

## **Construction Guarantee Fund - 2013**

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The audit of financial statements of the Construction Guarantee Fund for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, 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 23 of Deed of Trust No.3/136 of 24 August 2005. My comments and observations which I consider should be published with the Annual Report of the Fund in terms of Section 14(2) (c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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**

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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 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.

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 judgements, 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 Fund'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 Fund'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 the 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.

## 2. Financial Statements

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### 2.1 Opinion

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In my opinion, the financial statements give a true and fair view of the financial position of the Construction Guarantee Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### 2.2 Comments on Financial Statements

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#### 2.2.1 Accounting Deficiencies

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- (a) Particulars of Contingent Liabilities amounting to Rs.3.96 billion of the Fund as at the end of the year under review had not been disclosed in the financial statements.
- (b) A sum of Rs.4,150,000 paid to a construction client 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 until action is taken to recover it from the relevant contractors.

### 2.3 Non – compliance with Laws, Rules and Regulations

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The following non-compliances were observed in audit.

Reference to Laws, Rules,  
Regulations etc.

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Non - compliance

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(a) Section 11 of the Finance Act,  
No.38 of 1971

Even though a sum of Rs. 607,069,133 had been invested in fixed deposits as at the end of the year under review, approval of the Ministry of Finance had not been obtained in this connection.

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| (b) Chapter XIV of the Establishments Code of the Democratic Socialist Republic of Sri Lanka | Travelling expenses amounting to Rs.1,073,000 had been paid as an allowance added to the salary, disregarding the distance travelled geographically.  |
| (c) Treasury Circular No. IAI/2002/02 of 28 November 2002                                    | A Register of Computers and Software had not been maintained.   |
| (d) Public Enterprises Circular No. PED 38 of 14 July 2006                                   | The Fund had not registered in the Department of Inland Revenue for Value Added Tax whereas the tax had not been recovered from the officers who were liable and remitted under the Pay As You Earn Scheme. |

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operations of the Fund for the year ended 31 December 2013 had resulted in a surplus of Rs.148,186,101 as compared with the corresponding surplus of Rs. 79,682,692 for the preceding year, thus indicating an increase of Rs.68,503,409 in the financial results for the year under review. Increase of income from surety bonds and fixed deposits had mainly attributed to the increase in the financial results.

### **4. Operating Review**

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#### **4.1 Management Inefficiencies**

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A Laptop valued at Rs.158,550 purchased during the current year had been issued in favor of the Guarantee Fund instead of being issued to an officer. As such, the responsibility in this regard had not been assigned to any officer.

#### **4.2 Transactions of Contentious Nature**

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The following observations are made.

- (a) The final arbitrator of the Construction Guarantee Fund established by a Deed of Trust is the Secretary to the Treasury. Nevertheless, decisions regarding the payments made to five officers as additional allowances based on various rates between Rs.2,000 and Rs.10,000 and to three officers for unavailed leave totaling Rs.226,300 had been taken by the Chief Executive Officer of the Fund without the approval of the Treasury.

- (b) A sum of Rs.2,500,000 had been granted from the Construction Guarantee Fund during the year under review for the National Awards Ceremony, “ Mahabhimani-2013”organized by the Institute of Construction, Training and Development and National Construction Association of Sri Lanka . Even though this amount had been brought to account as expenditure on Advertising, the necessity of incurring such expenditure from the Fund had not been established.
- (c) According to the Trust Agreement, dated 08 February 2012, the maximum limit of value of surety issued by the Fund was ten times of the interest of the Fund relevant to the period. Nevertheless, approval for that maximum limit had not been obtained from the Secretary to the Treasury as the Arbitrator of the Fund. As such, the legality of existing surety limit had not been established in audit.

#### **4.3 Personnel Administration**

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The following observations are made.

- (a) All the public enterprises should restructure their organization structures in terms of Circular Letter No. PED-PU dated 08 July 2009 of the Department of Public Enterprises and the Circular No. 30 dated 22 September 2006 of the Department of Management Services. Even though action should be taken to revise recruitment / promotion procedure, cadre and salary scales and to obtain the recommendation of the National Salaries and Cadre Commission and the approval of the Department of Management Services, action had not been taken accordingly.
- (b) Salaries of three officers employed on contract basis had been increased between a range from 11 per cent to 17 per cent in the absence of a Government approved salary increase and the approval of the Secretary to the Treasury.

#### **4.4 Identified Losses**

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Tax income amounting to Rs.73,871 had been deprived of to the Fund due to the failure to receive tax duly imposed on guarantees.

## **5. Accountability and Good Governance**

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### **5.1 Internal Audit**

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Activities and the transactions of the Fund during the year under review had not been subjected to the internal audit.

### **5.2 Tabling of Annual Reports**

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Annual reports from the year 2002 up to 2012 had not been tabled in Parliament in terms of Public Enterprises Circular No. PED 12 of 02 June 2003.

## **6. Systems and Controls**

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

- (a) Accounting
- (b) Taxation
- (c) Bank Accounts
- (d) Inventory Registers
- (e) Petty Cash