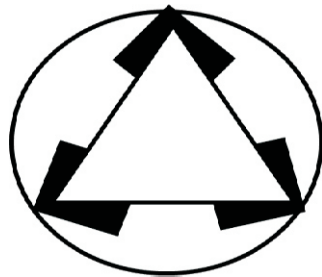


STATE ENGINEERING CORPORATION OF SRI LANKA



Annual Report

2015

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Corporate Information

Name of Corporation

State Engineering Corporation of Sri Lanka

Legal Status

Fully owned Enterprise of the Government
of the Democratic Socialist Republic of Sri Lanka

Name of Ministry

Housing & Samurdhi. (Up to 20.9.2015)
Housing & Construction (21.09.2015 on wards)

Registered Office

130, W.A.D.Ramanayaka Mawatha, Colombo 02.

Tel: 011-2434691 Fax : 011-2421262

E - mail : Chairman@secsl.lk www.secsl.lk

Engineers to the Nation

Vision

To be the leading Engineering Enterprise

Mission

To be a provider of innovative and integrated engineering solutions through excellent consultancy, construction, manufacturing and project management services, supported by research and development, delighting the client, with the active participation of a competent and motivated work-force within a prosperous enterprise and there by contribute to national development.

Goals

- Achieve highest levels of technical standards and professionalism
- To be a commercially focused, financially viable and self-sustainable government enterprise
- To diversify business activities of the corporation
- To develop leading and promote the use of domestic technology and local materials.
- To be the leading partner in National Development Programmers
- Improve the management and human resources of the Corporation

Core Values

- Clients' Satisfaction
- Integrity
- Social Obligation
- Employee Satisfaction
- Safety
- Quality

Board of Directors - 2015



Dr.M.E.Joachim
Chairman



Mr. P.J.M. Pelpola
Vice Chairman



Mr. Sarath G.Jayathilake
Working Director



Mr.W.M.Gamunu Silva
Director



Mr. Palitha Walpola
Director



Miss S.D.H.De Silva
Director



Mr.A.H.Sunil Gunawardena
Director



Mrs. I.Wikramanayake Alexander
Secretary to the Board

Corporate Management

Mr.M.D.Pathmasiri	- General Manager (Up to 03.08.2015)
Mr. D.T.Rajasekaran	- Actg. General Manager
Mr.A.A.Piyadasa	- Additional General Manager (Project Implementation)
Mr.K.A.Shantha Kumara	- Deputy General Manager (Up to 13.10.2015)
Mrs. P.D.Karawita	- Actg. Deputy General Manager (Construction)
Mr. A.P.Thennakoon	- Actg. Deputy General Manager (Const. Component)
Mr.K.E.H.A.Ranasinghe	- Actg. Deputy General Manager (Consultancy)
Mr.W.A.P.K.Nishantha	- Deputy General Manager (Mechanical & Electrical)
Mr.W.A.P.K.Nishantha	- Deputy General Manager (Equipment & Machinery)
Mr.U.R.Hettiarachchi	- Deputy General Manager (Special Operation) (Up to 01.10.2015)
Mr.M.H.Senaweera	- Deputy General Manager (Finance)
Mr. S.P. Lokuhennedige	- Deputy General Manager (HR & Admin) (Up to 25.02.2015)
Mr. W.A.J.E.Fernando	- Consultant (Special Operation)

Senior Management

Mr. P.M.A.Karunasinghe	- Manager (Finance)
Mrs. P.D.Karawita	- Manager (Construction)
Mr.A.P.K.Manamperi	- Acting Manager (Construction)
Mr.W.G.A.Gajasinghe	- Acting Manager (Construction)
Mr. A.M.S.T.B.Alahakoon	- Acting Manager (Construction)
Mr.S.P.S.Sirisena	- Acting Manager (Construction)
Mr.T.Vijayakumar	- Acting Manager (Construction)
Mr.C.A.C.Hettiarachchi	- Acting Manager (Const. components)
Mr.M.K.N.Jayasekara	- Manager (I.T)
Ms. L.S.T.Liyanage	- Acting Manager (HR / T&D)
Mr.W.A.D.P.Wickramasinghe	- Chief Engineer (Mech)
Mr.D.T.Rajasekaran	- Chief Engineer (Designs)
Mr.C.M.S.R.Fernando	- Chief Engineer (Contact & Planning) (Up to 08.12.2015)
Mrs. P.S.D. Rajani	- Chief Engineer (Contact & Planning)
Mr.D.N.A.Galappaththi	- Chief Quantity Surveyor
Mr.K.E.H.A.Ranasinghe	- Acting Chief Architect
Mr. P.Kuruwita	- Chief Internal Auditor
Mr.E.S.S. De Silva	- Chief Security Officer
Mr.T.R.Premadasa	- Chief Supplies Officer (Up to 24.04.2015)
Ms. I.B. Sivarathnam	- Actg. Chief Supplies Officer



Chairman Message



Dr. M. E. Joachim
Chairman
(Term of office 06.02.2015 - 07.09.2016)

Dr. T. A. G. Gunasekara
Present Chairman
(Term of office 08.09.2016 to date)

As a multi disciplinary Engineering and Construction Organization 2015 SEC's performance was average although it faced several difficulties. The key operational divisions had ups and downs in the year 2015. SEC with senior professionals of major disciplines related to Engineering and Construction, and skilled and unskilled work force of nearly 3000 completed many projects in this year, despite the situation.

Due to change in state administration and resulting need for a time period to initiate government's new economic policies and strategies, SEC as many other construction organizations had a setback in securing large scale projects during the year under review, although it performed to a satisfactory level for its sustainability.

Dr. M. E. Joachim (Deceased)
Chairman

Dr. T. A. G. Gunasekara
Chairman



Working Director Report

The State Engineering Corporation which was established during the early part of the decade of 1960 meeting the requirement of engineering tasks related to construction work needed by the industries and the projects associated therewith during the initial phases of the large scale factories and various other development projects in Sri Lanka goes past the 53rd year of its continued march of business life by the 31st of December 2015 under the flagship of the State Engineering Corporation of Sri Lanka.

The State Engineering Corporation of Sri Lanka throughout its long journey of business life spanning over 53 years continued to prominently engage itself in the works of construction that brought immense pride to the national economy and culture leaving indelible footprints in the field of Sri Lankan Engineering.

The State Engineering Corporation whose performance did not reflect much of a headway in its sphere of operations in terms of economic yield during the year that commenced from 2015 strives to pooling the resources necessary to march forward along the long path ahead of it with renewed strength as well as taking robust measures towards the rejuvenation of its activities by way of structural changes so as to enable it to reach out to new vistas of business portfolios.

Sarath G. Jayathilake
Working Director

Audit Committee Report

✦ Composition

Mr. A. H. Sunil Gunawardena (Non-Executive Director) - Committee Chairman
(Treasury Representative)
MA (Econ) / PG Dip (Econ) / BA (Econ. - 2nd class)
Director (Budget) - Department of National Budget

Ms. S. D. H. De Silva (Non-Executive Director) - Committee Member
(Ministry Representative)
Bsc. Eng./ Chartered Eng.
Addl. Secretary (Works) - Ministry of Housing & Construction

Mr. P. J. M. Pelpola (Executive Director) - Committee Member
Vice Chairman
State Engineering Corporation of Sri Lanka

✦ Role of the Committee

The Audit Committee is a sub-committee of the Board of Directors, and is responsible to the Board.

The Committee is responsible for supporting the Board in ensuring that the Corporation's financial results, internal controls and risk management are effectively managed in line with best practices and in compliance with accounting standards of the Institute of Chartered Accountants of Sri Lanka and other relevant laws and regulations.

✦ Audit Committee Meetings

Four meetings were held during the year 2015, and by invitation General Manager, Deputy General Manager (Finance) and Chief Internal Auditor attended for all the meetings. The Government Audit Superintendent and Chief Internal Auditor of the Ministry are also requested to be present for all the meetings.

Minutes of the meetings were presented to the Board of Directors, and important issues were brought up and discussed at the Board meetings.

★ Main Activities

Main Activities performed by the Audit Committee during the year 2015:

- Corporate to achieve an organization-wide commitment to strong and effective governance, risk management and internal controls emanating from the tone at the top.
- Reviewed Corporation's policies relating to compliance with laws and regulations, ethics, conflicts of interest and the investigation of misconduct and fraud.
- Ensured that financial statements are understandable, transparent and reliable.
- Communicated with senior management regarding status, progress and new developments as well as problematic areas.
- Reviewed internal audit plans, reports and significant findings.
- Established a direct reporting relationship with the Government Auditors.

On behalf of the Audit Committee



Chairman of the Audit Committee
17 October 2016

Progress Review of the Corporation

Turnover & Profit

Corporation has recorded its turnover Rs.3168 million during the financial year 2015. It was observed contribution from construction sector to the National income has been declined by 6.6 in 2014 to 0.9% in 2015. This effect was similarly influenced to the SEC performance and its results as well.

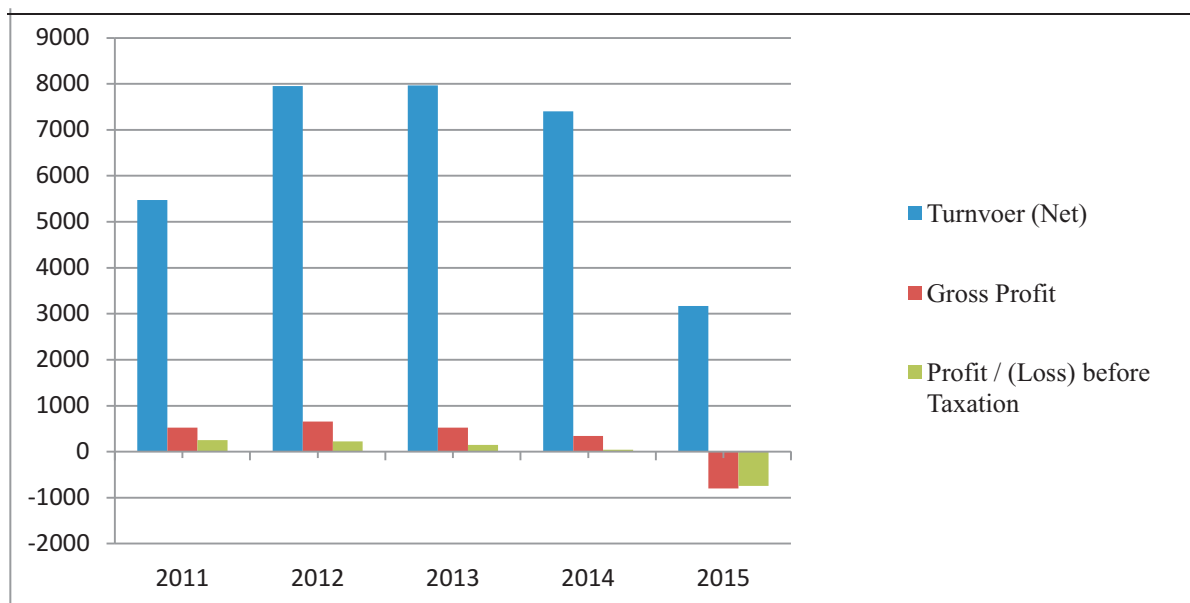


Table I (Comparative Turnover & Profit Figures of the Corporation 20 11 - 2015)

	Rs. in Million				
	2011	2012	2013	2014	2015
Turnover (Net)	5,473	7,951	7,965	7,403	3168
Gross Profit	527	653	522	195	(799)
Profit/(Loss) before Taxation	252	225	148	46.6	(708)

Construction Division

The group has registered its revenue as amounting Rs.1608 which included its internal bills amounting Rs. 44.1 M. It is shown drastic decline in revenue compared to previous year as specified bellow.

Turnover & Net Operation Profit / (Loss)

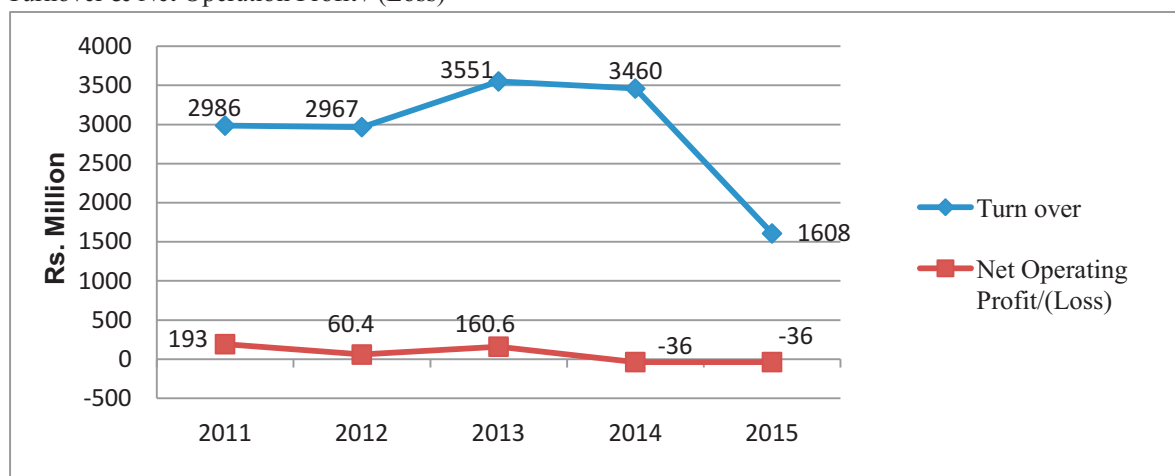


Table II - Turnover & Net Operating Profit/(Loss) of Construction Group

Highlights of the performance during the year

- Value of project completed Rs. M. 765.64
- Value of project awarded Rs. M 1357.19
- Value of project commenced Rs. M 988.13

Construction Components Division

Construction Components groups has recorded its Turn Over Rs. 803.6 million during the year 2015, which is 40% achievement of its annual estimates registered as 2024 M at the beginning of the year. Performance of the group and its results are given below.

Turnover & Net Operation Profit / (Loss)

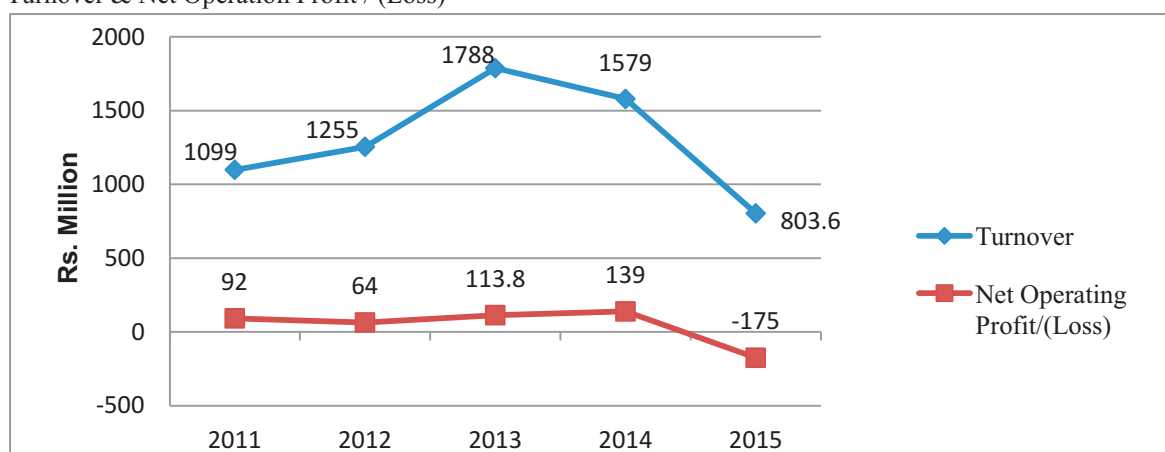


Table III - Turnover & Net Operating Profit/(Loss) of Construction Components Group 2011 - 2015

Mechanical & Electrical Division

Turnover of the group during the year 2015 is shown as Rs.205.6 million. Whereas drastic decline when compared to 2014 values which is shown as Rs.739 million.

Similarly Net results of the group also shown an adverse pictures, which gives Net loss for the year is 160 million.

Turnover & Net Operation Profit / (Loss)

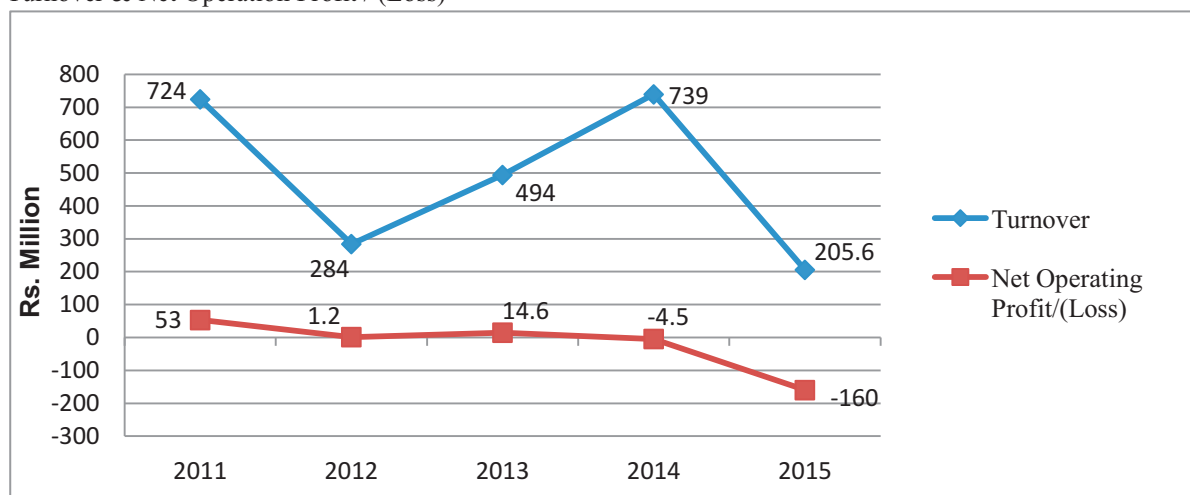


Table V - Turnover & Net Operating Profit/(Loss) of Mechanical & Electrical

Consultancy Group

Consultancy Group has recorded its Revenue as Rs.170.4 million, Whereas its net loss is shown Rs.29.9m.

