,690	(265,394,990)	325,943,913	(7,655,486,937)	316,979,597
Restatement								
Interest Payment 2021							(876,847)	(876,847)
Over Stated Depreciation							8,231	8,231
Over Stated E P F & E T F Expenses							(2,604,822)	(2,604,822)
Balance as at 31.12.2021 as restated	298,000,000	27,738,806	7,582,576,115	3,602,690	(265,394,990)	325,943,913	(7,658,960,375)	313,506,155
Profit for the Period								
Adjustment for Other Income							(1,509,884,457)	(1,509,884,457)
Capital Contributed by Government	407,500,000					58,400,000	(687,091)	(687,091)
Treasury Grant - VRS								465,900,000
Other Comprehensive Income - Actuarial Loss							46,893,160	46,893,160
Other Comprehensive Income - Fair Value Changes							(768,000)	(768,000)
Total Other Comprehensive Income for the Period							46,125,160	46,125,160
Balance as at 31st December 2022	705,500,000	27,738,806	7,582,576,115	3,602,690	(265,394,990)	384,343,913	(9,123,406,767)	(685,040,231)

(Figures in brackets indicate deductions)



STATE ENGINEERING CORPORATION OF SRI LANKA
AMALGAMATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2022

	31.12.2022 (Rs.)	31.12.2021 (Rs.) Restated
Cash Flow from Operating Activities		
Profit Before Tax	(1,509,304,094)	(1,223,044,207)
Adjustments for,		
Depreciation of Property, Plant and Equipment	24,609,364	28,700,432
Amortization of Intangible Assets	332,083	18,246
Provision for Retirement Benefit Obligations	101,944,461	77,470,317
Provision for accrued expenses and other provisions	(687,091)	(4,195,959)
Compensation	-	31,197,479
Provision/(Reversal) for Bad and Doubtful Debts	44,105,516	46,776,965
Provision for/(Reversal) of Obsolete Stocks	(1,427,549)	3,679,957
Provision /(Reversal) of Income Tax	-	-
Interest Expenses Payable	-	-
Amortization of Grant	-	-
Interest Income	(18,930,188)	(6,635,596)
Interest Expenses	647,263,788	256,932,799
Operating Profit Before Working Capital Changes	<u>(712,093,710)</u>	<u>(789,099,567)</u>
(Increase)/Decrease in Inventory	(30,043,984)	(128,987,284)
(Increase)/Decrease in Trade and Other Receivables	(144,933,693)	(662,919,873)
(Increase)/Decrease in Other Current Financial Assets	(115,162,591)	146,814,860
(Increase)/Decrease in Other Current Financial Liabilities	316,590,120	879,215,756
Increase/(Decrease) Trade and Other Payables	555,383,669	658,270,305
Cash Generated from/(used in) Operating Activities	<u>(130,260,188)</u>	<u>103,294,198</u>
Interest Paid	(62,391,565)	(197,906,777)
Gratuity Paid	(31,710,066)	(52,064,099)
Compensation paid	-	(31,197,479)
Income Tax Paid	-	-
Net Cash Generated from/(used in) Operating Activities	<u>(224,361,819)</u>	<u>(177,874,157)</u>
Cash Flow from Investing Activities		
Purchases of Property, Plant and Equipment	(23,251,833)	(14,373,522)
Purchase of Intangible Assets	(1,742,000)	(200,000)
Interest Received	18,930,188	6,635,596
Net Cash Generated from/(used in) Investing Activities	<u>(6,063,645)</u>	<u>(7,937,926)</u>
Cash Flow from Financing Activities		
Precedes from Long Term Borrowings	150,000,000	-
Grant from Treasury - NEMO for VRS	58,400,000	-
Cash Contributed by Treasury	407,500,000	228,000,000
Repayment of Loan	(30,433,889)	-
Grant Received	-	-
Net Cash Generated from/(used in) Financing Activities	<u>585,466,111</u>	<u>228,000,000</u>
Net Increase/(Decrease) in Cash and Cash Equivalents during the period	355,040,647	42,187,917
Cash and Cash Equivalents at the beginning of the period	63,456,115	21,268,198
Cash and Cash Equivalents at the end of the period	<u>418,496,762</u>	<u>63,456,115</u>

The Accounting Policies and Explanatory Notes form an integral part of these Financial Statements.
(Figures in brackets indicate deductions.)



STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE AMALGAMATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2022

1. GENERAL

1.1. Reporting Entity

State Engineering Corporation of Sri Lanka was established under the State Industrial Corporation Act No.49 of 1957 on the 01st January 1962 and function under then Ministries of State Ministry of Rural Housing and Construction and Building Materials Industries Promotion and Ministry of Urban Development and Housing. The registered office of the State Engineering Corporation of Sri Lanka is located at No. 130, W.A.D. Ramanayake Mawatha, Colombo 02 and a project National Equipment and Machinery Organization which has been kept under SEC preview as per the cabinet decision අම/16/0082/736/002 dated 04th February 2016. The principle office is located at "Theme Park Building", Negambo Road Peliyagoda.

1.2. Principal Activities and Nature of Operations

State Engineering Corporations is primarily involved in the business of Construction Activities and provides services in civil engineering construction, mechanical and electrical engineering, architectural and engineering consultancy services, manufacture of pre-cast components and building materials for civil engineering projects. The Business activity of NEMO is hiring of heavy machineries and Construction activities.

2. Summary of Significant Accounting Policies

2.1. Statement of Compliance

The amalgamated financial statements of the Corporation and NEMO comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the cash flow statement, together with the accounting policies and notes to the financial statements. These financial statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)

The Financial Statements were authorized for issue by the Board of Directors in accordance with the resolution passed by the Board of Directors on 03.09.2025.

(Here in after Financial Statement is referred as amalgamated Financial Statement of both entity.)

2.2. Basis of Measurement

The Financial Statements have been prepared on the historical cost basis except for the following material items in the statement of financial position.

- Financial assets and financial liabilities that have been measured at fair value
- Employee benefit liability recognized based on Project Unit Credit Method (LKAS 19)
- Property, Plant and Equipments and Motor Vehicles are stated at revalued amounts

The Directors have made an assessment of the Corporation's ability to continue as a going concern in the foreseeable future and they do not foresee a need for liquidation or cessation of trading.



STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE AMALGAMATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2022

3.2.1. Property, Plant & Equipment

3.2.1.1. Recognition and Measurement

Property, Plant and Equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (Major components) of property, plant and equipment.

3.2.1.2. Owned Assets

The cost of an item of property, plant and equipment comprise its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. The cost of self-constructed assets includes the cost of materials, direct labor, and any other costs directly attributable to bringing the asset to the working condition for its intended use. This also includes cost of dismantling and removing the items and restoring in the site on which they are located and borrowing costs on qualifying assets.

Purchased software that is integrated to the functionality of the related equipment is capitalized as part of equipment.

3.2.1.3. Leased Assets

Leases in terms of which the Corporation assumes substantially all the risk and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured and capitalized at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the income statement. Other leases are operating leases which are not recognized in the Corporation's Statement of Financial Position.

3.2.1.4. Subsequent Costs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized.

The costs of the day to day servicing of property, plant and equipment are recognized in profit or loss as incurred.



STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE AMALGAMATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2022

3.2.1.5. Derecognition

The carrying amount of an item of property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use or disposal. Gains or losses on derecognition are recognized within other income in profit or loss.

3.2.1.6. Revaluation

Revaluation is performed on freehold Land and Building by professionally qualified value's using the open market value at least once in every three years. The valuation surplus is recognized on the net carrying value of the asset and is transferred to a revaluation reserve after restating the asset at the revalued amount. The revaluation reserve is transferred to retained earnings at the point of derecognition.

3.2.1.7. Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

Asset Category	Useful Life (Years)	Depreciation Rate (%)
Buildings	40	2.5%
Plant & Machinery	05	20%
Furniture and fixtures	10	10%
Motor vehicles	05	20%
Office Equipments	05	20%
Computers	05	20%

Depreciation of an asset begins when it is available for use where as depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognised.

Depreciation method, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.



