

## **Construction Guarantee Fund - 2014**

---

The audit of financial statements of the Construction Guarantee Fund for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in net assets 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 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 appear in this report.

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

---

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**

---

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.

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.

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 effects 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 Construction Guarantee Fund as at 31 December 2014 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**

---

#### **2.2.1 Accounting Deficiencies**

---

The following observations are made.

- (a) The loss incurred to the Fund due to encashment of security bonds by the construction employer valued at Rs.2,162,680 issued during the year under review by the Fund to the employers on behalf of the contractors had been written off against the income instead of being debited to the debtors account for the recovery of the relevant loss from contractors . The amount written off during the preceding two years amounted to Rs.20,466,700.
- (b) A sum of Rs.16,147,431 paid as salaries, wages and other allowances for the officers who were deployed on the basis of external services had been classified as research and development expenditure incorporated in the financial statements.
- (c) Even though the understatement of audit fees of preceding years by a sum of Rs.352,810 and the overstatement of guarantee bond income by a sum of Rs.1,760,784 had been debited to the Prior Year Adjustment Account for rectification, the accounts had not been prepared again retrospectively.
- (d) A sum of Rs.2,113,594 had been adjusted to the accumulated profit brought forward in the preceding year instead of taking action to establish the financial position of the preceding year by adjusting retrospectively the corrections relevant to the preceding years.

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

---

The following non-compliances were observed in audit.

**Reference to Laws, Rules, Regulations, etc.**

**Non - compliance**

- | <b>Reference to Laws, Rules, Regulations, etc.</b>            | <b>Non - compliance</b>   |
|---|---|
| (a) Treasury Circular No. IAI/2002/02 of 28 November 2002     | A separate Register of Fixed Assets in respect of Computers and Software had not been maintained.   |
| (b) Public Enterprises Circular No. PED 38 of 14 July 2006    | The Fund had not been registered in the Department of Inland Revenue for Value Added Tax and the tax had not been recovered from the officers who were liable under the Pay As You Earn Tax.  |
| (c) Section 7 of the Deed of Trust No.3/136 of 24 August 2005 | Even though the Chairman of the Board of Trustees or the Trustees are not entitled to claim any allowance from the Fund for the service provided other than reimbursement of the expenditure incurred on behalf of acting as the Chairman or the Trustees of the Board of Trust of the Fund. However, contrary to that allowances totalling Rs.3,902,100 had been obtained as Chairman's allowances and allowances for meetings of Board of Trust Fund for the year under review and preceding years. |

**3 Financial Review**

**3.1 Financial Results**

According to the financial statements presented, the operations of the Fund for the year ended 31 December 2014 had resulted in a surplus of Rs.133,519,853 as compared with the corresponding surplus of Rs. 148,186,101 for the preceding year, thus indicating a decrease of Rs.14,666,248 in the financial results for the year under review. Decrease of income from guarantee bonds and fixed deposits had mainly attributed to the decrease in the financial results.

**4. Operating Review**

**4.1 Transactions of Contentious Nature**

The following observations are made.

- (a) Preparation of the accounts of the Fund is carried out by 17 officers of the Institute of Construction ,Training and Development on external services basis and a sum of Rs.1,206,258 had been paid for them in the year under review. Even though their services had been obtained in accordance with the Management Decision No.99-05-3.1 taken at the meeting of the Board of Trustees held in May 1999, the propriety of

their engagement could not be ascertained in audit due to the absence of any appointments made as service agreements entered into .