Turnover & Net Operation Profit / (Loss)

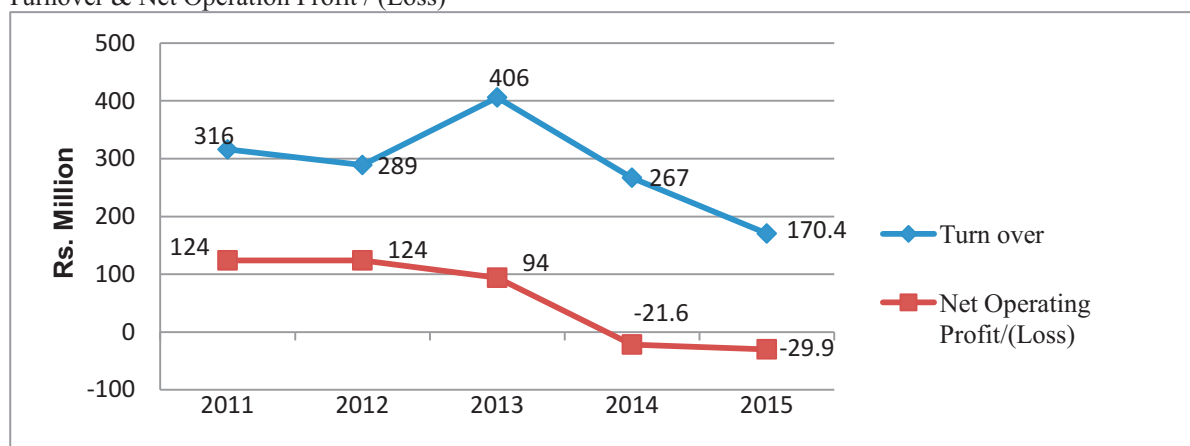


Table IV - Turnover & Net Operating Profit/(Loss) of Consultancy Group

Special Operation Division

Segment was established to undertake single activity to serve Provincial Road Sector, which was faced the drastic situation on the decision of client organization, where ceasing road projects, from 2014 was resulted to reduce annual turnover and Net profit during past two years as follows;

Turnover & Net Operation Profit / (Loss)

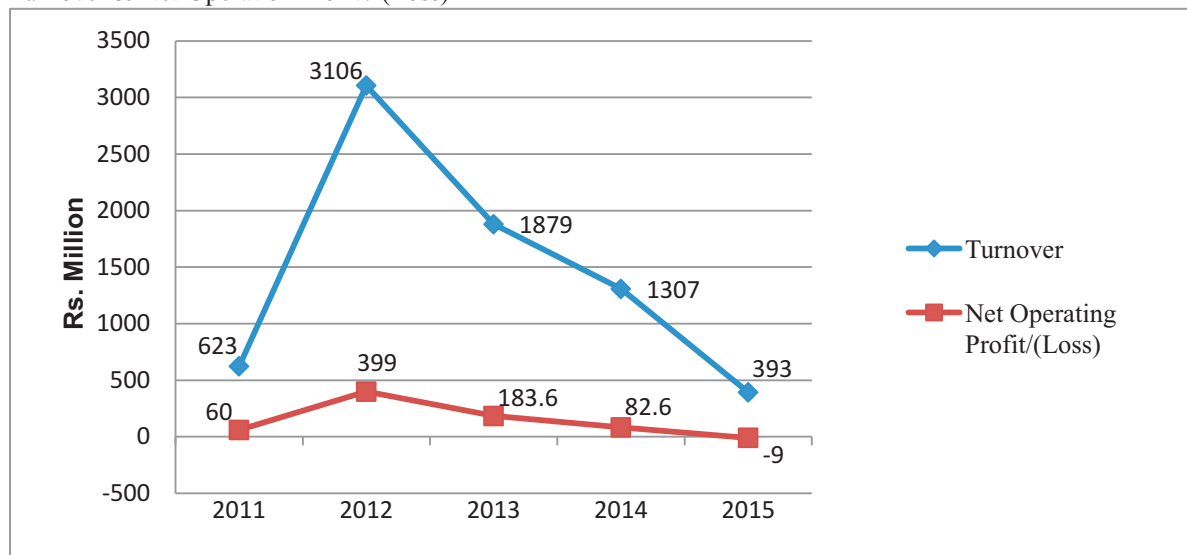


Table VII - Turnover & Net Operating Profit/(Loss) of Special Operation Division

Equipment & Machinery Division

An operation units handling heavy machinery in the field of construction progress of the unit is similarly contracted during the year 2015. E&M unit is operated under same synario has acquired its revenue Rs.150 was resulted to run at a loss 279 m during the year 2015.

Turnover & Net Operation Profit / (Loss)

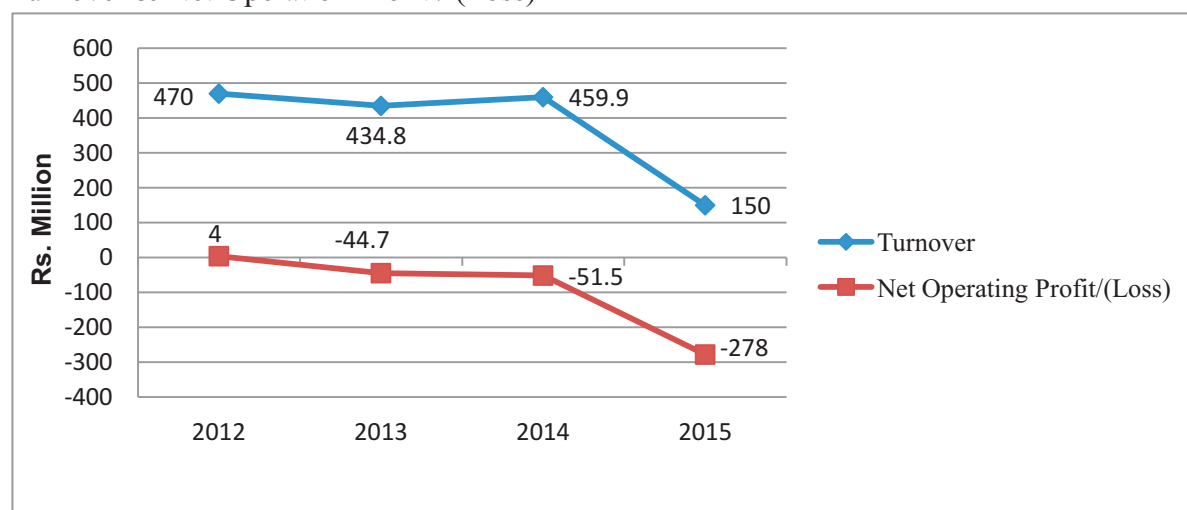


Table VI - Turnover & Net Operating Profit/(Loss) of Equipment & Machinery Division

Cash Flows

Cash Flows during the year 2015 in terms of collection of money from client has been shown a drastic decline as 53% from previous year.

Collection of Finance Corporation

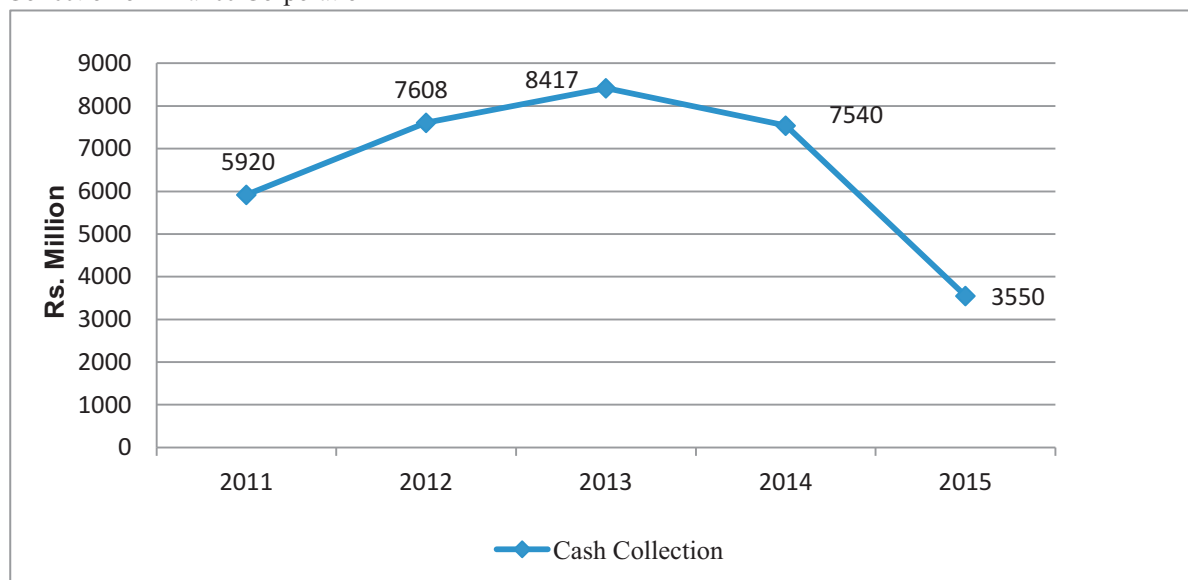


Table VIII - Cash Flows

Assets

The total assets of the corporation was eroded by 17% over the year 2015. The corporation decreased its current assets from Rs.11.464 million in 2014 to Rs.8.292 million in the 2015.

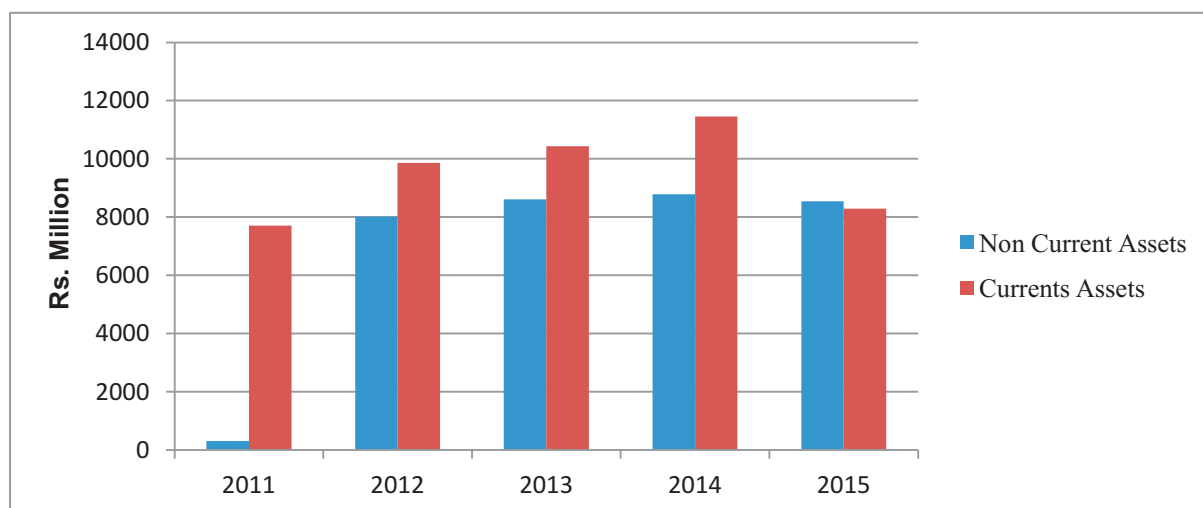


Table IX - Status

	2011	2012	2013	2014	2015
Non-Current Assets	312	8011	8612	8783	8541
Current Assets	7703	9857	10431	11464	8292

Other Income

	2011 (In Rs,000)	2012 (In Rs,000)	2013 (In Rs,000)	2014 (In Rs,000)	2015 (In Rs,000)
Rent	7,911	8,480	8,152	8,875	12,975
Sales of Fixed Assets (Unserviceable Assets)	60	14,895	4,187	4,469	-
Other (Excluding Provision - 2004)	14,216	-	-	-	-
Reversal of Stock over provision	-	-	31,308	-	1,258
Reversal of Bad debt provision (over provision)	-	-	18,056	130,538	-
Reversal of other provision	-	-	22,541	-	-
Amortization of Grants	-	-	33,343	147,131	397,130
Registration fee income	-	1,898	2,879	8,193	3,477
Miscellaneous income	-	637	1,249	217	11,595
	22,187	25,910	121,715	299,423	426,437

Construction Group

Key Members of the Management

DGM(Construction)	-	Eng. Mr. K.A Shantha Kumara
Manager	-	Eng. Mrs. P.D Karawita
Acting Manager	-	Eng. Mr. A.P.K Manamperi
Acting Manager	-	Eng. Mr. A.M.S.T.B Alahakoon
Acting Manager	-	Eng. Mr. W.G.A Gajasinghe
Acting Manager	-	Eng. Mr. S.P Sunanda Sirisena
Acting Manager	-	Eng. Mr. C.L Munasinghe
Accountant	-	Mr. H.K Bandula Yodheeshwara



Progress review of the Construction Group

The Construction Group has recorded a Rs. 1608 million revenue of which 97% represented its core business. Even amidst a situation of drawback that prevailed in the construction sector, the group was able to maintain its gross profit at the similar rate of 4.5% as compared to the previous year.

As usual, the Construction Group has undertaken and completed under mentioned project with a total value amounting to Rs. 765.64 million during the year 2015.

- Following Managers have given their ample co-operation to complete those Projects.

<u>Manager Name</u>				<u>Value of completed Project</u> (Rs. Millions)
Manager	-	Eng.	Ms. P.D. Karawita	531.92
Acting Manager	-	Eng.	Mr. A.P.K. Manamperi	17.26
Acting Manager	-	Eng.	Mr. A.M.S.T.B. Alahakoon	205.57
Acting Manager	-	Eng.	Mr. W.G.A. Gajasinghe	10.89
				765.64

Description of Major projects undertaken during the year 2015 are ;

- The Construction and Completion of the proposed six storied Head office Building for Civil Aviation Authority Building at Katunayake.
- Construction of Three Storied Building for POU & Ray Unit, Clinic, OPD and ward complex at Base Hospital Pimbura.

Projects Completed in Year 2015.

No	Site No	Project Name	Contract Sum (Rs.Mn)
1	1742	Construction of Cricket Ground for Kegalu Vidyalaya	156.25
2	1933	Construction of Ayurvedic Treatment Centre at Ingiriya	26.47
3	1980	Construction and Completion of Proposed three storied building for university college at Rathmalana	157.67
4	1982	Construction and Completion of Proposed three storied building for university college at Kathubadda	144.92
5	1985	Construction and Completion of Proposed three storied building for university college at Mathara	155.06
6	2046	Proposed MOH office at Elaulla, Dehiowita	8.93
7	2050	Construction of Nesmier at Yatiyanthota	8.93
8	2070	Construction of MOH Office at Dippitiya, Aranayake	10.7
9	2093	Construction of Maternity clinical building at Yogiyana	8.58
10	2140	Construction of walkway at Naththandiya	12.18
11	2153	Proposed building for student centre & canteen extension (for additional intake) University of Moratuwa	47.8
12	2233	Improvements to Bank of Ceylon Branch at No.503/10/1, Awissawella Road, Kaduwela.	10.89
13	2238	Construction of Assembly Hall at Devananda Maha Vidyalaya, Yodakandiya	17.26
Total			765.64

Projects Started in Year 2015

Sl No	Site No	Name of the Project	Contract Sum (Rs.Mn)
1	2097	Construction of Proposed Green House for Orchids at Gampaha Botanical Gardens	23.76
2	2232	Construction of Boundary fence and parapet wall in front of main administration premises in RUSL	10.12
3	2236	Construction of Kekanadura sathi pola - stage 1	10.24
4	2237	Construction of Kumbalgamuwa sathi pola - stage 1	10.86
5	2238	Construction of Assembly hall at H/Devananda Maha Vidyalaya	17.26
6	2241	Construction and completion of balance work at third floor at four storied storage complex for Sri Lanka Ayurvedic Drug Corporation.	11.82
7	2243	Repairs and improvement of Hostel "G" of National Institute of Corporate Development, Polgolla.	9.47
8	2244	Repairs and improvement of Sewer line and Rathnayake hall of National Institute of Corporate Development, Polgolla.	7.01
9	2245	Repairs and improvement of Hostel "D" of National Institute of Corporate Development, Polgolla.	7.89
10	2246	Construction of wash room for chairperson at National Institute of corporate Development, Polgolla.	0.56
11	2249	Construction of Quarters for vice chancellor of Buddhist & Pali University of Sri Lanka	34.23
12	2251	Construction of parapet wall of land at proposed four storied building for chief Electrical Engineer's office, Gampaha	3.83
13	2252	Construction of Weekly Fair at Karametiya	37.71
14	2256	The Construction and completion of the proposed six storied Head office Building for Civil Aviation Authority Building at Katunayake	803.37
Total			988.13

Projects Awarded in 2015

Sl No	Site No	Name of the Project	Contract Sum (Rs.Mn)
01	2232	Construction of Boundary fence and parapet wall in front of main administration premises in RUSL	10.12
02	2236	Construction of Kekanadura sathi pola - stage 1	10.24
03	2237	Construction of Kumbalgamuwa sathi pola - stage 1	10.86
04	2238	Construction of Assembly hall at H/Devananda Maha Vidyalaya	17.26
05	2241	Construction and completion of balance work at third floor at four storied storage complex for Sri Lanka Ayurvedic Drug Corporation.	11.82
06	2243	Repairs and improvement of Hostel "G" of National Institute of corporative Development, Polgolla.	9.47
07	2244	Repairs and improvement of Sewer line and Rathnayake hall of National Institute of Corporative Development, Polgolla.	7.01
08	2245	Repairs and improvement of Hostel "D" of National Institute of Corporative Development, Polgolla.	7.89
09	2246	Construction of wash room for chairperson at National Institute of Corporative Development, Polgolla.	0.56
10	2249	Construction of Quarters for vice chancellor of Buddhist & Pali University of Sri Lanka	34.23
11	2251	Construction of parapet wall of land at proposed four storied building for chief Electrical Engineer's office, Gampaha	3.83
12	2252	Construction of Weekly Fair at Karametiya	37.71
13	2256	The Construction and completion of the proposed six storied Head office Building for Civil Aviation Authority Building at Katunayake	803.37
14	2258	Proposed Office building at Magam Ruhunupura Museum at Hambanthota	13.07
15	2260	Construction of proposed building for OPD and office (Stage ii) at District Hospital Meegahatanna	60
16	2261	Construction of three storied Building for PCU.X Ray Unit, Clinic, OPD and ward complex at Base Hospital Pimbura	139.95
17	2262	Construction of three storied building for OPD, ETU and ward complex at Katugahahena Hospital	95
18	2263	Construction of Proposed three storied building for Doctor's Quarters, Base Hospital , Pimbura	64.8
19	2268	Construction of New Building for Kirindi Oya Resident Project, Management Office	20
Total			1357.19

Construction Component Group

Key Members

Deputy General Manager	- Mr. A.A. Piyadasa
Manager	- Mr. A.P. Tennakoon
Manager	- Mr. C.A.S. Hettiarachchi
Snr. Project Manager (Lunawa)	- Mr. A.R.L. Wijebandara
Work Manager (Ekala)	- Mr. B.J.P. Edirisinghe
Asst.Work Manager (Ratmalana)	- Mr. R.M.O.B. Rajakaruma
Project Manager (Sleeper Yard, Dematagoda)	- Mr.C.A.S. Hettiarachchi
Accountant	- Mr.K.B.G.H.N.Kariyawasam



REVIEW OF PROGRESS - Construction Component Group

In the year 2015, the infrastructure development of the country was at a low ebb owing to an extended transitional phase following the change of governments and, as a result, the construction industry too was faced with a setback in its activities. No new projects were undertaken during the year under review and only the work involving the existing projects was carried out.

Even though the division planned to achieve Rs. 2024 million worth of revenue it ended up with a revenue of Rs. 803.6 million in actual terms during 2015. Most of the precast yards and their projects were unable to live up to the level of performance expected of them due to lack of working capital and other financial constraints.

Major achievement of this year was the construction and handover of the toll gate and toll facilities at the Athurugiriya Interchange Project of China Harbour Engineering Company. This project was completed and handed over within the set timeframes meeting all the required standards.

Some of the major projects completed by the group in year 2015 are as follows.