STATE ENGINEERING CORPORATION OF SRI LANKA
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3.2.2. Capital Work in Progress

Capital expenses incurred during the year which are not completed as at the reporting date are shown as Capital Work-in-Progress, whilst the capital assets which have been completed during the year and available to use have been transferred to Property, Plant and Equipment.

3.2.3. Intangible Assets

An Intangible Assets is recognized if it is probable that economic benefits are attributable to the assets will flow to the entity and cost of the assets can be measured reliably and carried at cost less accumulated amortization and accumulated impairment losses.

3.2.3.1. Software

All computer software cost incurred, which are not internally related to associate hardware, which can be clearly identified, reliably measured and its probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category of intangible assets.

3.2.3.2. Subsequent Expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

3.2.3.3. Amortisation

Amortization is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in the profit or loss on a straight line basis over the estimated useful lives of intangible assets, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives are as follows:

Asset Category	Useful Life (Years)	Depreciation Rate (%)
Computer Software	05	20%

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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3.2.4. Inventories

Inventories are stated at the lower of cost and net realizable value, after making due allowance for obsolete and slow moving items. The cost of inventories is comprised all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the normal course of business less estimated cost of realization and/or cost of conversion from their existing state to saleable condition.

Inventory movement is reviewed at the end of reporting period by an expert to assess the recoverability of inventory and the items that are identified as irrecoverable are written off during the year.

3.2.5. Work in Progress

Contractual costs incurred for future work are recognized as an asset when it is probable that they will be recovered and such costs are classified as work in progress. Variation and claims are recognized in contract revenue only when it is probable that the customer will approve the variation or claim and the amount of revenue can be reliably measured. Until recognize in revenue cost incurred for variation and claims are classified as work in progress.

3.2.6. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits, and short term highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value net of bank overdrafts that are repayable on demand for the purpose of the Statement of Cash Flows

3.2.7. Impairment of Non Financial Assets

The Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Corporation makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's value in use and its fair value less cost to sale and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the assets is considered impaired and is written down to its' recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rates that reflect current market assessments of the time value of money and the risk specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used.

Impairment loss of continuing operations are recognized in the Statement of Comprehensive Income in those expenses categories consistent with the function of the impaired asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognized. If

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that is the case, carrying amount of the asset is increased to its recoverable amount. That increased amount cannot 'exceed' the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Comprehensive Income.

3.3. Financial Instruments

3.3.1 Financial Assets

3.3.1.1 Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs. Purchase or sale of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Corporation commits to purchase or sell the asset.

The Corporation financial assets include cash and cash equivalent, short term deposits, trade and other receivables, loans and quoted equity instruments.

3.3.1.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as described below:

3.3.1.3 Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Corporation that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the Statement of Financial Position at fair value with changes in fair value recognized in finance income or finance costs in the income statement.

The Corporation evaluated its financial assets at fair value through profit and loss (held for trading) whether the intent to sell them in the near term is still appropriate. When the Corporation is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Corporation may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset

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3.3.1.4 Held to maturity financial assets

If the Corporation has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held to maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, Held to Maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the Effective Interest Rate (EIR). The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance costs.

3.3.1.5 Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

3.3.1.6 Available for Sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the above categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss. Available-for-sale financial assets comprise equity securities and debt securities.

The Corporation evaluates its available-for-sale financial assets to determine whether the ability and intention to sell them in the near term is still appropriate. When the Corporation is unable to trade these financial assets due to inactive markets and management's intention to do so significantly changes in the foreseeable future, the Corporation may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Corporation has the intention and ability to hold these assets for the foreseeable future or until maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intention to hold the financial asset accordingly.

For a financial asset reclassified out of the available-for sale category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the expected cash

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flows is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

3.3.1.7 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial Assets) is derecognised when:

- The rights to receive cash flows from the asset have expired,
- The Corporation has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Corporation has transferred its rights to receive cash flows from an asset or has entered into a pass through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of the Corporation's continuing involvement in it. In that case, the Corporation also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Corporation has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Corporation could be required to repay.

3.3.1.8 Impairment of Financial Assets

The corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred. After the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

3.3.1.9 Financial Assets Carried at Amortised Cost

For financial assets carried at amortized cost, the Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for

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impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the profit or loss.