- (b) A sum of Rs.765,411,739 received to the Fund as at the end of the year under review had been invested in fixed deposits without the approval of the Ministry of Finance .
- (c) According to the Revised Trust Agreement, dated 08 February 2012, the maximum limit of value of guarantee 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 guarantee limit could not be established in audit.
- (d) A sum of Rs.810,000 had been paid to a private institution during the year under review for the vehicle obtained based on monthly rental of Rs.60,000 for the supply of transport facilities for the Consultant of the Institute. Nevertheless, the monthly rental of the vehicle had been increased up to Rs.75,000 for the second 06 months period of the year under review ,any note had not been made in the rental agreement . Accordingly, the propriety of the additional cost of Rs.90,000 incurred for 6 months period at Rs.15,000 per month could not be established in audit.
- (e) A sum of Rs.5,000,000 had been granted from the Construction Guarantee Fund during the year under review for the National Awards Ceremony, “Mahabhimani” 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 and any benefits accruing there from were not observed in audit. A sum of Rs.2,500,000 had been granted in preceding year for this matter as well.
- (f) Salaries of three officers employed on contract basis had been increased by Rs.30,000, Rs.5,700 and Rs.3,500 per month ranging from 05 per cent to 43 per cent in the absence of a Government approved salary increase or the approval of the Secretary to the Treasury.
- (g) A monthly transport allowance had been paid without making reimbursement of the expenditure incurred based on the distance travelled and charges paid for the officers recruited on the basis of job assignment. The expenditure incurred thereon in the year under review amounted to Rs.1,480,000.
- (h) The following payments had been approved by the Board of Management of this institution without considering the Financial Regulations, Establishments Code and Circulars issued by the Government.
  - (i) Allowances of Rs.2,621,518 in addition to their monthly remuneration had been paid to the officers recruited on contract basis including the Chief Executive Officer of the Fund .
  - (ii) Permission had been given by the decision of the Board of Management No.09/2013 for the reimbursement of medical bills on medical treatments and accidents subject to a maximum of Rs.500,000 per year per officer. A formal

procedure was not available in this connection and a sum of Rs.1,154,370 had been paid to settle the medical bills of the officers in the year under review.

- (iii) Incentives totalling Rs.1,724,480 had been paid as annual bonus at different rates without evaluating the efficiency of the officers.
- (iv) An efficiency allowance of Rs.985,500 for the officers of the Construction Guarantee Fund and an efficiency allowance of Rs.65,521 for the officers of the Accounts Section of the Institute of Construction ,Training and Development for preparation of accounts had been paid in addition to the payment of the incentives mentioned above based on the surplus in the Income and Expenditure Account for the year under review.
- (v) Even though a sum of Rs.352,642 had been paid for three officers of the Fund for 21 days of unavailed leave, the approval of the Treasury had not been obtained in this connection. Further, a regular control of the day –today arrival and departure of the officers and allocation of performance targets for each officer were not observed in audit.

#### **4.2 Personnel Administration**

-----  
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 have been 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) A permanent staff was not available to bear responsibilities in respect of the affairs of the Fund which is managed by 05 officers recruited on contract basis and 33 officers recruited on assignment basis.
- (c) The service of the officers recruited on job assignment basis had been obtained from 01 year to 15 years period continuously without interrupting the service according to the job assignment .Similarly, a monthly salary had been paid for them instead of making payments on job assignment basis. Out of that the service of 20 officers exceeded 03 years of continuous service. Therefore, contributions of Provident Fund, and Employee Trust Fund, Cost of Living Allowances and incentives had to be paid for the officers who were recruited on job assignment basis. A sum of Rs.5,686,905 had been paid as Employees' Provident Fund, Employees' Trust Fund contributions and Cost of Living Allowances , incentives and transport allowances in the year under review.

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

-----

### **5.1 Internal Audit**

-----

An internal audit of the functions and transactions of the Fund had not been carried out by the Fund or the Ministry during the year under review.

### **5.2 Audit Committee**

-----

Meeting of Audit and Management Committee had not been held from the inception of the Fund. Further, the officers of the Fund had not been called for the Audit and Management Committee meetings of the Ministry.

### **5.3 Tabling of Annual Reports**

-----

Annual Reports from the year 2002 up to 2013 had not been tabled in Parliament in terms of Public Enterprises Circular No. PED 12 of 02 June 2003.

## **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 Fund from time to time. Special attention is needed in respect of the following areas of control.

- (a) Personnel Management
- (b) Financial Management