<u>Client</u>	<u>Name of the Project</u>	<u>Amount (Rs.Mn.) (Total work done)</u>
1. China Harbour Engineering Company	Toll Gate and Toll Facilities Athurugiriya	316.28
2. University of Kelaniya	Six storied building complex of faculty of Social Science	79.46
3. University of Kelaniya	Four Storied building for Faculty of Modern Language	52.80
4. National Housing Development Authority	Construction of five storied Low income Housing Scheme at Soysapura Stage II	44.64
5. University of Kelaniya	Three storied building for faculty of Commerce and Management	22.64

Completed Project 2015.

Name and Brief description of the Project	Cost incurred (Mn.)	Date of Handover	Beneficiary
proposed three storied building for faculty of Commerce & Management - University of Kelaniya	22.64	20.01.2015	For Campus Students
proposed four storied building for faculty of Modern Languages - University of Kelaniya	52.8	05.05.2015	For Campus Students
Construction of proposed five storied Low income Housing scheme at Soysapura Stage II	44.64	15.06.2015	For Low Income Peoples
Construction of Toll Gate and Toll facilities of Athurugiriya Interchange at Athurugiriya	316.28	24.07.2015	For Passengers
Proposed Six storied building complex of the Faculty of Social science University of Kelaniya	79.46	20.12.2015	For Campus Students
Total	515.82		

Mechanical & Electrical Group

Key Members of the Management.

01. Mr.W.A.D.P. Wikramasinghe - Chief Engineer (M & E)
02. Mr.H.S.N.J.Hewasiliyan - Works Manager (Ekala workshop)
03. Mr. M.S. Eheliyagoda - Works Manager (Dolomite site)
04. Mr Sanjaya Darmasena - Work Manager (Rathmalana workshop)
05. Mr. E.M.D. Ekanayaka - Asst: Work Manager (Peliyagoda workshop)
06. Mr.K.N.S Karunarathna - Asst: Work Manager (Rathmalana workshop)
07. Mr.K.G.R Pushpakumara - Site Manager (Fire services)
08. Mr.Imantha Jayarathna - Site Manager (Aluminum Work)
09. Mr.E.K.C.S.Maduranga - Maintenance Engineer (Custom site)
10. Mr.M.M.W.S Muhandiram - Maintenance Engineer (Sugathadasa Stadium)
11. Mr.Pradeep Rathnayaka - Mechanical Engineer
12. Miss. S.A.N.Chyami - Electrical Engineer
13. Mrs.T.S.Apsara Rohan - Accountant



Review of Progress

The group has recorded its revenue at Rs. 205.6 million with earnings from permanent sites registering a low income rate while construction and maintenance projects have contributed and accounted for 80% of the total revenue achieved during the year 2015. Similarly, both these sectors have shown a gross profit of Rs. 10.2 million while other sectors have fared badly incurring heavy losses.

Major Activities

- Fabrication and Erection of Steel Structures and Mechanical and Electrical Operations.
- Hiring and Maintenance of Heavy Machinery and Equipment related to Construction Industry
- Production of Dolomite Fertilizer , Lime Powder and Skim coat
- Maintenance of Building facilities
- Pipe laying projects
- Fire Works
- Aluminum Works
- Roof covering works

Project Awarded -2015

1. Construction of Strom water line along Ferguson Road from Church -31.12 Million road junction to Kelani river - Stage 1

Project Completed in 2015

Item No	Name and brief description of the project	Project Value – Rs.	Date of Handover
1	Remedial Works for castlereigh Dam - Civil Works .	34.34	30.05.3015
2	Remedial Works for castlereigh Dam - Electro Mechanical Works - Mechanical Work and Electrical Work	48.02	30.05.3015
3	Electorate Housing Scheme	9.02	16.01.2015
4	Temporary Toll Gate at Kothalawa	63.47	09.09.2015
		154.85	

Consultancy Group

Key Members of the Management

Mr.Hyacinth Ranasinshe	- Actg. Deputy General Manager
Mr.D.T.Rajasekaran	- Chief Engineer (Design)
Mr.Hyacinth Ranasinghe	- Chief Architect
Mr.D.M.A.Galappaththi	- Chief Quantity Surveyor
	- Chief Engineer (Electrical)
Ms.Manel Priyanthi de Silva	- Accountant
Ms.Rangika Alwis	- Senior Architect
Mr.W.P.S.Sudarshana	- Senior Architect
Mr.Vernon Fernando	- Senior Engineer
Ms.N.J.Jayakody	- Senior Engineer
Ms.Udeni Thalagalaarachchi	- Senior Quantity Surveyor

Major Activities

Building, Civil Engineering & Infrastructure Consultancy Works.



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Review of Progress

The Consultancy Group has shown a Rs.194 million and it has achieved 15% of estimated revenue in 2015.

Net Operating loss of Rs.29.9 million was recorded during in the year 2015.

Major Consultancy Project undertaken in the year 2015 are Regeneration Project - City of Colombo, Resident Supervision Work of 615 Housing Units Phase 11 at Colombage Mawatha and Urban Regeneration Project - City of Colombo, Resident Supervision and Project Management Work in Construction of 672 Housing Project - (Tower 04, 05 & 06) at Aluthmawatha .

Most of the Consultancy Projects were undertaken for the provision of Consortium Consultancy Services including Architectural, Structural, Electrical, Quantity Surveying and Specializes Services such as Air Conditioning and Fire Fighting. However there were several projects for which only Engineering Services including Structural, Electrical & Services Engineering sought by Clients such as Urban Development Authority.

As CSR Projects we have rendered our Services in the fields of Religious, Educational and Health Sector in 2015.

Completed Projects in 2015

No.	Project Description	Estimated Cost of Construction (Rs. Mn)	Total Consultancy fees (Rs. Mn)
1	Construction & completion of Building for Faculty of Business Studies & Finance Stage I - Wayamba University of Sri Lanka	105.31	6.32
2	Construction & completion of Building for Bachelor staff Quarters for Academic staff at Makandura for Wayamba University of Sri Lanka	27.78	1.67
3	Construction & completion of the proposed Hostel Stage IV - Wayamba University of Sri Lanka - Kuliapitiya	44.72	2.68
4	Additions & Alterations to the Existing stores and proposed Bakery & Laundry @ Sri Lanka Institute of Tourism & Hotel Management (SLITHM), Galle Rd, Colombo- 03	11.25	0.67
5	Designing & setting up a Museum at Head office of Sri Lanka Customs	14.97	0.75
6	Supply, Installation, Testing & Commissioning of Public Address and Emergency Voice Communication System for Proposed Head Quarters Building, Sri Lanka Customs at Charmers Quay, Colombo Fort	22.58	1.13
7	construction & Completion of Proposed Building Stage-I (Balance Work) for the Faculty of Commerce & Management Studies, University of Kelaniya	156.98	9.42
8	Proposed Students Hostel (Stage II- above 3rd floor level) for Faculty of Engineering, Hapugala for University of Ruhuna, Hapugala, Galle.	9.26	0.56
9	Supply, Installation, Commissioning, Testing & Maintenance of fire Life safety system for proposed head quarters Building for Sri Lanka Customs @ charmers Quay, Colombo fort	209.87	10.49
10	Proposed Building (Stage II) for production packing & storing of pharmaceuticals for state Pharmaceuticals Manufactory Corporation of Sri Lanka @ Rathmalana	72.15	4.33
Total		674.87	38.02

Major Project Commenced in 2015

No.	Project No.	Project Description	Estimated Cost of Construction (Rs. Mn)	Total Consultancy fees (Rs. Mn)
1	[2015-02]	Proposed Building for Centre for Distance and Continuing Education (CDCE) at Sarvodaya Land, Rajarata University of Sri Lanka, Mihintale	160.00	9.60
2	[2015-06]	Construction of Borella Ayurveda Hospital to the Status of a Teaching Hospital Stage II	1,113.16	12.80
3	[2015-07]	Proposed Bus Stand at Kinniya for National Transport Commission	8.76	0.53
4	[2015-10]	Proposed Rabindranath Tagore Memorial Auditorium at the University of Ruhuna, Matara	264.78	91
5	[2015-21]	Renovation of Main Auditorium of Senate Building at Rajarata University of Sri Lanka, Mihintale	12.43	0.75
6	[2015-23]	Proposed Six Storied Base Hospital Building at Horana	1,751.49	105.09
7	[2015-24]	Proposed Refurbishment of Existing Two Storied Canteen Building to Sri Lanka Aviation College Sri Lankan Airlines, Katunayake	56.13	2.81
8	[2015-26]	Design Renovation of the Canteen for Associated Newspapers of Ceylon LTD (ANCL)	50.15	2.76
9	[2015-27]	Proposed Record Room Building for Department of Motor Traffic at Werahara	79.52	4.77
10	[2015-36]	Urban Regeneration Project City of Colombo, Resident Supervision Work of 615 Housing Units Phase 11 at Colombage Mawatha	2,171.15	36.91
11	[2015-37]	Urban Regeneration Project City of Colombo, Resident Supervision and Project Management Work in Construction of 672 Housing Project- (Tower 04, 05 & 06) at Aluthmawatha	1,806.54	25.29
Total			7,474.10	213.21

Special Operation Division

Key Members of Management

Mr. U. R. Hettiarachchi	- Deputy General Manager
Mr. L. R. Abhayarathna	- Engineer (Civil)
Mr. D.D.D.T.Stephan	- Engineer (Civil)
Mr. K. A. M. Lalinda	- Engineer (Civil)
Mr. M. H. D. P. Karuna rathne	- Engineer (Civil)
Mr. L. P. Palihakkara	- Engineer (Mechanical)
Mr. P. S. S. Dabare	- Engineer (Mechanical)
Ms. A. Shammuganathan	- Quantity Surveyor
Ms. K. A. G. Diana	- Accountant

Major Activities

- ★ Provincial Road Carpeting Works and Construction & Rehabilitation of Road Structures.

Review of Progress

Special Operation Division (SOD) was formed in mid of 2011 specifically to undertake provincial road carpeting projects in three main districts Rathnapura, Galle and Mathale. The client Ministry of Economic Development had awarded 180 provincial road projects to State Engineering Corporation and entire scope of work is handled by SOD with the total length of 711.47 km with the approximate contract value of Rs 16, 691.97 Mn and about 80 nos of machinery and equipments related to the road carpeting. Further, SOD has engaged with the client Ministry of Industry and Commerce to carpet Industrial Estate Internal Roads in Kolonnawa & engaged with client District Secretariat Kalutara to develop the Modarawila play ground with the value of Rs 35.58 Mn at panadura.

The total turnover of the division during the year 2015 was Rs 393.12 Mn. By the end of year 2015 we had completed and handed over 579 km carpeting work of over 166 roads from three districts.

Equipment & Machinery Division -2015

Key Members of the Management

Mr. W.A.P.K. Nishantha	-	Deputy General Manager
Mr. Karunasinghe	-	Finance Manager- SEC/Acting accountant (E &M)
Mr. N.S. Sivanathan	-	Manager (Operation)
Mr. S. Janathakumara	-	Manager (Maintenance)

E & M Division has three main income channels as follows.

1. Island Wide depot network : Outsourcing of Heavy construction Equipment & Machinery fleet.
2. Island Wide Workshop Network: Preventive and corrective maintenances of heavy construction equipment & Machinery fleet and vehicles of the division and local private and government machinery and vehicles also.
3. Project Section : Construction of small scale civil, mechanical, Irrigation & Agriculture, Integrated water management, electrical related jobs/projects

The Budget -2015 was based on the above three main income channels and progress of same as follows.

(Rs.'000)				
S/N	Description	Depot	Workshop	Project
01	Budget -2015/Rs. Million	245,717	219,590	522,000
02	Income/Rs. Million	70,681	10,480	69,084

As the strategic business unit of SEC, E & M division has a shared vision for the contribution of sustainable development concept of the country in new arena but due to unexpected changes in 2015 of external environmental factors ,the demand side of our core business area has been drastically decreased. So observed the poor performances of KPIs and it is conveyed the necessity of new strategic direction for going concern of the organization as the profit sharing division to SEC.

But considering new political and environmental changes the E & M division re-evaluate strategic rivals and identified the necessity changes towards sustainable growth.

It's not the critics, nor the observer who watches from a safe distance. Sustainable Development is created only by doers with proper plan and passion in the arena who are married with dirt, dust, blood, blame, shame, and sweat. These are producers who strike out on their own, who know high highs and low lows, great devotion, and who overextend themselves for worthwhile causes. Without expectation, they fail more than they succeed and appreciate this reality even before venturing out on their own. But when these producers of wealth fail, they at least fail with style and grace, and their gut soon recognizes that failure is only a resting place, not a place in which to spend a lifetime. Their places will never be with those nameless souls who know neither victory nor defeat, who receive monthly paychecks regardless of their month's performances.

Year 2016 began with new energy to drive the organization for new industrial arena to achieve the sustainable development goals.

As the dynamic division of SEC, E & M division has energy, strengths, capacity and capability to adopt for the future changes in the construction industry for the going concern of the organization and new corporate plan will be based on the positive and negative findings with the interest of all stakeholders.



Human Resource and Administration Division.

At the end of 2015 the total number of staff of the corporation was 2838, comprising 2524 members of permanent staff, 246 on contract basis and 68 are casual .

02. Accordingly comparison statement in distribution of staff members during past years are stated bellow;

Designation	2015		2014		2013	
	Perm	Cont.	Perm.	Cont.	Perm.	Cont.
Chairman/Vice Chairman	-	2	-	2	-	2
Working Director	-	1	-	1		1
General Manager	-	-	-	1		1
Deputy General Manager (Construction)	1	-	1	-	-	-
Deputy General Manager (Const.Comp.)	1	-	1	-	1	-
Deputy General Mgr. (Mech & Elect.)	-	-	-	-	-	1
Deputy General Manager (Consultancy)	-	-	-	-	1	-
Deputy General Manager (HR&A)	-	-	-	1	-	1
Deputy General Manager (Finance)	-	1	-	1	-	1
Deputy General Manager (SOD)	-	-	-	1	-	1
Deputy General Manager (E&M)	-	1	-	1	-	-
Manager (Finance)	1	-	1	-	-	-
Manager (Construction)	1	-	1	-	1	-
Chief Engineer (Designs)	1	-	1	-	1	-
Chief Engineer (Electrical)	-	-	-	1	-	-
Chief Engineer (Mechanical)	1	-	-	1	-	-
Chief Estimator	-	-	-	-	-	-
Senior Engineer (Civil)	10	-	-	-	-	-
Engineer (Information Technology)	-	-	-	-	-	-
Engineer (Civil/Mech/Elect.)	99	43	116	44	88	86
Architect	25	-	28	1	25	5
Quantity Surveyor	13	6	17	07	10	18
Accountant	9	-	09	01	05	05
Administrative Officer	24	1	22	1	22	-
Other executive officers	16	16	12	68	26	82
Senior Superintendent (C/M/E)	13	-	15	-	23	-
Superintendent (C/M/E)	40	71	42	99	30	170
Draughtsman/Asst. Quantity Surveyor	74	39	50	137	54	144
Foreman (C/M/E0	58	31	46	49	44	56
Clerk & Parallel Grades	437	7	444	47	263	184
Security Employees	218	16	154	03	135	20
Semi Skilled Employees	114	2	118	05	84	47
Skilled Employees	839	8	855	14	654	100
Unskilled Employees	529	1	575	48	545	156
Sub Total	2524	246	2508	534	2012	1080
Grand Total	2770		3042		3092	

03. Action has been taken to pay special New Year allowance Rs.5000/- for this year as previous year.

04. It was planned to pay bonus Rs.13,500/- for the year 2015, and it was effect in two terms as @ 3,500/- in December and rest were informed that would be paid with salary for the month of March 2016.

05. Investigation has been commenced during the year on Frauds, Corruption and misappropriation fo assets by the officers of previous Management.

06. Action have been taken to absorption staff according to approval of New carder prevision.

07. Action has been taken to operate NEMO as a separate project under SEC.

08. staff of the corporation as at 31 December 2015 are given bellow;

i. Permanent	- 2524
ii Contract Basis	- 246
iii Casual	- <u>68</u>
Total	- <u>2838</u>

09. Staff of Human resource and administration division as stated bellow;

- i. Deputy General Manager (HR&A)
- ii. Manager (Admin)
- iii. Asst. Personnel Manager
- iv. Legal Officer
- v. Chief Security Officer
- vi. Administrative Officer
- vii. Secretary Assistant
- viii. Management Assistant
- ix. Book Binder/Record Keeper
- x. Messenger
- xi. Lift Operator
- xii. Office Assistant
- xiii. Skilled & Unskilled employees

Accordingly, there are 45 nos staff employed in the HR & Admin. Division

Internal Audit Section

Key members of the Management

Mr. K.A.Prabath – Chief Internal Auditor

Internal Audit Report

Internal Audit Plan approved by the Board of Directors for the year under review has been forwarded to the Auditor General for his consent.

During the year 2015, 54 audit reports were submitted to the management by the Chief Internal Auditor. The Summarized audit reports produced in each quarter have been given to the Audit & Management Committee.

Four Audit & Management Committee meetings were held during the year 2015 and a summarized copy of the internal audit reports has been sent to the Auditor General Department.

Pre Audit Examinations

Pre audit examinations have been carried out for the employees' final payments (211 Nos), employees' gratuity payables (70 Nos), no claimed certificates (174 Nos) and sub contractors final payments (224 Nos).

Internal audit officers had attended to 13 condemn board meetings and 242 bid openings.

Finance Division

Deputy General Manager (Finance)	-	Mr.H.M.Senaweera
Manager (Finance)	-	Mr. P. M. A. Karunasinghe
Accountant (Payment)	-	Mrs. B. L. K. Dayani
Accountant (Financial Accountant)	-	Mrs. S. A. M. A. B. J. K. Senaratna
Accountant (Salaries/Wages)	-	Mrs. Nilupa Dilsara
Accountant (Construction)	-	Mr. Bandula Yodh eeswara
Accountant (Construction Component)	-	Mr. K. B. G. H. N. Kariyawasam
Accountant (Mechanical & Electrical)	-	Ms. T. S. Apsara Rohan
Accountant (Consultancy)	-	Ms. Manel Priyanthi De Silva
Accountant (Equipment & Machinery)	-	Ms. K. W. M. L. D. Keerthiratna
Accountant (Special operations)	-	Mrs. K. A. G. Dayana

Amidst the face of such stiff challenges, the Finance Division was in a position to stand up to the task and clear all misconceptions with accurate information and correspondence since each and every financial transaction of the Corporation has been based on the accepted accounting standards and authentic procedures followed up by properly planned out internal checks.

In this scenario of events, the Finance Division of the SEC continued to play a major role during the year in its conduct of affairs in relation to the financial operations of the SEC in keeping with the accuracy and the fairness of its accounting systems it adopted over the years.

Despite a situation of lowly generated revenue, intensified efforts were made to collect the previous debts that were outstanding in order to meet the fixed cost of the organization. All heads of sections in each Division tirelessly worked towards it and their efforts resulted in a reduction of debts by 25% during the year.



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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



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02. ඉහත සඳහන් ලිපිය සමඟ එවන ලද මාගේ වාර්තාවේ ඉංග්‍රීසි හා දෙමළ අනුවාද මේ සමඟ එවා ඇත.