3.3.2 Financial Liabilities

3.3.2.1 Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Corporation determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs.

The Corporation financial liabilities include trade and other payables, bank overdrafts and loans and borrowings.

3.3.2.2 Subsequent Measurement

The measurement of financial liabilities depends on their classification as follows:

3.3.2.3 Financial Liabilities at Fair Value through Profit or Loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by LKAS 39. Separated embedded derivatives are also classified as held-for trading unless they are designated as effective hedging instruments.

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Gains or losses on liabilities held-for-trading are recognized in the profit or loss. The Corporation has not designated any financial liabilities upon initial recognition as at fair value through profit or loss

3.3.2.4 Loans and Borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the income statement when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that is an integral part of the EIR. The EIR amortization is included in finance costs in the income statement.

3.3.2.5 Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement

3.3.2.6 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statement of Financial Position only if there is a current enforceable legal right to offset the recognized amounts and intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. Income and expense will not be offset in the Income Statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Corporation.

3.3.2.7 Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same;
- A discounted cash flow analysis or other valuation Models

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note no 23.

3.4. Post Employment Benefits



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3.4.1. Defined Benefit Plan

The liability recognized in the Statement of Financial Position is the present value of the defined benefit obligation at the reporting date, using the projected unit credit (PUC) method. The gratuity liability is not externally funded, nor actuarially valued. The gratuity liability is valued using the Projected Unit Credit (PUC) method considering the assumptions required to arrive at the present value of defined benefit obligation.

However, according to the Payment of Gratuity Act No. 12 of 1983, the liability for gratuity payment to an employee arises only after the completion of 5 years of continued service.

3.4.2. Defined Contribution Plans – Employees’ Provident Fund and Employee Trust Fund

A defined contribution plan is a post-employment benefit plan under which an entity pays a fixed contribution to a separate entity and will have no legal or constructive obligation to pay further amounts. All employees who are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions are covered by relevant contributions funds in line with the relevant statutes. Employer’s contributions to the defined contribution plans are recognized as an expense in profit or loss when incurred.

3.5. Provision, Contingent Liabilities, Contingent Assets

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation and a reliable estimate can be made of the amount of the obligation.

All contingent liabilities are disclosed as a note to the financial statements unless the outflow of resources is remote.

Contingent assets are disclosed, where inflow of economic benefit is probable

3.6. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match to the costs, that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the Corporation receives non-monetary grants, the asset and the grant are recorded gross at nominal amounts and released to the income statement over the expected useful life and pattern of consumption of the benefit of the underlying asset by equal annual instalments.

3.7. Statement of Comprehensive Income

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3.7.1. Revenue

Revenue represents the amounts derived from the provision of services and sale of goods, which fall within the Corporation ordinary activities net of trade discounts and turnover related taxes.

3.7.1.1. Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Corporation and the revenue and the associated costs incurred or to be incurred can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and sales taxes, and after eliminating sales within the Corporation. The following specific criteria are used for the purpose of recognition of revenue.

3.7.1.1.1. Construction Contract

When the outcome of a contract can be estimated reliably, revenue is recognized by reference to the Stage of Completion of the Contracting activity as at the reporting date (Percentage-of-Completion Method). When the outcome of a contract cannot be estimated reliably, revenue is recognized to the extent of cost incurred that are likely to be recoverable. When it is probable that total cost will exceed total revenue, the expected loss is recognized as an expense immediately.

The Stage of Completion is measured by reference to the proportion that, costs incurred for work performed to date bear to the estimated total costs.

3.7.1.1.2. Sale of Goods

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the Consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue from the sale of goods is recognized when the significant risk and rewards of ownership of the goods have passed to the buyer with the Corporation retaining neither a continuing managerial involvement to the degree usually associated with ownership, nor an effective control over the goods sold.

3.7.1.1.3. Rendering of services

Revenue from services rendered is recognized in the Statement of Comprehensive Income once all significant performance obligations have been provided.

3.7.1.1.4. Other Income

Profits or losses from disposal of property, plant and equipments recognized having deducted from proceeds on disposal, the carrying value of the assets and the related expenses.

Foreign currency gains and losses are reported on a net basis.

Income from scrap sales are recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.