Construction Guarantee Fund.

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1. Financial Statements

1:1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Construction Guarantee Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

1:2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

(a) A sum of Rs.16,316,700 paid to 4 construction service providers during the year under review as encashment of security bonds had been written off against the profit for the year under review instead of being debited to the debtors account in order to recover it from the contractors.

The Chairman had informed that initial action had been taken at present to discuss with the institution relating to the security bonds concerned and to take appropriate items for arbitration.

(b) Salaries, wages and other allowances totalling Rs.8,429,950 paid based on external services had been classified as research and development expenditure instead of being classified as personnel emoluments.

1.2.2 Non – compliance with Laws, Rules, Regulations etc.

The following non-compliances were observed in audit.

Reference to Laws, Rules, Regulations etc.	Non - compliance
Paragraph 2.2.1 (a) of the Public Enterprises Circular No.PED 12 dated 02 June 2003.	Annual Accounts for the years from 2000 to 2011 had not been tabled in Parliament.
Public Enterprises Circular No.PED 38 dated 14 July 2006.	It had not been registered at the Department of Inland Revenue relating to Value Added Tax whereas tax had not been recovered from the officers and remitted under Pay As You Earn.
Public Enterprises Circular No.PED 39 dated 09 October 2006.	Action had been taken to assign a vehicle to a Consultant which was obtained on the basis of monthly hire of Rs.60,000.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2012 had resulted in a surplus of Rs.79,682,692 as compared with the corresponding surplus of Rs.13,584,552 for the preceding year, thus indicating an increase of Rs.66,098,140 in the financial results. The reasons mainly attributed for the increase of the financial results are given below.

Item of Income/ Expenditure	Favourable/ (Adverse) Effect
	Rs.
Increase of income from surety bonds	31,044,097
Increase of income from the Treasury Bills	19,638,499
Increase of income from fixed deposits	1,039,561
Increase of income from loan interest	202,158
Decrease in write off of income from loan interest	55,442,214
Decrease in over provision for doubtful loans	(30,300,000)
Decrease in miscellaneous income	(424,065)
Increase in salaries and wages	(3,417,432)
Increase in other expenditure	(7,126,892)
	66,098,140

3. Operating Review

3.1 Transactions of Contentious Nature

The following observations are made.

(a) Even though preparation of financial statements is a normal duty of the Financial Controller, an additional charges amounting to Rs.150,000 had been paid to the former Financial Controller for preparing financial statements for the year under review.

(b) A sum of Rs.7,760,000 had been paid to the Institute of Construction, Training and Development during the year under review in respect of office rent, Value Added Tax and electricity charges for the years 2013 and 2014 without entering into a formal rent agreement. Further, annual rent of the Head Office had been increased from Rs.120,000 up to Rs.200,000 subject to providing an additional office space of 500 square feet. However, action had not been taken up to the end of the month of April 2013 to obtain the additional space.

(c) A sum of Rs.300,000 had been paid to an individual, who had been selected without following proper procurement procedure, for preparing Corporate Plan for the period 2012 - 2016. It was not confirmed that action had been taken to review properly and implement this Corporate Plan or to evaluate the performance.

(d) A sum of Rs.457,143 had been paid to a private Company during the year under review in order to obtain the criteria of RAM Credit Rating with regard to financial statements for the year 2011. However, action had not been taken up to the date of this report to obtain the final report including the above criteria and publish it. Further, fruitfulness of this expenditure had not been confirmed.

(e) A sum of Rs.225,000 had been paid to a private tourist hotel for a workshop conducted on 07 November 2012. Further, an advance of Rs.75,000 had been granted to an officer for transport and incidental expenditure of the above workshop. Official receipts had not been obtained for the charges paid to the tourist hotel whereas bills had not been submitted in respect of actual expenditure spent for transport and incidental expenditure. Even though the entire amount of Rs.300,000 had been accounted for as expenditure, information relating to the actual amount spent for the workshop, number of persons participated and fruitfulness of the workshop had not been submitted for audit.

(f) The total hire charges paid during the year 2012 for a motor vehicle obtained on the basis of paying monthly hire charges without following proper procurement procedure amounted to Rs.601,500. Further, details of monthly running charts relating to utilization of vehicles had not been prepared showing the distance travelled along with the milometer and utilization of fuel. Accordingly, it was unable to assure the fruitfulness of the utilization of vehicles.

3.2 Personnel Administration

Cost of personnel for the year under review is given below.

	Contract	External Service	Total
Number of employees	3	19	22
Basic salary Rs.	2,972,920	7,689,679	10,662,599
Provident Fund Rs.	407,327	740,775	1,148,102
Cost of Living Allowance Rs.	240,000	-	240,000
Incentive Rs.	228,500	501,150	729,650
Total Cost Rs.	3,848,747	8,931,604	12,780,351
Cost per person Rs.	1,282,916	470,084	580,925

The following observations are made relating to this cost of personnel.

(a) Even though all the public enterprises should restructure their organization structures in accordance with the Circular No. 30 dated 2006 September 22 of the Department of Management Services and action should have been taken to revise recruitment / promotion procedure, approved cadre and salary scales and to obtain the recommendation of the National Salaries and Cadre Commission and approval of the Department of Management Services in terms of Letter No. PEDPU dated 08 July 2009 of the Department of Public Enterprises, action had not been taken accordingly.

The Chairman had informed that the Attorney General had given advice stating that it was not necessary to implement the circular relating to staff and the Board of Trustees had taken action according to their discretion under Item 4 of the Deed of Trust.

(b) Extension of service period of the staff recruited on contract basis had not been done according to the proper procedure.

(c) Salaries had been paid to the staff recruited on the basis of external services without assessing the performance.

4. Deficiencies in Systems and Controls

The following observations are made.

(a) Applications for security bonds had not been documented and the applications which were rejected had not been filed by pointing out the reasons for such rejections. Therefore, reasons for rejection of applications which were rejected had not been subjected to evaluation according to the proper internal control procedure.

(b) Internal control procedure had not been followed so as to review or carry out technical audit whether action had been taken with proper responsibilities and transparency by the officers who were received and supervised the security bonds for which cash paid on the basis of unsuccessful contracts as well as applied by the service provider.

The Chairman informed that the failure of contracts so far while granting security bond by the Institution had been limited up to 0.14 per cent even though the minimum percentage of internationally accepted tendency for failure of contracts was from 0.8 per cent to 1 per cent.

(c) It was observed that the control of petty cash imprest was improper due to the following matters.

(I) Action had not been taken to maintain a register of petty cash imprest or to carry out adequate supervision for the year under review.

(II) Out of the petty cash imprest amounting to Rs.60,000 retained during the year under review, a balance exceeding Rs.25,000 had been retained continuously as cash in hand.

(III) Even though there were unusual delays in settlement of advances, supervision had not been carried out in this regard.