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- පිටපත් - 1. ලේකම්, නිවාස හා ඉදිකිරීම් අමාත්‍යාංශය
2. ලේකම්, මුදල් හා ජනමාධ්‍ය අමාත්‍යාංශය





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கணக்காய்வாளர் தலைமை அபிபதி திணைக்களம்

AUDITOR GENERAL'S DEPARTMENT



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My No. }

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உமது இல. }
Your No. }

දිනය } 14 December 2017
திகதி }
Date }

The Chairman,
State Engineering Corporation of Sri Lanka

Report of the Auditor General on the Financial Statements of State Engineering Corporation of Sri Lanka for the year ended 31 December 2015 in terms of Section 14(2)(c) of the Finance Act, No. 38 of 1971.

The audit of financial statements of the State Engineering Corporation of Sri Lanka for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 29 (2) of the State Industrial Corporations Act, No.49 of 1957. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (C) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

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

1.3 Auditor's Responsibility

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

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව. - இல. 306/72, பொல்தூவ வீதி, பத்தரமுல்லை, இலங்கை. - No. 306/72, Polduwa Road, Battaramulla, Sri Lanka

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

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

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2:2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effect of the matters described in paragraph 2:2 of this report the financial statements give a true and fair view of the financial position of the State Engineering Corporation of Sri Lanka as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements.

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a.) Sri Lanka Accounting Standard 01

Despite being stated in paragraph No. 32 of the Standard that assets and liabilities, and income and expenditure should not be set off against each other unless required or permitted otherwise by the Sri Lanka financial reporting standards, the debit and credit balances of the account payable to the sub-contractors had been set off against each other according to the audit test check. Hence, the credit balance of the creditors had been understated by a sum of Rs. 110,764,584.



(b.) Sri Lanka Accounting Standard 02

According to the Standard, the stock should be valued at cost or net realizable value, whichever is less. Nevertheless, the stock of finished goods and raw materials existed as at 31 December 2015 had been valued by considering 92.5 per cent of the net realizable value as the cost. As such, it was observed that the stocks could be over-computed or under-computed as the stocks had been valued without identifying the cost accurately.

(c.) Sri Lanka Accounting Standard 16

As the useful life of non-current assets had not been reviewed annually, fixed assets costing Rs. 68,197,875 had still been in use despite being fully depreciated. Action had not been taken to revise the estimated error in accordance with the Sri Lanka Accounting Standard 08.

(d.) Sri Lanka Accounting Standard 37

The following observations are made.

- (i) Although provision for contingent liabilities should be made in respect of the commitments which could be specifically recognized, no provision whatsoever had been made in the financial statements for commitments valued at Rs. 16,234,441 that had been specifically recognized relating to 02 court cases filed against the Corporation.
- (ii) No provision had been made in the financial statements in respect of the unpaid fines on Value Added Tax totalling Rs. 121,782,475 for the years 2014 and 2015, and the fine of Rs. 6,941,026 relating to the year 2013.
- (iii) As no provision had been made in respect of the fines amounting to Rs.3,008,204 payable due to delays in paying gratuity, the loss of the year under review had been under-computed by that amount.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a.) The rental receivable from the Sri Lanka Cement Corporation in respect of the northern section of the seventh floor, totalled Rs. 8,461,726 as at 31 December 2015, but that amount had been accounted as Rs. 9,172,403, thus overstating the current assets and the loss of the year by a sum of Rs. 710,677.



- (b.) The southern section of the seventh floor had been leased out to the Sri Lanka Cement Corporation, and the rental thereof for the year 2014 and the year under review had been understated by sums of Rs. 2,130,566, and Rs.2,934,180 respectively. As such, the loss had been overstated whilst the assets receivable had been understated in respect of those years.
- (c.) Instead of being adjusted retrospectively, the net profit of 06 projects totalling Rs. 996,342 in respect of the works carried out in the preceding years, had been adjusted to the profit of the year under review. Hence, the loss of the year had been under-computed by that amount.
- (d.) As the extra works recognized for the year 2014 had not been continued in the year 2015, the loss of the current year had been over-computed by a sum of Rs. 2,119,798.
- (e.) A cost of Rs. 11,030,827 had been indicated at the commencement of the year relating to the contracts continued to exist over several years in respect of 07 sites belonging to the Construction Division, and a site belonging to the Equipment and Machinery Division, but the profit of Rs. 1,355,242 relating thereto had not been identified. Hence, the accumulated loss had been over-computed by that amount as at 31 December 2015.
- (f.) Due to failure in taking action even up to the end of the year under review to recover the monies recoverable from the relevant contractors in respect of 03 sites for which costs had been incurred in excess of the contract value, the adjusted income had not been recognized. Accordingly, the accumulated cost amounting to Rs. 8,366,810 had been recognized as a loss, thus over-computing the loss of the year by a sum of Rs. 389,529.
- (g.) As 02 items of final stock pertaining to the housing scheme in Angoda had been double counted, the final stock had been over-computed by a sum of Rs.396,206.
- (h.) Action had not been taken to assess the value of 18 items of lumber existed at the stores in Ratmalana, and bring into accounts.



- (i.) The items of the category “N” (less than one year) included in the slow moving stock for the year 2014 in respect of the Site Nos. 1099, 237, and 343 had remained unchanged even in the year 2015. Those stocks should have been categorized as “N1” (More than one year), but it had not been done so. As the value of the said slow moving stock amounted to Rs. 11,451,602, provision equivalent to 15 per cent should have been made thereon. Nevertheless, action had not been taken accordingly, thus over-computing the stock value by a sum of Rs. 1,717,740, and under-computing the loss of the year under review by that sum.
- (j.) According to the audit test check, the finished stocks relating to Site Nos. 343 and 237 had been valued in a manner that the verification value for the year 2015 of the items existed over a period of one year (N1), and more than 02 years (N2) had been overstated by a sum of Rs. 677,338 as opposed to that of the year 2014. As such, the loss of the year had been understated whilst the value of the assets had been overstated by that amount.
- (k.) Credit balances valued at Rs. 1,433,820 had been observed in the register of costs valued at Rs. 3,967,410,436 presented in terms of sites, and the cost of sales had been devalued by that value.
- (l.) It was observed in the audit test check carried out on the allocation of provision for the impairment on debtors that provision amounting to Rs.74,584,331 had been made in excess of the actual debtor balance.
- (m.) The value of the land in Ekala with an extent of 13 acres, 03 roods and 35 perches vested in the Corporation in terms of Section 44 of the Land Acquisition Act, had not been brought to the accounts of the year under review.

2.2.3 Unexplained Differences

The following observations are made.

- (a.) According to the stock survey reports, it was observed in the comparison of physical stock balances with the bin card balances as at 31 December 2015 that a shortage of Rs. 5,297,373 had existed in the values of stock items relating to 149 bin cards whilst a surplus of Rs. 3,243,713 had existed in respect of 57 bin cards.



- (b.) According to the financial statements of the year under review, the economic services fee payable amounted to Rs. 19,903,480, but the said value amounted to Rs. 6,767,360 according to the schedule, thus observing a difference of Rs.13,136,120.
- (c.) The balance of the provision for impairment account amounted to Rs.117,697,607 as at 31 December 2015 in accordance with the Sage Software of the E&M Division. However, according to the schedule presented, the said balance amounted to Rs. 117,687,606 indicating a difference of Rs. 10,001.
- (d.) Due to failure in correctly identifying the entries on the individual debtor balances as at 31 December 2015, an unusual debtor balance of Rs.106,981,333 had resulted in the debtor balance.
- (e.) According to the schedules of the Machinery and Equipment Division presented, a sum of Rs. 173,856,115 had remained receivable from the customers whereas the said value amounted to Rs. 197,876,934 in accordance with the closing financial statements, thus observing a difference of Rs.24,020,819.
- (f.) The cost of 02 sites for the year under review belonging to the Construction Equipment Division and the M & E Division indicated a minus value of Rs.223,839, and no explanation had been made as to how this unusual balance had resulted.
- (g.) The audit test check conducted on the verification of debtor balances with respect to information received from 05 institutions revealed that a difference of Rs. 283,475,081 had existed between the debtor balance presented by the Corporation and the debtor balances presented by each of the institutions. Particulars are as follows.



<u>Name of the Institution</u>	<u>Balance of the Corporation</u>	<u>Balance according to the Verification of Debtor Balances</u>	<u>Difference</u>
	Rs.	Rs.	Rs.
Bhikku University	35,899,936	47,957,674	12,057,738
Urban Development Authority	165,502,006	62,641,518	102,860,488
Rajarata University	186,960,033	49,392,149	137,567,884
State Development and Construction Corporation	6,866,665	4,838,593	2,028,072
Department of Inland Revenue	66,806,000	37,845,101	<u>28,960,899</u>
Total			<u>283,475,081</u>

2.2.4 Lack of Evidence for Audit

Evidence indicated against the following items of accounts had not been made available to audit.

<u>Item of Account</u>	<u>Value</u>	<u>Evidence not Made Available</u>
	Rs.	
(a.) Two bank current accounts	213,835	Verification of balances.
(b.) Bank account belonging to the Divisions of construction, machinery, and services.	18,693,422	Bank statements as at 31 December 2015.
(c.) Idle bank account – Nepal	1,880,176	Verification of balances, bank reconciliations as at 31 December 2015.
(d.) Sums payable to the customers of the Service Division.	543,895,470	Detailed schedules.



2.3 Accounts Receivable and Payable

- a) Leasing out of the southern section on the seventh floor of the building of the head office of the State Engineering Corporation to the Cement Corporation.

The following observations are made.

- (i) A lease agreement had been entered into with the Cement Corporation on 08 March 2007 in order to lease out the southern section of the seventh floor of the building belonging to the State Engineering Corporation for a period of 02 years from 01 January 2007 to 31 December 2008, but the building had been made use of beyond that period up to June 2015. A lease rent in arrears amounting to Rs. 20,362,650, apart from water and electricity charges amounting to Rs. 3,458,495 had remained receivable in that connection, but no action had adequately been taken to recover those monies.
 - (ii) Although the space mentioned in the lease agreement entered into with the Lanka Cement Corporation had been 2,976 square feet, the Corporation had actually occupied an area of 3,175 square feet. As such, an income of Rs. 1,596,878 had remained receivable for the area of 199 square feet occupied additionally with respect to the period from the year 2007 up to 30 June 2015.
 - (iii) A sum of Rs. 690,610 relating to water and electricity charges that has been remaining outstanding from a date prior to 31 December 2006, has not been recovered so far.
- b) Leasing out of the northern section on the seventh floor of the building of the head office of the State Engineering Corporation to the Cement Corporation.
- The following observations are made.
- (i) Although an agreement had been entered into in order to lease out the northern section on the seventh floor of the building of the head office of the State Engineering Corporation for a period of 03 years from 01 January 2007 to 31 December 2009, the building had been made use of beyond the period of agreement until 31 December 2012. A sum of Rs. 7,609,925 recoverable in that connection had not been recovered up to 08 January 2016.



- (ii) Although the area agreed upon had been 2,222.37 square feet, the Lanka Cement Corporation had occupied an area of 2,365 square feet. The sum of Rs. 756,722 had not been recovered for the period from the year 2007 up to December 2012 in respect of the area of 142.63 square feet occupied additionally.
- c) A balance of special advances amounting to Rs. 5,649,349 had been observed as at 31 December of the year under review, and action had not been taken over a period of more than 03 years to settle a balance of Rs. 5,163,834 included therein.
- d) According to the age analysis presented, the creditor balance of 3-5 years amounted to Rs. 15,589,164 whilst the creditor balance of over 5 years amounted to Rs. 348,682,368. Nevertheless, action suitable for settling those balances had not been taken even up to 31 December of the current year.
- e) Out of the balance of trade debtors amounting to Rs. 3,455,828,381 existed by the end of the year under review, more than 95 per cent remained receivable from the Government institutions. Out of that, a sum of Rs. 1,074,632,091 equivalent to 33 per cent of the total value, represented the balances older than 05 years.
- f) A sum of Rs. 7,444,055 continued to exist over a period of more than 05 years and not specifically recognized as debtors, had been shown as sundry debtors, but action had not been taken either to recognize and recover, or settle those balances.
- g) In terms of Financial Regulation 217, payments falling due in any one financial year should be completed before the end of that year as far as possible. However, according to the audit test check, a sum totalling Rs. 98,311,491 relating to a period of 3-5 years, and a sum of Rs. 96,452,897 relating to a period of over 5 years, had not been paid to subcontractors. Furthermore, it was observed that balances totalling Rs. 55,525,662 continued to exist over several years, had been included in the accrual expenses and the balance of other allocations.
- h) A sum of Rs. 818,462,729 receivable from Sri Lanka Cricket Institute in respect of 05 projects implemented by the Construction Division and Construction Equipment Division, had remained unrecovered up to 31 December 2015. Furthermore, according to the information revealed during audit, the said receivable value amounted to Rs. 567,601,808 in accordance with the financial statements prepared by the Sri Lanka Cricket Institute as at 31 December 2015.



- i) Action had not been taken even after 5 years to settle the payments totalling Rs.248,519,329 made to the subcontractors.

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

The following non-compliances were observed.

<u>Reference to Laws, Rules, and Regulations, etc.</u>	<u>Non-compliance</u>
(a.) Value Added Tax Act, No. 14 of 2002	Action had not been taken to pay value added tax totalling Rs. 88,165,979 relating to the year 2015.
(b.) Section 114 of the Inland Revenue Act, No. 10 of 2006.	PAYE tax totalling Rs. 132,959 payable on bonus, had not been paid.
(c.) Section 02 of the Economic Service Charge Amendment Act, No. 13 of 2006.	The institutions generating an income greater than Rs. 50 million per quarter, should pay an economic service charge equivalent to 0.25 per cent of the income not exceeding Rs. 30 million per quarter. However, the economic service charge amounting to Rs. 7,920,041 payable as per the computations of the audit in respect of the income earned by the Corporation in the year 2015 amounting to Rs. 3,168,016,408, had not been paid.
(d.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 396 (d)	Action had not been taken in terms of Financial Regulations on 28 cheques valued at Rs. 1,524,787 that had remained over a period of over 06 months as at 31 December 2015 since the date of issue.



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|---|---|
| <p>(e.) Section 3 of the Circular, No. 02/2015 of the Department of Management Services, dated 09 December 2015.</p> | <p>Although the accounts had not been furnished to the Auditor General on time in terms of the Circular, a sum of Rs. 8,421,000 had been paid to 2,492 employees as bonus.</p> |
| <p>(f.) Management Audit Circular, No. DMA/2009(2), dated 01 July 2009.</p> | <p>Information had not been included in the Register of Fixed Assets in terms of the Circular.</p> |
| <p>(g.) Treasury Circular, No. IAI/2002/02, dated 28 November 2002.</p> | <p>A Register of Fixed Assets had not been separately maintained for computer accessories and software.</p> |
| <p>(h.) Employees' Provident Fund, No. 15 of 1958, and Employees' Trust Fund, No. 46 of 1980.</p> | <p>As contributions to the Employees' Provident Fund and the Employees' Trust Fund had been paid irrespective of the cost of living allowance from the year 2006 up to the year 2014, a sum totalling Rs. 184.7 million, and the contribution of the Corporation for the year under review had been remitted in deficit of sums amounting to Rs. 21,336,900 and Rs. 5,334,225 respectively.</p> |
| <p>(i.) Section 2(c) of the Circular, No. 121/1979 issued by the Chairman of the State Engineering Corporation of Sri Lanka dated 20 December 1979.</p> | <p>Once the advances are given in cheques together with the orders, such advances should be settled within a period of 30 days. However, the advances of Rs. 68,191,290 given had remained unsettled over a period of more than 03 years.</p> |

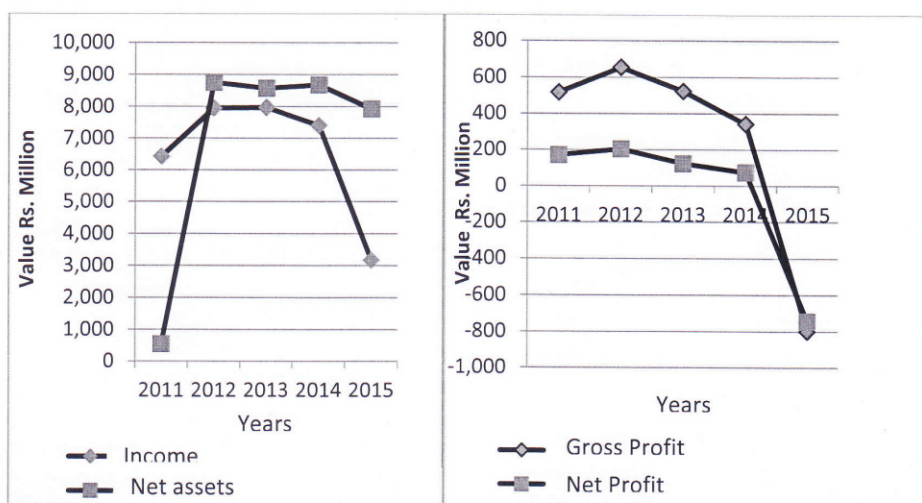
3. Financial Review

3.1 Financial Results

The financial result of the Corporation for the year under review had been a net loss of Rs. 744,581,777, as opposed to the net profit for the preceding year amounting to Rs. 74,534,988, thus indicating a deterioration in the net profit by a sum of Rs. 819,116,765 as compared with the preceding year. The decrease in the income by a sum of Rs. 4,235,402,252 as compared with the preceding year, had mainly attributed to the said deterioration.

An analysis on the financial results of the year under review and 4 preceding years revealed that a financial surplus had resulted from the year 2011, but the said surplus had gradually deteriorated from the year 2012 up to the year 2014. As such, the surplus of the year 2011 amounting to Rs. 206,152,011 had become a deficit of Rs. 744,581,777 by the end of the year under review. Furthermore, after the employee remuneration, Government taxes, and depreciation on non-current assets, had been adjusted to the financial result, the contribution of the year 2011 being a positive value of Rs. 589,687,734, had reached a minus value of Rs. 218,214,484 by the end of the year under review.

The income, net assets, gross profit, and the net profit of the Corporation for the 04 preceding years are illustrated in the following diagrams.



3.2 Analytical Financial Review

- (a.) Some of the significant accounting ratios prepared for the year under review based on the information presented to audit, are as follows.

Accounting Ratio	2014 (Per cent)	2015 (Per cent)
Gross Profit Ratio	2.63	(25.23)
Net Profit Ratio	0.63	(22.37)
Administrative Expenditure on Turnover	5.24	8.64
Net Financial Expenditure on Turnover	0.81	1.96
Current Ratio	1.04	0.98
Quick Ratio	0.99	0.92



The following observations are made in this connection.

- (i) As compared with the preceding year, the gross profit ratio had deteriorated by 1059 per cent whilst the net profit ratio had deteriorated by 3650 per cent.
- (ii) The administrative expenditure on turnover had increased by 65 per cent whilst the net financial expenditure had increased by 142 per cent as compared with the preceding year.
- (iii) As compared with the preceding year, the current ratio had decreased from 1.04 to 0.98 whilst the quick ratio had decreased from 0.99 to 0.92.
- (iv) Considering the total cost of sales of the Corporation for the year under review as a percentage of the income, the value had increased from 97 per cent to 125 per cent as compared with the preceding year.
- (b.) The analysis on the financial result of the year under review and 04 preceding years indicates that the post-tax net profit of the Corporation had continuously decreased from the year 2011, and being compared with the preceding year, the said value had decreased by 1,098 per cent in the year under review.
- (c.) As compared with the preceding year, the total turnover and the pre-tax net profit of the year under review had deteriorated by 57 per cent and 1,621 per cent respectively.
- (d.) The income of the year under review had been Rs. 3,168,016,408, and as compared with the preceding year, the income had deteriorated by a sum of Rs. 4,235,402,252 representing 57 per cent.
- (e.) The total expenditure incurred during the year under review in respect of salaries, wages and allowances, contract labour, and other expenses relating thereto, had amounted to Rs. 1,753,310,158 representing 44 per cent of the total cost.



- (f.) The labour cost as a percentage of the total cost in respect of the Construction Division, Construction Component Division, M & E Division, the Consultancy Division, and the E & M Division had been 46 per cent, 35 per cent, 51 per cent, 92 per cent, and 57 per cent respectively.
- (g.) As costs had been incurred in excess of the contract value, it was observed that the cumulative loss incurred on 52 projects in the year 2015 totalled Rs.803,367,009.
- (h.) Losses had been incurred from the year 2013 up to the year under review in respect of 06 sites belonging to the Construction Division, and that loss amounted to Rs. 61,745,058 as at 31 December 2015

4. Operating Review

4.1 Performance

The main objectives mentioned in the State Industrial Corporation Act, No. 49 of 1957 had been amended as follows by the Minister in charge in terms of Section 3 (2) of the said Act through the Gazette No. 1543 of the Democratic Socialist Republic of Sri Lanka, dated 28 March 2008.

- (i) The investigation, planning, designing and construction of building, civil engineering and other engineering projects in Sri Lanka or abroad, owned by any party, either independently or in collaboration with any local or foreign company and the acquisition and holding of shares, in any such company.
- (ii) The provision of consultancy and project management services in all fields of engineering in Sri Lanka or abroad, to any party, either independently or in collaboration with any local or foreign company and the acquisition and holding of shares, in any such company.
- (iii) To undertake property development either independently or in collaboration with any local or foreign company and the acquisition and holding of shares, in any such company.
- (iv) The manufacture and sale in Sri Lanka or abroad of ready mix concrete, reinforced concrete and pre-stressed concrete products.
- (v) The manufacture, sale, import and export of construction materials, machinery and equipment required for engineering projects/undertakings.



- (vi) The training of engineering and technical personnel required for the purposes referred to in Paragraphs (i), (ii), (iii), (iv) and (v).
- (vii) The carrying out of research into construction materials, methods and techniques utilized for the purposes referred to in paragraphs (i), (ii), (iii) and (iv).

The following observations are made on the achievement of the said objectives.

(a.) Construction Division

(i) Aluminium Factory, Ratmalana (Site No. 6001)

The income of the said Aluminium Factory pertaining to the Construction Division had decreased by 62 per cent in the year under review as compared with the year 2014, whilst the operating loss of the preceding year amounting to Rs. 1.79 million had deteriorated to a loss of Rs. 4.18 million by 133 per cent. The unusual increase in the labour expenditure of the subcontracts as compared with the preceding year, had mainly attributed to this situation.

(ii) Machinery Rental Site, Maligawatta (Site No. 828)

The income of the Machinery Rental Site, Maligawatta had deteriorated by 84 per cent as compared with the preceding year whilst the operating loss of the preceding year amounting to Rs. 0.22 million had deteriorated to Rs. 4.95 million in the year under review.

(b.) Construction Component Division

(i) Precast Yard, Ratmalana (Site No. 343)

The operating profit of this yard for the preceding year amounting to Rs. 3.51 million had become an operating loss of Rs. 33.67 million in the year under review. As compared with the preceding year, the deterioration in the income by 49 per cent, and the increase in the expenditure other than the cost of sales, by 12 per cent had been observed to have attributed to this situation.

(ii) Bricks and Carpentry Products Yard, Dankotuwa (Site No. 1099)

The operating loss for the preceding year amounting to Rs. 4.3 million of this yard that had sustained losses throughout 17 out of the 18 preceding years, had become a loss of Rs. 8.25 million after being



deteriorated by 92 per cent in the year under review. Moreover, the income of the year under review had deteriorated by 38 per cent as compared with the preceding year, but other expenditure except for the cost of sales, had increased by 68 per cent.

(iii) Precast Yard, Peliyagoda (Site No. 1168)

Due to failure in preparing the ground with proper management in the implementation of C-City project, it was revealed that the precast products valued at Rs. 12,397,200 lain at the yard had been destroyed, thus causing a loss of Rs. 12.4 million in the year under review.

(iv) Precast Yard – Welikanda (Site No. 1738)

A loss of Rs. 1.37 million had been incurred in the year under review by this yard that had generated an operational profit of Rs. one million in the preceding year. It was revealed that the increase in the cost of sales, and the other expenditure had attributed to this situation.

(v) Concrete Sleepers Yard (Site No. 1510)

This yard had generated an operating profit of Rs. 43.27 million in the preceding year but the operating profit had deteriorated to Rs. 25.42 million in the year under review. This situation had mainly been attributed by the decrease in the income of the yard by 22 per cent.

(c.) Mechanical and Electrical Division

(i) Operating Yard, Peliyagoda (Site No. 102)

The operating losses of the said yard amounted to Rs. 1.65 million, Rs.3.86 million, and Rs. 23.5 million in the years 2013, 2014 and the year under review respectively, thus observing that the operating loss had continuously deteriorated. The continuous and exponential decrease in the sales income had directly attributed to this situation.

(ii) Operating Yard, Peliyagoda (Site No. 104)

This yard had generated an operating profit of Rs. 7.43 million in the year 2013, but deteriorated to losses of Rs. 1.33 million, and Rs. 35.14 million in the year 2014, and the year under review respectively. This situation had been caused by the exponential decrease in the sales income, and the increase in the cost of sales.



(iii) Dolomite Processing Plant, Matale (Site No. 1100)

The review on the operations of the said Plant reviewed that, during the 17 preceding years, the Plant had been maintained with losses throughout all the years except for the year 2006. The operating loss of Rs. 4.29 million in the year 2014 had deteriorated to Rs. 10.23 million by 139 per cent in the year under review, and the exponential decrease in the sales income had directly attributed thereto.

(iv) Ratmalana Yard (Site No. 888)

This yard had sustained an operating loss of Rs. 23.95 million in the year under review. This situation had been caused by the decrease in the income of the preceding year amounting to Rs. 30.82 million to Rs. 5.75 million, and the increase in the cost of sales and other expenditure.

(d.) Special Operations Division

Asphalt Plant, Galapatha (Site No. 1843)

Production had been commenced at this Plant on 01 August 2013, and discontinued after 31 December 2015 indicating that the production process had been limited only to 64 working days. As the employees attached had further been retained at the Plant, and salaries had been paid despite the production had been halted, the loss of the preceding year amounting to Rs. 3.7 million had increased to Rs. 15.53 million in the year under review. A cumulative loss of Rs. 24.03 million had incurred by the end of the year under review.

(e.) Machinery Division

The following observations are made.

- (i) Of the 23 yards and regional offices including the main stores in Kolonnawa of the Machinery Division, none had generated profits in the year under review, and the cumulative loss sustained by the end of the year amounted to Rs. 177.73 million.
- (ii) The cumulative profit of Rs. 14.04 million generated by the regional offices in Vauniya, Kurunegala, Kuliyaipitiya, and Anamaduwa, in the preceding year, had decreased to a loss of Rs. 23.88 million in the year under review.



- (iii) The yards at the main stores in Kolonnawā, regional offices in Horana, Kundasale, Ampara, Kalmunai and Thamankaduwa, and Kegalle depot, had not generated any income whatsoever in the preceding year and the year under review as well. But, an expenditure of Rs. 26.84 million had been incurred during the year under review in terms of salaries, wages, electricity, telephone, fuel and other expenses.
- (iv) Although a cost of Rs. 1,065,550 had been incurred on 03 yards pertaining to the Construction, and M & E Divisions, no progress whatsoever had been indicated from the year 2014 up to the end of the year under review.

4.2 Management Activities

The limit of the bank overdrafts for the Corporation amounted to Rs. 353.7 million as at the end of the period, but overdrafts amounting to Rs. 78 million had been obtained in excess of that limit by the end of the year under review.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a.) Sums of Rs. 608,474 and Rs. 182,950 had been paid as Value Added Tax in the years 2014 and 2015 respectively to 09 suppliers whose registration for Value Added Tax with the Department of Inland Revenue had been cancelled.
- (b.) In terms of Sections a (VI) and (XVIII) of Part II of Schedule 1 of the Value Added Tax Act, No. 14 of 2002 of the Department of Inland Revenue, diesel and bitumen had been exempted from taxes, but a sum of Rs. 4,752,280 had been paid as Value Added Tax on the invoices of the suppliers.

4.4 Uneconomic Transactions

- (a.) Obtaining a land on lease for establishing the Asphalt Plant in Elpitiya.

The following observations are made.

- (i) Without conducting a feasibility study and obtaining permission from the Central Environmental Authority for the implementation of the project, taxes amounting to Rs. 3,000,000 had been paid at once on 07 September 2012 for a period of 05 years at Rs. 50,000 per month though the Board of Directors Paper No. 780/53. Nevertheless, this project had been halted at the initial stage itself.



- (ii) A written approval had been obtained by the owner of the land to maintain a slate quarry at the land for a period of one year from February 2012. Despite being informed by the CATIC institution (China National Aero Technology Import & Export Corporation) in the year 2012 that the said land would not be suitable for manufacturing asphalt, a sum of Rs. 1,515,524 had been incurred as other expenses relating to the implementation of the project.

- (b.) Asphalt and Crusher Machinery site, Galpatha
The following observations are made.

- (i) Advances had been given to the suppliers in the year under review for the supply of raw material, but raw material had not been supplied for a sum totalling Rs. 29,642,269.
- (ii) A rental of Rs. 1,800,000 had been paid for a period of 02 years up to 25 December 2016 in respect of this project, but manufacturing had continued only for 03 days producing only 279.36 tons of asphalt. The cumulative loss thereof amounted to Rs. 25,580,485 in the year under review.

4.5 Identified Losses

The following observations are made.

- (a.) Since the payments of retirement gratuity had not been made within the prescribed period, a sum of Rs. 255,567 had been paid to 03 employees by the Corporation as surcharges.
- (b.) Fifty two contracts had been awarded for the construction of roads in Ratnapura district in the year 2011, and a sum of Rs. 53,198,183 had been paid to the contractors in excess of the contract value relating to 26 contracts. Five of those projects had been halted at the inception itself, and no action had been taken to recover the mobilization advance amounting to Rs. 36,385,693 paid thereon.

4.6 Resources of the Corporation Released to Other Government Institutions

The following observations are made.

- (a.) Contrary to Section 8.3.9 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, twenty nine employees of the Corporation had been released to the Line Ministry without approval of the Board of Directors. As the salaries of those employees, a total of Rs. 36,442,355 had been paid by the Corporation including sums of Rs. 31,638,155, and Rs. 4,804,200 relating to the periods from 2011 up to the end of 2015, and January-May 2016 respectively.
- (b.) Two casual employees had been released to the Line Ministry without approval of the Board of Directors, and it was observed that salaries totalling Rs. 698,580 had been paid with respect to the period from 01 January 2016 up to 31 October 2016.
- (c.) Five of the casual and unskilled employees recruited on daily wages had been released to the Line Ministry without approval of the Board of Directors. Salary advances totalling Rs. 500,000 had been paid to them relating to the period 01 January 2016 – 30 June 2016 without computing the salaries payable to those employees.

4.7 Procurement and Contract Procedure

The following observations are made.

- (a.) Inspection on the housing projects - Kalinga Road
In terms of the Letter No. 12/1165/503/083 of the Minister of Finance and Planning, the Urban Development Authority had awarded this contract to the Corporation for the construction of 816 units of houses, but both parties had later agreed to construct only 648 units of houses. Although it was expected to implement this project under 02 stages, and complete the first stage by 19 December 2015, the project had been halted after 04 June 2015.
- (b.) The construction of the project implemented under stage 02 had been commenced on 21 April 2014, and it was expected to complete by 21 October 2016, but the project had been halted by 31 December 2015.



- (c.) Contrary to Guideline 5.4.4 (1) of the Government Procurement Guidelines, it was observed that mobilization advances amounting to Rs. 4,803,492 had been given in excess of 20 per cent of the contract value.
- (d.) The contract period of 02 sub contracts with the contract value of Rs. 83.5 million had elapsed by 19 March 2015, but the physical progress thereof had remained low. Mobilization advances amounting to Rs. 3.9 million given to those contractors had not been recovered, and although the period of validity of the advance bonds valued at Rs. 4. 2 million furnished by the contractors had elapsed, action had not been taken to extend the period.
- (e.) Due to improper financial control of the Corporation, and failure to make payments to the sub-contractors properly, action had been taken by the Urban Development Authority to take over the two housing projects progressing on the Kalinga Road at a contract value of Rs. 1,704,907,440 of which the physical progress of construction had remained extremely low.
- (f.) Mobilization advances totalling Rs. 27,596,156 had been obtained in the year 2010 from the clientele, and instances were observed in which no service whatsoever had been provided so far in that connection.

4.8 Staff Administration

The following observations are made.

- (a.) As compared with the approved cadre of the Corporation, 559 employees of 101 posts in the entire staff remained vacant as at 31 December 2015 including 65 officers relating to 21 posts in the senior management level, and 139 officers relating to 39 posts in the tertiary management level.
- (b.) In order to make recruitments to most of the posts in the senior management level on permanent basis, the approval of the Department of Management Services had been received by the Corporation in the years 2009 and 2011, but 6 officers had been appointed on contract basis for 06 posts in the senior management level under higher salary scales.
- (c.) An appointment should be made only for a post in the approved cadre in terms of Section 1.2 of Chapter II of the Establishments Code. Nevertheless, 451 excessive employees had been appointed for 41 posts in excess of the approved cadre as at 31 December 2015.



- (d.) In terms of the Management Services Circular, No. 28 (ii), dated 01 August 2006, and the letter No. DMS/E3/43/4/265/1 of the Director General of the Department of Management Services, dated 25 November 2009, it had been informed that vacancies should not be filled, nor should new posts be created without approval of the Department of Management Services. Nevertheless, of the 451 aforesaid excessive employees for whom the approval of the Department of Management Services had not been granted, 16 employees had been appointed to 13 unapproved posts. Making permanent of the appointments of the employees appointed to 07 posts therefrom had been questionable in audit.
- (e.) Despite the 99 excessive unskilled employees as at 31 December 2015, it was observed that 300 casual and unskilled employees had been recruited during the period 01 January 2016 – 31 October 2016 on the basis of daily wages without approval of the Board of Directors and the Department of Management Services paying salaries totalling Rs. 74,107,520.
- (f.) A Committee had been appointed by the Chairman to provide relief for the aggrieved employees without approval of the Board of Directors. Two, out of the 3 members thereof had been the officers employed at the Corporation (Deputy General Manager Human Resources and Administration, and Legal Officer), and as such, it was not possible to satisfy in audit as to the independence and impartiality of the recommendations presented. Furthermore, the recommendations provided by the said Committee contrary to the provisions of the Establishments Code, are as follows.
- (i) In terms of Section 1.10 of Chapter II of the Establishments Code, the Appointing Authority should not ante-date an appointment on any grounds without the authority of the Director of Establishments. Nevertheless, 03 officers in the posts of Management Assistant, Administrative Officer, and Accountant, had been ante-dated by 07, 06, and 2 1/2 years respectively and appointments had been granted. Furthermore, a sum of Rs. 948,175 as salaries in arrears with respect to the new posts with effect from the antedated date, along with the salaries for a period of over one year during which their service had remained suspended, had been paid without approval of the Board of Directors



- (ii) Furthermore, in terms of Sections 1.11 and 1.11.1 of Chapter II of the Establishments Code, ante-dating will not be allowed if such ante-dating results in the officer concerned gaining seniority over an officer appointed before him to the same grade or post. However, as the appointment to the post of Administrative Officer had been ante-dated, it was observed that the Corporation had violated the provisions in the said Sections. Hence, in accordance with the aforesaid observations, it was revealed that the Committee of investigation had furnished recommendations to the Board of Directors by violating the provisions in the Sections 1.10, 1.10.2, 1.11, & 1.11.1 of Chapter II of the Establishments Code.
- (g.) The following observations are made in respect of the acting appointments of the Corporation.
- (i) Without taking action to recruit officers for the posts in the top and middle level management of the State Engineering Corporation of Sri Lanka, 12 officers had been appointed on acting basis in the year 2015.
 - (ii) In terms of Section 13.3 of Chapter II of the Establishments Code, it is the responsibility of the institution to make substantive appointments for the acting appointments without delay. However, many of the said officers had been performing the duties in acting posts over periods ranging from 01 to 11 years, and the Corporation had failed even up to 12 August 2016 to make substantive appointments for those posts.
 - (iii) An officer in the permanent post of Senior Engineer of the Corporation had been attached to the posts of Acting Deputy General Manager of the Construction Equipment Division, and the Acting Manager, thus the management of the Corporation had not drawn its attention on the working capacity of the said officer.
 - (iv) In terms of Section 12.2.6 of Chapter VII of the Establishments Code, approval of the Secretary to the relevant Ministry should be obtained for paying the acting salaries. However, such an approval had not been obtained for paying the acting salaries of the Corporation.



5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003, the annual financial statements and the draft report should be furnished to the Auditor General within 60 days from the close of the year of accounts. Nevertheless, financial statements pertaining to the year under review had been furnished to the Auditor General on 16 May 2017, after a delay of 436 days.

5.2 Corporate Plan

Although a Corporate Plan had been prepared for the period 2012-2015 in terms of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the Plan had not been updated in respect of the year under review.

5.3 Action Plan

The Corporation had not prepared an Action Plan for the year under review in terms of Public Finance Circular, No. 01/2014, dated 17 February 2014.

5.4 Budgetary Control

As significant variances ranging from 46 per cent to 70 per cent were observed between the budgeted and the actual income and expenditure, the budget had not been made use of as an effective instrument in Management Control.

5.5 Tabling of Annual Reports

The Corporation had not tabled the Annual Report for the year 2014 in Parliament even up to 30 June 2017 in terms of Section 6.5.3 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003.



5.6 Unresolved Audit Paragraphs.

- (a.) The Institute of Construction Training and Development had constructed a technology park and low cost housing models by incurring a sum of Rs. 36 million on a land of 2.5 acres in Peliyagoda belonging to the Corporation. The constructions thereof had been carried out by the Corporation, and a sum of Rs. 2.2 million had remained receivable to the Corporation in that connection. Although a sum of Rs. 1.2 million had been spent on the security service of the site relating to the period 2014-2015, it had not been utilized productively.
- (b.) It was expected to commence the C-City project, Peliyagoda on 06 July 2013, and complete by 31 January 2014, but even by 03 September 2015, the project had not been completed but halted. The sum incurred by the Corporation as at 31 December 2014 amounted to Rs. 463 million, and of the 18 items of work shown in the BOQ, no progress whatsoever was observed relating to the construction of 12 items of work.

6. Systems and Controls

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

<u>Areas of Systems and Controls</u>	<u>Observation</u>
(a.) Accounting	(i) Failure to follow the Sri Lanka Accounting Standards. (ii) Failure to account the taxes payable and the surcharges thereon. (iii) Failure to compare the Control Accounts. (iv) Failure to present the financial statements on the specified dates.
(b.) Financial Control	(i) Granting advances through cheques with the orders. (ii) Non-recovery of funds from the debtors brought forward over many years. Control of debtors remained weak.



- | | |
|--------------------------------------|--|
| | (iii) Significant delays in presenting the invoices for the relevant clients. |
| | (iv) Existence of purchase advances over a long time without being settled. |
| | (v) Failure to settle the long term retention money relating to constructions. |
| (c.) Trade and other Amounts Payable | (i) Existence of mobilization advances over a long period of time without being settled. |
| | (ii) Payment of surcharges due to failure in paying taxes on time. |
| (d.) Staff Administration | (i) Releasing human resources to other institutions. |
| | (ii) Recruiting employees in excess of the approved cadre. |
| | (iii) Recruiting officers to the senior management on contract basis. |
| (e.) Assets Management | (i) Failure to take action to properly utilize the idle assets. |
| | (ii) Failure to take over the ownership of lands. |
| (f.) Control of Stocks | Failure to conduct annual surveys at all sites. |

Sgd./ H.M. GAMINI WIJESINGHE
Auditor General

H.M. Gamini Wijesinghe.
Auditor General

STATE ENGINEERING CORPORATION
OF SRI LANKA



FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31ST DECEMBER 2015

STATE ENGINEERING CORPORATION OF SRI LANKA
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31ST DECEMBER 2015

		2015 (Rs.)	2014 (Rs.)
	Note		
Revenue	4	3,168,016,408	7,403,418,660
Cost of Sales		(3,967,410,436)	(7,208,072,307)
Gross Profit		(799,394,028)	195,346,353
Other Income	5	426,437,075	299,423,834
Administrative Expenses		(273,654,573)	(388,165,985)
Net Finance Income/ (Expense)	6	(62,224,359)	(59,998,458)
Profit before Tax	7	(708,835,885)	46,605,744
Income Tax Expense	8	(35,745,892)	27,929,244
Profit for the period		(744,581,777)	74,534,988
Other comprehensive income			
Actuarial Gain/ (Losses) on Defined Benefit Plans		(8,141,820)	-
Fair Value Change of Available for sale Financial Instruments		120,000	4,344,000
Surplus on Revaluation of property, Plant and Equipments		-	-
Other comprehensive income for the year, net of tax		(8,021,820)	4,344,000
Total comprehensive income for the year		(752,603,597)	78,878,988

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

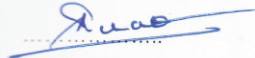
STATE ENGINEERING CORPORATION OF SRI LANKA
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER 2015

	Note	31.12.2015 (Rs.)	31.12.2014 (Rs.) Restated
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	9	8,506,637,899	8,699,825,308
Intangible Assets	10	1,841,017	2,609,802
Investments in shares	11	8,052,000	7,932,000
Deferred Taxation	12	13,299,231	47,102,776
Other Financial Assets Including Derivatives	15	11,777,205	26,334,931
		<u>8,541,607,352</u>	<u>8,783,804,817</u>
Current Assets			
Inventories	13	530,401,742	564,646,060
Trade and other Receivables	14	5,745,187,690	9,088,113,432
Other Financial Assets Including Derivatives	15	1,473,751,806	1,534,600,732
Cash and Cash Equivalents	16	542,899,876	276,793,564
		<u>8,292,241,114</u>	<u>11,464,153,788</u>
Total Assets		<u>16,833,848,466</u>	<u>20,247,958,605</u>
EQUITY AND LIABILITIES			
Stated Capital	17	70,000,000	70,000,000
Capital Accretion Reserve		27,738,806	27,738,806
Revaluation Reserve		7,484,472,989	7,484,472,989
E&M Capital		(167,291,865)	(167,291,865)
General Reserve		3,602,690	3,602,690
Available for Sale Reserves		-	6,732,000
Retained Earnings		505,656,493	1,251,528,090
Total Equity		<u>7,924,179,113</u>	<u>8,676,782,710</u>
Non-Current Liabilities			
Interest Bearing Borrowings	18	30,800,000	30,800,000
Employee Benefit	19	188,769,676	165,177,185
Other Financial Liabilities including derivatives	20	260,918,127	408,048,903
		<u>480,487,803</u>	<u>604,026,088</u>
Current Liabilities			
Interest Bearing Borrowings	18	100,000,000	100,000,000
Trade and other Payables	21	5,815,910,343	7,881,839,438
Other Financial Liabilities including derivatives	20	2,050,918,298	2,500,843,634
Income Tax Payable	22	30,668,602	33,848,749
Bank Overdraft	16	431,684,307	450,617,986
		<u>8,429,181,550</u>	<u>10,967,149,807</u>
Total Equity, Liabilities		<u>16,833,848,466</u>	<u>20,247,958,605</u>

These Financial Statements 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

SARATH G. JAYATILAKA
WORKING DIRECTOR
STATE ENGINEERING CORPORATION OF SRI LANKA
100, W.A.D. RAMANAYAKE MAWATHA,
COLOMBO 02.


Director

STATE ENGINEERING CORPORATION OF SRI LANKA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2015

	Stated Capital (Rs.)	Capital Accretion Reserve (Rs.)	Revaluation Reserve (Rs.)	General Reserve (Rs.)	E&M Capital (Rs.)	Available For Sale Reserve (Rs.)	Retained Earnings (Rs.)	Total (Rs.)
Balance as at 1st January 2014	70,000,000	27,738,806	7,484,472,989	3,602,690	(167,291,865)	2,388,000	1,147,626,766	8,568,537,386
Profit for the year	-	-	-	-	-	-	74,534,988	74,534,988
Total other comprehensive income for the period	-	-	-	-	-	4,344,000	-	4,344,000
Total Comprehensive income for the period	-	-	-	-	-	4,344,000	74,534,988	78,878,988
Transfer of Treasury Grants	-	-	-	-	-	-	-	-
Stock Adjustments	-	-	-	-	-	-	-	-
Balance as at 31st December 2014	70,000,000	27,738,806	7,484,472,989	3,602,690	(167,291,865)	6,732,000	1,222,161,754	8,647,416,374
Adjustment on Trade Debtor	-	-	-	-	-	-	6,584,836	6,584,836
Adjustment on Trade Receivables	-	-	-	-	-	-	22,781,500	22,781,500
Balance as at 31st December 2014 As Restated	70,000,000	27,738,806	7,484,472,989	3,602,690	(167,291,865)	6,732,000	1,251,528,090	8,676,782,710
Profit for the year	-	-	-	-	-	-	(744,581,777)	(744,581,777)
Other comprehensive Income -Actuarial Loss	-	-	-	-	-	-	(8,141,820)	(8,141,820)
Other comprehensive Income -Fair value changes	-	-	-	-	-	-	120,000	120,000
Total other comprehensive income for the period	-	-	-	-	-	-	(8,021,820)	(8,021,820)
Total Comprehensive income for the period	-	-	-	-	-	-	(752,603,597)	(752,603,597)
Transfer of Available for sales reserve	-	-	-	-	-	(6,732,000)	6,732,000	-
Balance as at 31st December 2015	70,000,000	27,738,806	7,484,472,989	3,602,690	(167,291,865)	-	505,656,493	7,924,179,113

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

STATE ENGINEERING CORPORATION OF SRI LANKA
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31ST DECEMBER 2015

	2015 (Rs.)	2014 (Rs.) restated
Cash Flow from Operating Activities		
Profit Before Tax	(708,835,885)	46,605,744
Adjustments for,		
Depreciation of Property, Plant and Equipment	253,333,230	250,696,182
Amortization of Intangible assets	768,785	745,445
Provision for Retirement Benefit Obligations	31,149,548	
Provision/(reversal) for Bad and Doubtful Debts	1,925,929	(130,538,045)
Provision for/(Reversal) of Obsolete Stocks	(1,258,028)	11,700,392
Amortization of Grant	(397,130,780)	(147,130,780)
Interest Income	(14,519,231)	(12,786,578)
Interest Expenses	76,743,590	72,785,036
Operating Profit Before Working Capital Changes	(757,822,842)	92,077,396
 (Increase)/Decrease in Inventory	 35,502,346	 35,164,275
(Increase)/Decrease in Trade and Other Receivables	1,701,056,145	(849,625,323)
(Increase)/Decrease in Other Current Financial Assets	75,406,652	(50,578,516)
(Increase)/Decrease in Other Current Financial Liabilities	(597,056,112)	(45,845,695)
Increase/(Decrease) Trade and Other Payables	(238,416,551)	1,339,214,187
Cash Generated from/(used in) Operating Activities	218,669,638	520,406,324
 Interest Paid	 (76,743,590)	 (72,785,036)
Gratuity Paid	(15,698,877)	(10,059,060)
Income Tax Paid	(2,082,349)	(1,764,535)
Net Cash Generated from/(used in) Operating Activities	124,144,822	435,797,693
 Cash Flow from Investing Activities		
Purchases of Property, Plant and Equipment	(60,145,822)	(379,690,953)
Short Term Investment		(553,142)
Interest Received	13,633,410	12,786,578
Acquisition of Intangible Assets	-	(1,400,560)
Net Cash Generated from/(used in) Investing Activities	(46,512,412)	(368,858,077)
 Cash Flow from Financing Activities		
Repayment of Leases	-	(3,522,745)
Grant Received	250,000,000	-
Net Cash Generated from/(used in) Financing Activities	250,000,000	(3,522,745)
 Net Increase/(Decrease) in Cash and Cash Equivalents during the period	327,632,409	63,416,871
Cash and Cash Equivalents at the beginning of the period	(213,376,695)	(276,793,564)
 Cash and Cash Equivalents at the end of the period	111,215,568	(213,376,695)

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 FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2015.

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 the Ministry of Housing & Samurdhi. The registered office of the State Engineering Corporation of Sri Lanka is located at No. 130, W.A.D. Ramanayake Mawatha, Colombo 02.

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.

2. Summary of Significant Accounting Policies

2.1. Statement of Compliance

The financial statements of the Corporation 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)

2.2. Responsibilities for the Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Corporation as per provisions of Public Enterprise Circular No PED 45 and the Sri Lanka Accounting Standards (SLFRSs/LKASs). The Board of Directors acknowledges this responsibility as set out in the Statement of 'Directors' Responsibility for Financial Statements Annual Report of the Board of Directors' and in the statement appearing with the Statement of Financial Position.

2.3. Components of Financial Statements

Financial Statements include the following components:

- x **The Statement of Profit or Loss and Other Comprehensive Income** : providing information on the financial performance of the Corporation for the year under review.
- x **The Statement of Financial Position** : providing information on the financial position of the Corporation as at the year end.
- x **The Statement of Changes in Equity** : providing information on the movements of stated capital and reserves of the Corporation during the year under review.

STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2015.

- x **The Statement of Cash Flow:** providing information on the generating of cash and cash equivalents and utilization of the same.
- x **Notes to the Financial Statements:** comprising accounting policies and other explanatory notes

The Financial Statements were authorized for issue by the Board of Directors in accordance with the resolution passed by the Board of Directors on 28th February 2017.

2.4. 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.

- x Financial assets and financial liabilities that have been measured at fair value (LKAS 39)
- x Employee benefit liability recognized based on Project Unit Credit Method (LKAS 19)
- x Property, Plant and Equipments and Motor Vehicles are stated at revalued amounts (LKAS 16)

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.

2.5. Functional and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Corporation's functional currency and all values are rounded to the nearest rupees.

2.6. Use of Estimates and Judgments

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards (SLFRSs/LKAS) requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Judgments and estimates are based on historical experience and other factors including expectations that are believed to be reasonable under the circumstances. Hence actual experience and results may differ from these judgments and estimates.

Going Concern

The Management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Corporation ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on a going concern basis

Taxes

Significant judgment was required to determine the total provision for current, deferred and other taxes due to the uncertainties that exists with respect to the interpretation of the applicability of tax laws, at the time of the preparation of these Financial Statements. Uncertainties also exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income.

STATE ENGINEERING CORPORATION OF SRI LANKA

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER 2015.

Given the wide range of business relationships and the long term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Defined Benefit Plans

The employee benefit liability of the Corporation is based on the actuarial valuation carried out by an Independent Actuarial Specialist. The actuarial valuations involve making assumptions about discount rates and future salary increases. The complexity of the valuation, the underlying assumptions and its long term nature, the defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each Reporting date. Details of the key assumptions used in the estimates are contained in Note 19.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all period presented in these financial statements unless otherwise stated.

3.1. Foreign Currency

3.1.1. Foreign Currency Transactions

In preparing the Financial Statements of the Corporation, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded in the functional currencies using the exchange rates prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are translated at the closing rate. Non-monetary items measured at fair value are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items measured at historical cost are translated at the rates prevailing on the date of transaction. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are included in profit or loss for the period.

3.2. Assets and the bases of their Valuation

Assets classified as current assets in the Statement of Financial Position are cash, bank balances and those which are expected to be realized in cash, during the normal operating cycle of the Corporation's business, or within one year from the reporting date, whichever is shorter. Assets other than current assets are those which the Corporation intends to hold beyond a period of one year from the reporting date.

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.

STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2015.

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.

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 valuers 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.

STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2015.

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.

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.

STATE ENGINEERING CORPORATION OF SRI LANKA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31ST DECEMBER 2015.

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.

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.

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3.2.6. Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances, call deposits, demand deposits, 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 sell 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 asset 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 expense 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 asset's recoverable amount since the last impairment loss was recognized. If 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.

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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

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.

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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 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 'passthrough' 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 passthrough 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, 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.

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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 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

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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.

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.

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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

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

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, 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. Where the Corporation expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where Appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost. Provisions are calculated based on the historical experience and the specific terms in the individual cases. The Corporation arrives at an Estimate on the basis of an evaluation of the most likely outcome. All known provisions have been accounted for in preparing the Financial Statements

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Contingent Liabilities

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured. Further, contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

Currently the Corporation is involved in pending litigations and claims arising out of the normal conduct of the business. The Corporation does not expect the pending litigations and claims individually and in aggregate, to have a material impact on the Corporation's financial position, operating profit or cash flow in addition to amounts accrued as provision for legal disputes. The disclosures relating to contingencies are set out in Note 24.

Contingent assets

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

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

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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.

3.7.1.1.5. Interest Income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

3.7.2. Expenditure Recognition

3.7.2.1. Construction Contracts

Contract Expenses are recognized as incurred unless they create an asset to future contract activity. An expected loss on a contract is recognized immediately in profit or loss.

3.7.2.2. Other Expenses

All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to revenue in arriving at the profit for the year. For the purpose of presentation of Statement of comprehensive income the directors are of the opinion that function of expenses method presents fairly the elements of the Corporation performance, hence such presentation method is adopted.

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3.7.2.3. Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred except those that are directly attributable to the construction or development of Property, Plant and Equipments which are capitalized as part of the cost of those assets during the period of construction or development.

3.7.2.4. Expected Losses

Expected losses are recognized as an expense when it is probable that the total cost pertaining to construction contracts will exceed its revenue.

3.7.3. Taxation

3.7.3.1. Current Taxes

Current Income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Commissioner General of Inland Revenue. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

The provision for income tax is based on the elements of income and expenditures reported in the Financial Statements and computed in accordance with the provisions of the Inland Revenue Act.

The relevant details are disclosed in the respective notes to the Financial Statements.

3.7.3.2. Deferred Taxation

Deferred taxation is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets and liabilities are recognized for all temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realized or liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted as at the end of the reporting period. Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority. Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3.8. Related Party Transaction

Disclosure has been made in respect of the transactions in which one party has the ability to control or exercise significant influence over the financial and operating policies/decisions of the other, irrespective of whether a price is being charged or not. The relevant details are disclosed in the respective notes to the Financial Statements.

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3.9. Event Occurring After The Reporting Period

Events after the reporting period are those events favorable and unfavorable that occurs between the end of the reporting period and the date when the financial statements are authorized for issue.

The materiality of the events occurring after the reporting period is considered and appropriate adjustments to or disclosures are made in the Financial Statements, where necessary.

3.10. Segmental Reporting

The Segment is a distinguishable component of the Corporation that is engaged either in providing related products or services (business segment), or in providing Products or Services within a particular Economic Environment (Geographical Segment), which is subject to risks and returns that are different from those of the Segments. Segment Information is presented in respect of the Corporation's Business and Geographical Segments. The Corporation's Primary Format for segment reporting is based on business Segments.

The Business segments are determined based on the Corporation's management and internal reporting structure. Inter-segment pricing is determined on an arm's length basis. Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The activities of the Corporation are located mainly in Sri Lanka. Consequently, the economic environment in which the Corporation operated is not subject to risks and rewards that are significantly different on a geographical basis. Hence disclosure by geographical region is not provided.

The relevant details are disclosed in the respective notes to the Financial Statements

3.11. Cash Flow

The Statement of Cash Flow has been prepared using the 'indirect method' in accordance with Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flows'. Cash and cash equivalent comprise of cash in hand, cash at bank and short term investments that are readily convertible to known amount of cash and subject to an insignificant risk of change in value. Interest received and dividends received are classified as investing cash flows, while dividend paid is classified as financing cash flow and interest paid is classified under the operating cash flows for the purpose of presentation of Statement of Cash Flows. Bank overdrafts and short term borrowings that are repayable on demand and forming an integral part of the Corporation's cash management are included as a component of cash and cash equivalent for the purpose of the Statement of Cash Flows.

4.1. Comparative information

The presentation and classification of the financial statements of the previous years have been amended, where relevant for better presentation and to be comparable with those of the current year.

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4.2. New Standards and Interpretations not yet adopted

The standards and interpretations that are issued but not yet effective up to the date of issuance of the Corporation Financial Statements are disclosed below. The Corporation intends to adopt these standards, if applicable, when they become effective.

(a) SLFRS 9 – Financial Instruments

SLFRS 9 as issued reflects the replacement of LKAS 39 – ‘Financial Instrument: Recognition and Measurement’ and applies to the classification and measurement of financial assets and liabilities as defined in LKAS 39. This standard becomes effective for annual periods beginning on or after 1st January 2018. The adoption of SLFRS 9 will have an impact on the classification and measurement of the Corporation’s financial instruments.

(b) SLFRS 15 – Revenue from Contracts with Customers

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces the existing revenue recognition guidance including LKAS 18 – ‘Revenue’ and LKAS 11 – ‘Construction Contracts’. The adoption of SLFRS 15 is effective for annual periods beginning on or after 1st January 2018, with early adoption permitted.

The Corporation is currently in the process of evaluating the potential effect of these standards on its financial statements and the impacts of the adoption of these standards have not been quantified as at the balance sheet date. The Corporation will adopt these standards when they become effective

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	2015 (Rs.)	2014 (Rs.)
4 REVENUE		
Buildings and other Construction	2,134,117,547	4,747,519,884
Road Construction	391,475,610	1,307,250,753
Mechanical and Electrical income	50,060,523	189,057,596
Consultancy and Architectural Services	171,976,459	307,314,706
Sale of Construction related Material	379,840,538	735,878,276
Hiring Income	40,545,731	116,397,445
	<u>3,168,016,408</u>	<u>7,403,418,660</u>
5 OTHER INCOME		
Disposal of Scrap items	-	4,469,500
Rent income	12,975,407	8,875,218
Reversal of Stock over provisos	1,258,028	-
Reversal of Bad debt over provisos	-	130,538,045
Amortization of Grants	397,130,780	147,130,780
Registration fee income	3,477,538	8,193,036
Miscellaneous Income	11,595,322	217,255
	<u>426,437,075</u>	<u>299,423,834</u>
6 NET FINANCE INCOME /(EXPENSE)		
Finance Income		
Interest Income on Fixed Deposits	11,771,189	10,605,821
Interest on Saving Deposits	855,526	598,108
Interest Income on Repurchase Agreements	198,378	128,393
Interest income on Staff Loan	1,694,138	1,454,256
	<u>14,519,231</u>	<u>12,786,578</u>
Finance Cost		
Interest on loans	12,548,695	16,281,112
Bank Charges & Commission	11,458,031	352,425
Interest on Finance Lease Obligations	-	140,284
Interest on Bank Overdrafts	52,736,864	56,011,215
	<u>76,743,590</u>	<u>72,785,036</u>
Net Finance Income /(Expense)	<u>(62,224,359)</u>	<u>(59,998,458)</u>

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	2015 (Rs)	2014 (Rs)
7 PROFIT BEFORE TAX		
<i>Is stated after charging all expenses including the following,</i>		
Directors' Emoluments	747,715	717,643
Professional Charges	3,975,516	10,321,263
Legal expenses	874,050	425,811
Donations	235,000	11,291,058
Depreciation on Property Plant & Equipment	253,333,230	250,696,182
Amortization of Intangible Assets	768,785	745,445
Written off or Provision for/ (Reversal of)		
- Bad and Doubtful Debts		
- Obsolete and Slow Moving Stocks	1,258,028	11,700,372
- Bad and Doubtful Debts	1,925,929	(130,538,045)
Staff Related Cost		
- Salaries ,Wages and other expenses	1,489,296,242	1,521,165,730
- Defined Benefit Plan Cost - Gratuity	31,149,548	-
- Defined Contribution EPF	139,271,944	129,507,029
ETF	18,745,909	17,594,424
8 INCOME TAX EXPENSE		
On the Current years Profit (Note 8.2)	2,082,349	3,180,147
Under/ (over) Provision in previous year	(140,001)	1,764,535
Deferred Taxation (Note 12)	33,803,544	(32,873,926)
Tax expense on Total Comprehensive Income	35,745,892	(27,929,244)

8.1 Taxation on Profits

Under the provisions of the Inland Revenue Act No.10 of 2006 and amendments thereto, the Company is liable for income tax at the concessionary rate of 12% on construction income and 28% on other income

	2015 (Rs)	2014 (Rs)
8.2 Reconciliation between current tax expense and the accounting profit		
Accounting Profit before tax	(708,835,885)	46,605,744
Trading profit	(1,136,026,311)	(295,116,962)
Other income	11,595,322	17,473,153
Disallowable Expenses for Taxation	296,714,945	138,951,625
Allowable Expenses for Taxation	(43,469,947)	(53,924,890)
Statutory Profit/(Loss) from Business	(871,185,991)	(192,617,074)
Taxable Income	(871,185,991)	(192,617,074)
Tax Loss Brought Forward	(301,255,461)	(108,638,387)
Tax loss incurred During the year	(871,185,991)	(192,617,074)
B/F Loss adjustment	56,917,111	-
Tax loss claimed during the year	-	-
Tax Loss Carried Forward	(1,115,524,341)	(301,255,461)
Tax at the Rate of 12% (2012 - 12%)	-	-
Tax at the Rate of 28% (2012 - 28%)	2,082,349	3,180,147
Provision for Taxation on Current Year Profit	2,082,349	3,180,147

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9. PROPERTY, PLANT AND EQUIPMENT

COST	FREEHOLD				LEASEHOLD				Capital work in Progress	Total	
	Land	Building	Plant, Machinery & Equipments	Computers	Motor Vehicles	Office Equipments	Furniture & Fittings	Plant, Machinery & Equipments			Motor Vehicles
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 01st January 2014	6,838,665,000	481,258,586	936,241,134	72,448,332	151,041,800	51,089,512	36,672,725	2,400,000	9,500,000	212,253,075	8,791,570,164
Additions during the year	-	43,179,092	7,550,404	7,108,760	-	6,961,262	3,060,403	-	-	311,831,033	379,690,953
Revaluation Adjustments	-	-	-	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2014	6,838,665,000	524,437,678	943,791,538	79,557,092	151,041,800	58,050,774	39,733,128	2,400,000	9,500,000	524,084,108	9,171,261,117
Additions during the year	-	57,526	3,465,531	1,307,218	-	2,280,565	591,912	-	-	52,443,070	60,145,822
Revaluation Adjustments	-	-	-	-	-	-	-	-	-	-	-
Disposals during the year	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2015	6,838,665,000	524,495,204	947,257,069	80,864,310	151,041,800	60,331,339	40,325,040	2,400,000	9,500,000	576,527,178	9,231,406,939
ACCUMULATED DEPRECIATION											
Balance as at 01st January 2014	-	11,014,155	76,884,084	46,439,700	23,230,447	38,859,288	19,833,497	1,680,000	2,798,457	-	220,739,628
Charge for the year	-	12,159,610	188,056,524	9,775,504	30,208,360	5,631,165	2,485,019	480,000	1,900,000	-	250,696,182
Disposals	-	-	-	-	-	-	-	-	-	-	-
Revaluation adjustments	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2014	-	23,173,765	264,940,608	56,215,204	53,438,807	44,490,453	22,318,516	2,160,000	4,698,457	-	471,435,810
Transfer of Dep	-	-	1,200,000	-	898,457	-	-	(1,200,000)	(898,457)	-	-
Charge for the year	-	13,111,304	189,484,414	9,615,531	30,208,360	5,819,871	2,713,749	480,000	1,900,000	-	253,333,230
Revaluation Adjustments	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2015	-	36,285,069	455,625,022	65,830,735	84,545,624	50,310,324	25,032,265	1,440,000	5,700,000	-	724,769,040
IMPAIRMENT											
Balance as at 01st January 2014	-	-	-	-	-	-	-	-	-	-	-
Charge/(Reversal) for the year	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2014	-	-	-	-	-	-	-	-	-	-	-
Charge/(Reversal) for the year	-	-	-	-	-	-	-	-	-	-	-
Balance as at 31st December 2015	-	-	-	-	-	-	-	-	-	-	-
CARRYING AMOUNT											
As at 31st December 2015	6,838,665,000	488,210,135	491,632,047	15,033,575	66,496,176	10,021,015	15,292,775	960,000	3,800,000	576,527,178	8,506,637,899
As at 31st December 2014	6,838,665,000	501,263,913	678,850,930	23,341,888	97,602,993	13,560,321	17,414,612	240,000	4,801,543	524,084,108	8,699,825,308

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		31.12.2015 (Rs.)	31.12.2014 (Rs.)	
10. INTANGIBLE ASSETS				
Cost				
Balance at the beginning of the year		3,843,921	2,443,361	
Additions during the year		-	1,400,560	
Balance at the end of the year		<u>3,843,921</u>	<u>3,843,921</u>	
Amortization				
Balance at the beginning of the year		(1,234,119)	(488,674)	
Charge during the year		(768,785)	(745,445)	
Balance at the end of the year		<u>(2,002,904)</u>	<u>(1,234,119)</u>	
Carrying Amount		<u>1,841,017</u>	<u>2,609,802</u>	
11. INVESTMENT IN SHARES				
	No of Shares	31.12.2015 (Rs.)	31.12.2014 (Rs.)	
HDFC Bank	120,000	7,932,000	3,588,000	
Adjustment for fair value of investments		<u>120,000</u>	<u>4,344,000</u>	
Carrying amount		<u>8,052,000</u>	<u>7,932,000</u>	
12. DEFERRED TAXATION		31.12.2015 (Rs.)	31.12.2014 (Rs.)	
12.1 Movement in deferred tax				
Balance at the beginning of the year		47,102,775	14,228,850	
(Provision) /Reversal during the year		<u>(33,803,544)</u>	<u>32,873,926</u>	
Balance at the end of the year		<u>13,299,231</u>	<u>47,102,775</u>	
12.2 Composition of deferred tax		2015	2014	
	Temporary difference (Rs.)	Tax effect on temporary difference (Rs.)	Temporary difference (Rs.)	Tax effect on temporary difference (Rs.)
Temporary Difference on PPE	(1,206,787,825)	(144,814,539)	(92,546,649)	(11,105,598)
Temporary difference on Gratuity Provision	188,769,673	22,652,361	165,177,185	19,821,262
Temporary Difference on Stock Provision	17,379,106	2,085,493	18,637,134	2,236,456
Temporary Difference on Tax Losses	1,111,465,979	133,375,917	301,255,460	36,150,655
	<u>110,826,933</u>	<u>13,299,232</u>	<u>392,523,130</u>	<u>47,102,775</u>
12.3 Movement in tax effect of temporary differences		As at 31st December 2015 (Rs.)	Recognized in income statement (Rs.)	As at 31st December 2013 (Rs.)
Deferred tax on PPE	(144,814,539)	(133,708,941)	(11,105,598)	9,562,917
Deferred tax on Gratuity Provision	22,652,361	2,831,098	19,821,262	(1,207,087)
Deferred tax on Stock general Provision	2,085,493	(150,963)	2,236,456	1,404,047
Temporary Difference on Tax Losses	133,375,917	97,225,262	36,150,655	23,114,048
	<u>13,299,232</u>	<u>(33,803,544)</u>	<u>47,102,775</u>	<u>32,873,925</u>

Since the Corporation's income is liable for income tax ,the deferred tax is arrived at by applying the income tax rates 12% applicable for the local income received in local currency.

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	31.12.2015 (Rs.)	31.12.2014 (Rs.)
13. INVENTORIES		
Raw Materials	294,448,809	322,065,605
Finished Goods	253,332,039	261,217,589
	<u>547,780,848</u>	<u>583,283,194</u>
Less: Provision for Impairment (Note:13.1)	<u>(17,379,106)</u>	<u>(18,637,134)</u>
	<u>530,401,742</u>	<u>564,646,060</u>
13.1 Movement in Provision for Impairment		
Balance at the beginning of the year	18,637,134	6,936,742
Provision/(Reversal) made during the year	<u>(1,258,028)</u>	<u>11,700,392</u>
Balance at the end of the year	<u>17,379,106</u>	<u>18,637,134</u>
14. TRADE AND OTHER RECEIVABLES		Restated
Trade Receivables	3,455,828,382	4,552,469,999
Less: GST/VAT	<u>(909,371,558)</u>	<u>(998,121,716)</u>
Provision for impairment (14.1)	<u>(372,067,426)</u>	<u>(370,141,497)</u>
	<u>2,174,389,398</u>	<u>3,184,206,786</u>
Amount Due from Customers	2,811,898,818	4,453,648,933
Deposits , Prepayments and advances	601,263,061	1,289,619,692
Withholding Tax receivables	58,109,871	62,792,987
Other Receivables	<u>99,526,542</u>	<u>97,845,034</u>
	<u>5,745,187,690</u>	<u>9,088,113,432</u>
14.1 Movement in Provision for Impairment		
Balance at the beginning of the year	370,141,497	500,679,542
Provision/(Reversal) made during the year	<u>1,925,929</u>	<u>(130,538,045)</u>
Balance at the end of the year	<u>372,067,426</u>	<u>370,141,497</u>
Impairment provision was reveived and identified debtors to be impaired for the year ended 31st December 2015, Which include all the impaired debtors recognized in 2014.		
15. Other Financial Assets Including Derivatives		
Non Current		
Loans given to employees	11,777,205	26,334,931
	<u>11,777,205</u>	<u>26,334,931</u>
Current		
Retention and T C Receivable	1,456,457,545	1,512,790,298
Loans given to employees	17,294,261	21,810,434
Short term investments	-	-
	<u>1,473,751,806</u>	<u>1,534,600,732</u>
	<u>1,485,529,011</u>	<u>1,560,935,663</u>

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	31.12.2015	31.12.2014
	(Rs.)	(Rs.)
15.1. Loans given to employees		
Balance at the beginning of the year	48,145,365	35,339,629
Loans Granted during the period	3,900,000	31,900,000
Loans Recovered during the period	(22,973,899)	(19,094,264)
Balance at the end of the year	29,071,466	48,145,365
Non Current	11,777,205	26,334,931
Current	17,294,261	21,810,434
The Corporation Provides Loans to employees and charged interest 7,500/= per 100,000/=irrespective of loan repayment period.		
16. CASH AND CASH EQUIVALENTS	31.12.2015	31.12.2014
	(Rs.)	(Rs.)
16.1 Favourable Balances		
Fixed Deposits	160,714,387	163,458,368
Saving/Call Deposits	27,194,154	22,795,938
Cash at Bank	335,917,979	72,319,522
Cash in Hand	19,073,356	18,219,736
	542,899,876	276,793,564
16.2 Unfavorable Balances		
Bank Overdraft	(431,684,307)	(450,617,986)
<i>Cash and Cash Equivalents for the purpose of the Cash Flow Statement</i>	111,215,568	(173,824,422)
17. STATED CAPITAL		
Issued and Fully paid		
At the beginning of the year	70,000,000	70,000,000
Issue during the year	-	-
At the end of the year	70,000,000	70,000,000
18. INTEREST BEARING BORROWINGS		
Payable after one year		
Treasury Loan	30,800,000	30,800,000
	30,800,000	30,800,000
Payable within one year		
Bill Discounting	100,000,000	100,000,000
Finance Lease Obligations (Note No. 18.2)	-	-
	100,000,000	100,000,000

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	31.12.2015 (Rs.)	31.12.2014 (Rs.)
18.1 Details of Securities and Repayment		
Lender	- Peoples Bank	
Approved Facility	- Bill Discounting Facility up to 100M	
Facility Obtained	- 100M	
Securities Pledged	- 8 Acres 02 Roods 19.47p deficted as lot no 1& 2 in plan no 3237 dated 17.06.2015 nade by Mr I,A,Wijethilaka,LS	
Interest Rate	-16% P.A	
Repayments	-120 Days	
18.2 Details of Securities and Repayment		
Lender	- Bank of Ceylon	
Approved Facility	- Bill Discounting Facilty up to 250M	
Facility Obtained	- 0	
Interest Rate	-AWPLR + 4%	
Repayments	-6 months	
18.2 Finance Lease Obligations	31.12.2015 (Rs.)	31.12.2014 (Rs.)
Balance at the beginning of the year	-	3,663,029
Less: Payments made during the year	-	(3,663,029)
Gross Lease Obligation at the end of the year	-	-
Less: Interest in Suspense	-	-
Net Finance Lease Obligations	-	-
Payable within one year	-	-
Payable after one year	-	-
19. EMPLOYEE BENEFIT	31.12.2015 (Rs.)	31.12.2014 (Rs.)
Balance at the beginning of the year	165,177,185	175,236,245
Provision made in profit and Loss Account	31,149,548	-
Payments made during the year	(15,698,877)	(10,059,060)
Actuarial (gain) / loss recognized in Other Comprehensive Income	(9,570,965)	-
Recognition of Adjustment in other comprehensive Income	17,712,785	-
Balance at the end of the year (Restated)	188,769,676	165,177,185
An independent actuarial valuation of the retirement benefit obligation was carried out as at 31st December 2015 by professional actuaries-M/S Piyal Goonathilaka.		
The valuation method used by the Actuaries to value the Retirement Benefit Obligation is the "Projected Unit Credit Method". The method recommended by the LKAS 19 - 'Employee Benefits'		
The Key Assumptions used by Actuary include the following	31.12.2015 (Rs.)	
Discount Rate	11.5%	
Expected annual Rate of Salary Increment	1.30%	
Staff Turnover Factor (Ranging based on Age Group)	0.0%-1.08%	
Retiring Age (Years)	60 years	
Plan is not pre-Funded		
The Corporation will Continue as a Going Concern		
19.1 The amount recognised in the Balance Sheet are as follows		
Present value of unfunded obligations	188,769,676	-
Present value of funded obligations	-	165,177,185
Total present value of obligations	188,769,676	165,177,185
Fair value of plan assets	-	-
Present value of net obligations	188,769,676	165,177,185
Unrecognised net actuarial gains/ (losses)	-	-
Recognised liability for defined benefit obligations	188,769,676	165,177,185

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	2015 (Rs.)	2014 (Rs.)
19.2 Movement in the present value of defined benefit obligations		
Liability for defined benefit obligations as at 1st January	165,177,185	175,236,245
Actuarial (gains)/ losses	(9,570,965)	-
Actuarial Adjustment	17,712,785	
Benefit paid by the plan	(15,698,877)	(10,059,060)
Current service costs	11,031,652	-
Interest Cost	20,117,896	-
Liability for defined benefit obligations as at 31st December	<u>188,769,676</u>	<u>165,177,185</u>
20. Other Financial Liabilities Including Derivatives		
Non Current		
Deferred Income	260,918,127	408,048,903
	<u>260,918,127</u>	<u>408,048,903</u>
Current		
Deferred Income	147,130,778	147,130,780
Mobilisation Advance	1,903,787,520	2,353,712,854
	<u>2,050,918,298</u>	<u>2,500,843,634</u>
20.1 Deferred Income		
Balance at the beginning of the year	555,179,683	702,310,462
Grant Received during the year	250,000,000	-
Amortization during the year	(397,130,778)	(147,130,778)
Balance at the end of the year	<u>408,048,905</u>	<u>555,179,683</u>
Payable within one year	<u>147,130,778</u>	<u>147,130,779</u>
Payable after one year	<u>260,918,127</u>	<u>408,048,903</u>
21. TRADE AND OTHER PAYABLES		Restated
Trade Payables	976,793,168	868,500,529
Subcontract Payables	1,604,911,290	1,487,476,694
labour contract advances Payable	128,671,070	47,375,648
Accrued Expenses and Other Provisions	838,635,057	1,111,025,459
Amount Due to Customer	1,696,552,952	4,000,898,597
VAT Payable	520,296,458	319,226,624
ESC Payable	19,903,480	19,903,480
Other taxes Payable	30,146,868	27,432,407
	<u>5,815,910,343</u>	<u>7,881,839,438</u>
22. INCOME TAX PAYABLE		
Balance at the beginning of the year	33,848,749	30,668,602
Provision for Income Tax on current year's profits	2,082,349	3,180,147
Under/(Over) provision of Income Tax in respect of prior year	(140,001)	1,764,535
Unrecorded W H T	(3,040,146)	-
Tax paid during the year		
- Income Tax	-	-
- Withholding Tax	(2,082,349)	(1,764,535)
- Other	-	-
Balance at the end of the year	<u>30,668,602</u>	<u>33,848,749</u>

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		2015 (Rs.)	2014 (Rs.)
23. FINANCIAL INSTRUMENTS			
23.1 Financial Instruments - Statement of Financial Position (SOFP)			
The Financial Instruments recognise in the Statement of Financial Position are as follows:			
Financial Assets	Note		
Fair value through profit and loss			
SOFP Line Item:			
Other financial assets including derivatives - Non Current		-	-
Other financial assets including derivatives - Current		-	-
Total		-	-
Held-to-maturity			
SOFP Line Item:			
Cash and cash equivalents	16	160,714,387	149,822,224
Total		160,714,387	149,822,224
Loans and receivables			
SOFP Line Item:			
Other financial assets including derivatives - Non Current	15	11,777,205	26,334,931
Trade and other receivables	14	5,745,187,690	9,088,113,432
Cash and cash equivalents	16	382,185,488	113,335,196
Other financial assets including derivatives - Current	15	1,473,751,806	1,534,600,732
Total		7,612,902,190	10,762,384,291
Available-for-sale			
SOFP Line Item:			
Other Investments	11	8,052,000	7,932,000
Total		8,052,000	7,932,000
		7,781,668,576	10,920,138,515
Financial Liabilities			
Fair value through profit and loss			
SOFP Line Item:			
Other financial liabilities including derivatives - Non Current		-	-
Other financial liabilities including derivatives - Current		-	-
Total		-	-
Other Financial Liabilities			
SOFP Line Item:			
Interest Bearing borrowings- Non Current	18	30,800,000	30,800,000
Other financial liabilities including derivatives - Non Current	20	260,918,127	408,048,903
Interest Bearing borrowings- Current	18	100,000,000	100,000,000
Trade and other Payables	21	5,815,910,343	7,881,839,438
Other financial liabilities including derivatives - Current	20	2,050,918,298	2,500,843,634
Income Tax payable	22	30,668,602	33,848,749
Bank Overdrafts	16	431,684,307	450,617,986
Total		8,720,899,678	11,405,998,710
		8,720,899,678	11,405,998,710

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23 FINANCIAL INSTRUMENTS, (Cont..)

23.2 Financial Risk Management

The corporation has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk (including currency risk and interest rate risk)

23.2.1 Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Corporation is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

23.2.1.1 Trade Receivables

Customer credit risk is managed by each business unit subject to the Corporation's established policy, procedures and control relating to customer credit risk management

The requirement for an impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actually incurred historical data. The Corporation evaluates the concentration of risk with respect to trade receivables as low, as most of its customers are government organization.

	Note	31.12.2015 (Rs.)	31.12.2014 (Rs.)
Trade Receivables		<u>3,455,828,382</u>	<u>4,552,469,999</u>
		<u>3,455,828,382</u>	<u>4,552,469,999</u>

The aging of Trade & Other Receivables at the reporting date was;

	Gross 31.12.2015	Impairment 31.12.2015	Gross 31.12.2014	Impairment 31.12.2014
Past due 0-365 days	1,914,515,499	-	2,340,807,233	-
More than one year	<u>1,541,312,883</u>	<u>372,067,426</u>	<u>2,211,662,766</u>	<u>370,141,497</u>
	<u>3,455,828,382</u>	<u>372,067,426</u>	<u>4,552,469,999</u>	<u>370,141,497</u>

Based on historic default rates, the Corporation believes that, apart from the above, no impairment allowance is necessary in respect of Trade Receivables

23.2.1.2 Cash and Cash Equivalents

Credit risk from balances with banks and financial institutions is managed by the Finance department in accordance with Corporation Finance management policy

The Corporation holds Short term Deposits and Cash and cash equivalents of Rs. 542,899,877/- at 31st December 2015 (2014 - Rs. 276,793,564/-) which represents its maximum credit exposure on these assets

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23 FINANCIAL INSTRUMENTS,(Cont..)

23.2.1.2 Cash and Cash Equivalents (Cont..)

As at 31 December 2015, Rs.335,917,979/- (2014-Rs.72,319,522/-) of the Favourable balance of bank and financial institution was rated “A+” or better for the corporation

Fitch rating Company	2015		2014	
	(Rs.)	%	(Rs.)	%
AAA	-	-	-	-
AA+	323,387,915	96%	58,016,280	80%
AA	-	-	-	-
AA-	4,691,174	1%	6,464,351	9%
A	-	-	-	-
BBB+	-	-	-	-
	<u>328,079,088</u>	<u>98%</u>	<u>64,480,631</u>	<u>89%</u>
Others	7,838,891	2%	7,838,891	11%
	<u>335,917,979</u>	<u>100%</u>	<u>72,319,522</u>	<u>100%</u>

23.2.2 Liquidity Risk

Liquidity risk is the risk that the corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Corporation's approach to managing is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal or stressed conditions, without incurring unacceptable losses or risking damage to the corporation's reputation.

To measure and mitigate liquidity risk, Corporation closely monitor its net operating cash flow, maintained a level of cash and cash equivalents and secured committed funding facilities from financial institutions.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

As at 31 December 2015	Carrying amount	Less than one year	More than one year
Non-derivative financial liabilities			
Interest bearing borrowings	130,800,000	100,000,000	30,800,000
Income tax payable	30,668,602	30,668,602	-
Bank Overdrafts	431,684,307	431,684,307	-
Total	<u>593,152,909</u>	<u>562,352,909</u>	<u>30,800,000</u>

23.2.3 Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risk comprise of the following types of risk:

- I. Interest rate risk
- II. Currency risk
- III. Commodity price risk
- IV. Equity price risk

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

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23 FINANCIAL INSTRUMENTS,(Cont..)

Interest Rate Risk

At the reporting date the interest rate profile of the corporation's interest bearing financial instruments was;

	31.12.2015	31.12.2014
	(Rs.)	(Rs.)
Fixed rate instruments		
Financial assets	14%	14%
Financial liabilities	18.50%	18.50%
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-

Currency risk

The Corporation is exposed to currency risk on sales, purchases, borrowings and investments that are denominated in a currency other than the functional currency which is Sri Lankan Rupees.

This risk is minimised by hedging naturally by a matching sales and purchases or matching assets and liabilities of the same currency and amounts. Where feasible, contracts are executed on a basket of currencies, minimising the potential risks.

The principal exchange rates used by the Corporation for conversion of foreign currency balances and transactions, for the year ended 31.12.2015 are as follows

		Closing Rate	
	Average	buying	Selling
US Dollars	144.06	141.94	146.18

23.2.4 Capital management

The primary objective of the Corporation's capital management is to ensure that it maintains a strong financial position and healthy capital ratios in order to support its business and maximise shareholder value.

The Corporation manages its capital structure and makes adjustments to it, in the light of changes in economic conditions.

	2015	2014
Debt to Equity Ratio	91%	134%
Debt Ratio	53%	57%

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24. CONTINGENT LIABILITIES

- 24.1** On behalf of State Engineering Corporation, banks have given Bank Guarantees to the Corporation's customers amounting to Rs.896.2 Mn /- as at 31st December 2015.

Bank	Letter of Credit (Rs.)	Performance , Advance & Bid	Total (Rs.)
Peoples Bank	11,039,000	885,168,460	896,207,460
	11,039,000	885,168,460	896,207,460

- 24.2** Following legal cases are pending as at 31st December 2015.

1. Case No:CHC/537/2016/MR

M/S Eagle Wings Security and Investigation (Pvt) Limited has Filed the case in high court against State Engineering Corporation of sri lanka as non payment of service charges under case no CHC/537/2016/MR.Currently SEC has recorded Rs.21,063,471.31 is certified outstanding in our Financial Statement ,where as Eagle Wings demand Rs.37,472,181.25 is in the court case,which will be reconciled and finalized in the court case.

2. Case No:DMR 02540-11

M/S Srath Entreprises has file the case against State engineering Corporation of sri lanka due to non payment of supplies under case No.DMR 02540-11.This case under trail stage.

3.Case No.1977-16DMR

M/S Maruthi Constraction has filed the dage under Case no .1977-16DMR due to non payment of service charges .this case under trail stage.This has been properly accounted.

4.Case No.2757/16

M/S Access Engineering has filed the case under case No.2757/16 against State Engineering Corporation of sri Lanka as non payment of service charges and case under trail .This has been properly accounted.

5.Case No.B/4159/12

M/S State Engineering Corporation has file the case against C.S.Wimalasinghe under case No.B/4159/12 due to misuse of corporation money as a cashier.

24.3 Pending Tax Issues

Assessment which have been received to SEC in different time in relation to V.A.T,N.B.T,E.S.C. was appended in appropriate way. Mostly appeals were coursed as non payment of on return taxes on due days. Therefore SEC has established it's appeals with the reason of delay in payments. Satisfaction to the CGIR and with the verbal instruction of tax authorities as installment basis payments are continued while payment of on return taxes with the confidence of waive off penalties as mention at the discussion .Therefore no probable liability for the penalties ,that would be need to adjusted in the Financial Statement.

Value Added Tax

Assessment Date	Assessment No.	Period	Amount
22.07.2014	7193608	13033	10,208,867
22.07.2014	7193609	13061	15,166,361
22.07.2014	7193610	13092	2,707,166
26.05.2014	7178019	13093	11,819,016

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18.06.2014	7184680	13121	9,979,885
18.06.2014	7184683	13122	4,033,742
18.06.2014	7184887	14032	3,468,913
25.02.2015	7249842	14033	3,256,139
25.02.2015	7249843	14061	8,911,790
25.02.2015	7249844	14062	1,843,102
25.02.2015	7249845	14063	2,101,947
25.02.2015	7249846	14092	1,541,272
25.02.2015	7249847	14093	2,262,816
18.06.2014	7184683	14122	4,033,742
14.10.2015	7284212	14120	18,406,103
14.10.2015	7284213	15030	9,909,512
15.12.2015	7308323	15060	4,669,377
30.11.2016	7361098	15120	7,462,725
			<u>121,782,475</u>
Economic Service Charges			2,598,573
Nation Building Tax			162,788
National security Levy			1,970,599
Save the Nation Contribution			88,852
Turnover Tax			<u>7,238,665</u>
			<u>133,841,952</u>
24.4 Pending E P F /E T F payments			

E.P.F.and E.T.F. authorities has informed to SEC that contribution has not been calculated for cost of living allowance since 2006.As at balance sheet date ,liability has not yet been identify subsequent balance sheet date. Calculated liability by IT Division and Board of Directors consent not yet been obtain year 2017.Once the liability is establish, liability will be accounted accordingly.

25. CAPITAL COMMITMENTS

There was no contracted capital expenditure approved by the Board of Directors at the end 31st December 2015.

26. RELATED PARTY DISCLOSURES

26.1 TRANSACTIONS WITH KEY MANAGERIAL PERSONNEL

According to Sri Lanka Accounting Standards LKAS 24 - Related Party Disclosures, Key Management personnel, are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Board of Directors including Chief Executive Officer of the Corporation who are in the very next level to the Board of Directors have been classified as Key Management Personnel of the Corporation

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(i) Loans to the Directors

No loans have been granted to the Directors of the Corporation

(ii) Key Management Personnel Compensation

	2015	2014
	Rs.	Rs.
Directors Remuneration	<u>747,715</u>	<u>717,643</u>
	<u>747,715</u>	<u>717,643</u>

26.2 Transactions with Related Companies

	2015	2014
	Rs.	Rs.
Ocean view Development Company		5,079,097
Relationship		
Affiliate	<u>-</u>	<u>5,079,097</u>

26.3 Other Transactions with Key Management Personnel

There were no other transactions with key Managerial Personnel other than those disclosed in Note 26 to these Financial Statements.

27. EVENTS OCCURRING AFTER THE REPORTING PERIOD

Subsequent to the date of the Balance Sheet, no circumstances have arisen which would require adjustment to or disclosure in the Financial Statements other than following disclosure.

Recognized and re-establish Equipment and Machinery Division as National Equipment and Machinery Organization.

As per the cabinet paper No.16/0082/736/002 dated 13th January 2016, Equipment and Machinery Division has been recognized and re-establish as a separate Organization. Therefore cabinet approval has granted as following,

1. Recognized and re-established NEMO as a separate project under a separate Management Committee, as was done in 1992, under the SEC with its mission expanded to include undertaking of minor irrigation, minor road works and related construction work.
2. To entrust the direction of the NEMO project to the management committee referred to at (1) above.
3. NEMO require to keep separate books of Accounts, separate records of transactions and separate personal records and which have to be amalgamated to the final Annual reports of the SEC.
4. SEC has empower to the inspect of such books and records from time to time and ensure compliance with the policies and directives of the Government, of the Ministry and of the SEC itself.
5. Require the NEMO to use the service of the Secretary to the Board of Management of the SEC as the Secretary of the Management Committee of the NEMO for the sake of continuity and uniformity.

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As per cabinet decision , E & M department Balance Sheet as at 31st December 2015 as follows,

	Rs.
Non Current Assets	170,552,181
Current Assets	438,175,330
Total Assets	<u>608,727,511</u>
Equity and Liabilities	(325,294,566)
Non Current Liabilities	97,115,226
Current Liabilities	836,906,851
Total liabilities	<u>608,727,511</u>

28 PRIOR YEAR ADJUSTMENT

28.1 Trade and other payables

Accrued Expenses and Other Provisions

Rs. 22,781,500.00 was duplicated in year 2012 as Bonus payment. As a result of this accounting error, Financial Statement has been restated to correct account errors as follows,

As at	31.12.2014
	(Rs)
Accrued Expenses and Other Provisions as previously reported	1,111,025,459
Adjustment on Accrued Expenses	(22,781,500)
Accrued Expenses and Other Provisions as restated	<u>1,088,243,959</u>

Changes in Equity

Retained Earning

Retained earnings as previously reported	1,222,161,754
Adjustment on Accrued Expenses	22,781,500
Retain earnings as restated	<u>1,244,943,254</u>

28.2 Trade and other Receivables

Trade Receivables

This Expenses related to purchase of Button heading Machine for CGR and CGR reimbursed this amount to SEC. This has incorrectly accounted to material account in prior years and Financial Statement has been restated to correct accouts errors as follows,

As at	31.12.2014
	(Rs)
Trade Receivables as previously reported	3,184,206,786
Adjustment on Trade Receivable	6,584,836
Trade Receivables as restated	<u>3,190,791,622</u>

Changes in Equity

Retained Earning

Retained earnings after 28.1 restatement	1,244,943,254
Adjustment on Trade Receivable	6,584,836
Retain earnings as restated	<u>1,251,528,090</u>

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29.1 Comparative Information

Cost of sales and Administrative expenses has been reclassified in order to be in line with the current year presentations.

Cost of sales

Cost of sales as previously reported	7,060,941,527
Reclassification of Depreciation	147,130,780
Cost of Sales reclassified	<u>7,208,072,307</u>

Administrative Expenses

Administrative Expenses as previously reported	535,296,765
Reclassification of Depreciation	(147,130,780)
Administrative Expenses reclassified	<u>388,165,985</u>

29.2 Short term Investment has been reclassified in order to be in line with the current year presentation.

Other Financial Assets Including Derivatives

Current

Other Financial Assets as previously reported	1,548,236,876
Reclassification of Short term investment	(13,636,144)
Other Financial Assets as reclassified	<u>1,534,600,732</u>

Fixed Deposit

Fixed Deposit as previously reported	149,822,224
Transfer short term investment	13,636,144
Fixed deposit reclassified	<u>163,458,368</u>

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30. SEGMENT INFORMATION

	Construction		Construction Component		Special operation		Mechanical & Electrical		Equipments and Machinery		Consultancy		Total	
	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.	2015 Rs.	2014 Rs.
Segment Gross Revenue	1,608,646,219	3,460,465,405	803,663,040	1,579,125,581	393,123,006	1,307,250,752	205,692,706	739,220,693	150,891,374	459,977,395	170,437,983	267,052,678	3,332,454,328	7,813,092,504
Less: Inter segment Revenue	(44,118,405)	(125,994,186)	(42,698,241)	(61,491,160)	(1,800,031)	(443,200)	(22,215,934)	(132,716,829)	(31,196,749)	(33,121,764)	(22,408,560)	(70,247,886)	(164,437,920)	(424,015,024)
Segment Net Revenue	1,564,527,814	3,334,471,219	760,964,799	1,517,634,421	391,322,975	1,306,807,552	183,476,772	606,503,864	119,694,625	426,855,631	148,029,423	196,804,792	3,168,016,408	7,389,077,480
Segment Cost of Sales	(1,511,894,781)	(3,184,455,709)	(900,097,010)	(1,290,423,580)	(365,213,663)	(1,166,711,225)	(275,892,624)	(551,380,929)	(368,863,434)	(439,938,833)	-	-	(3,421,961,512)	(6,632,910,276)
Segment Operation Profit	52,633,033	150,015,510	(139,132,211)	227,210,841	26,109,312	140,096,327	(92,415,852)	55,122,935	(249,168,809)	(13,083,202)	148,029,423	196,804,792	(253,945,104)	756,167,204
Less: Segment Overhead	(87,018,612)	(110,228,134)	(40,640,240)	(47,551,062)	(163,791,973)	(22,044,608)	(51,431,411)	(45,303,498)	(33,472,224)	(38,512,039)	(169,094,463)	(150,052,729)	(545,448,924)	(413,690,071)
Segment Gross Profit	(34,385,579)	39,789,376	(179,772,451)	179,659,779	(137,682,661)	118,051,719	(143,847,263)	9,819,437	(282,641,033)	(51,595,241)	(21,065,040)	46,752,063	(799,394,026)	342,477,133
Other Income	85,754,385	-	51,347,767	-	188,221,856	-	19,396,127	-	3,715,432	-	78,001,507	-	426,437,075	299,423,834
Administrative Expenses	(87,569,463)	-	(46,521,277)	-	(41,048,186)	-	(19,155,820)	-	-	-	(79,359,826)	-	(273,654,573)	(535,296,765)
Net Finance Income/(Exps)	(13,649,333)	(7,558,831)	(7,558,831)	(7,558,831)	(16,113,352)	(16,113,352)	(16,559,096)	(16,559,096)	(652,929)	(652,929)	(7,430,818)	(7,430,818)	(62,224,359)	(59,998,458)
Profit before Tax	(49,849,990)	39,789,376	(182,704,792)	179,659,779	(6,622,343)	118,051,719	(160,166,052)	9,819,437	(279,578,550)	(51,595,241)	(29,914,177)	46,752,063	(708,835,885)	46,605,744
Income Tax Expense	-	-	-	-	-	-	-	-	-	-	-	-	(1,942,348)	(4,944,682)
Deferred Tax Expenses	-	-	-	-	-	-	-	-	-	-	-	-	(33,803,544)	32,873,925
Profit for the Year	-	-	-	-	-	-	-	-	-	-	-	-	(35,745,892)	27,929,244
Other Comprehensive Income	-	-	-	-	-	-	-	-	-	-	-	-	(8,141,820)	-
Surplus on revaluation	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair Value Change	-	-	-	-	-	-	-	-	-	-	-	-	120,000	4,344,000
Total Comprehensive Income for the Year	-	-	-	-	-	-	-	-	-	-	-	-	(752,603,597)	78,879,988