

Construction Guarantee Fund – 2016

The audit of financial statements of the Construction Guarantee Fund for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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 08 February 2010. 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 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 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 2016 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 interest income receivable as at 31 December of the year under review and the interest income of the year had been overstated by a sum of Rs.3,182,842.
- (b) The surplus and the current assets had been understated by a sum of Rs.375,000 on the advance amounting to Rs.375,000 paid to a private institution for purchasing an Accounting Software being brought to account as an expenditure.

2.2.2 Unexplained Differences

The amount recoverable from contractors had been a sum of Rs.79,711,702 according to the Schedule furnished along with the financial statements and it had been stated as a sum of Rs.71,083,791 in the Final Accounts. As such, the difference between the Accounts and the Schedules had been a sum of Rs.8,627,911.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed in audit.

Reference to Laws, Rules and Non-compliance Regulations	
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(a) Section 7 of the Deed of Trust No.3/136 of 08 February 2010	Even though there is no entitlement to claim any allowance from the Fund for the service provided other than reimbursement of the expenditure incurred on behalf of acting as the Trustees of the Board of Trust of the Fund, a sum of Rs.8,727,100 had been paid as Chairman's allowances and allowances for meetings of the Board of Trust for the year under review and for the preceding years.
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- (b) Treasury Circular No.IAI/2002/02 of 28 November 2002 A Register of Fixed Assets had not been properly maintained in respect of Computers and Software.

(c) Public Enterprises Circulars

- (i) Circular No.PED 38 of 14 July 2006 The Fund had not been registered for Value Added Tax in the Department of Inland Revenue.
- (ii) Circular No.03 of 29 April 2016 Action had not been taken to recover the tax from officers who are liable under the Pay As You Earn Tax and transfer to the Department of Inland Revenue.

3 Financial Review

3.1 Financial Results

According to the financial statements presented, the surplus of the Fund for the year ended 31 December 2016 had been a sum of Rs.82,968,314 as compared with the corresponding surplus of Rs.36,930,287 for the preceding year, thus indicating an improvement of Rs.46,038,027 in the financial result in the year under review as compared with the preceding year. The increase of the income from guarantee bonds and fixed deposits by sums of Rs.27,082,991 and Rs.23,410,137 respectively had been the main reason for the above improvement.

4. Operating Review

4.1 Performance

Issuing bonds for the registered contractors is the main objective of the Fund. The following observations are made in this connection.

- (a) The number of bonds issued in the year under review and in the preceding year had been 2,911 and 1,559 respectively. As such, beneficial variances of 1,352 bonds were observed as given below.

Bond -----	Year -----		Variance
	2016 -----	2015 -----	Favourable/ (Adverse) -----
Bidding bonds	2,208	1,302	906
Advance Bonds	290	102	188
Performance Bonds	402	143	259
Maintenance Bonds	-	3	(3)
Bonds of Retained Money	11	9	2
Total	2,911 =====	1,559 =====	1,352 =====

- (b) A condition of various Government Institutions refusing these bonds due to the bonds issued by the Fund not being recognized as bonds accepted by the Government, was observed. As such, the objectives of the establishment of this Fund could not be sufficiently achieved.

4.2 Transactions of Contentious Nature

Preparing accounts of the Fund is carried out on external service basis by 17 officers of the Construction, Training and Development Institute and a sum of Rs.1,127,300 had been paid for it in the year under review. Even though it had been decided to obtain the service of the above officers in terms of the Management Decision No.99-05-31 taken in the Meeting of the Board of Trustees held in May 1999 in this regard, either any awarding of appointments or entering into a service agreement in this connection had not been carried out. Moreover, payments had been made directly to the relevant institutions. As such, the formality of the payment could not be confirmed in the audit.

4.3 Personnel Administration

The following observations are made.

- (a) Even though all statutory bodies should restructure their organizational structure in terms of the Public Enterprises Circular Letter No.PED/PU of 08 July 2009 and in compliance with the Management Services Circular No.30 of 22 September 2006 and action should be taken to revise the Schemes of Recruitment and Promotions, Cadre and the Salary Scales and obtain the recommendations of the National Salaries and Cadre Commission and the approval of the Department of Management Services, action had not been taken by the Fund in terms of the Circular. The Secretary to the Ministry had stated that it had been confirmed even by the Reference No.E/429/2002 and the Letter dated 10 December 2002 of the Attorney General that the approval of the Department of Management Services is not necessary for the functions of the institution of recruitments of the staff for the institution and making payments in a suitable manner.
- (b) Approval for an Approved Cadre and the Schemes of Recruitments had not been obtained by the institution and the institution had been recruited 5 officers on contract basis and 32 officers recruited on assignment basis from the date of initiation of the functions of the Fund to the year 2016.

The employees recruited on the above basis had been predated and made permanent only on the approval of the Board of Trustees. The Secretary to the Ministry of Housing and Constructions had informed that the Secretary to the Treasury/the Secretary to the Ministry of Finance, the arbitrator, had instructed by the Deed of Trust for the proper instructions on the existence, operation and the operating activities of the Construction Guarantee Fund and for the proper administration and management of those activities and action had been taken accordingly and, the basis of making them permanent 03 years after the date of the first appointment being the generally accepted tradition of the Government and that the Board of Trustees had taken action accordingly.

- (c) The salaries of these employees had been decided only on the discretion of the Board of Trustees contrary to the Management Services Circulars.
- (d) Officers who had exceeded 60 years as well had made permanent only on the approval of the Board of Trustees.

4.4 Management Activities

The following observations are made.

- (a) The permission had been granted by the Management Decision No.09/2013 for receiving for accidents and medical treatments for an officer and 03 other family members under a maximum amount of Rs.500,000 per officer and to reimburse bills and a Treasury approval had not been obtained for it. Moreover, there was no proper procedure for providing benefits and a sum of Rs.2,902,458 had been paid from the Fund only for the settlement of the medical bills of 24 officers and it had been a sum of Rs.120,936 for the year per officer on average.
- (b) Payments amounting to Rs.241,095 had been made to the officers of the Fund without the approval of the Treasury for leave not availed.
- (c) An incentive amounting to Rs.1,407,100 had been paid in the year under review. The following matters were observed in this connection.
 - (i) The approval of the Department of Management Services had not been obtained for the Incentive Scheme.
 - (ii) Information on the manner that the incentive was calculated had not been furnished.
 - (iii) An evaluation on the Performance had not been carried out for the payment of the incentives.
- (d) The amount recoverable to the institution from the relevant contractors by the end of the year under review on the necessity of the bonds issued by the Fund converting to money, had been a sum of Rs.71,083,790 and the Detailed Schedules relating thereto had not been furnished to audit. Even though a sum of Rs.70,576,790 remained recoverable from the contractors to the Fund on releasing bonds within the period of 04 preceding years, it had been failed to recover any amount in the year under review.

5. Accountability and Good Governance

5.1 Internal Audit

An Internal Audit Unit had not been established in terms of the Financial Regulation 133 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka and the Management Audit Circular No.DMA/2009(1) of 09 June 2009 and an audit had not been carried out even by the Internal Audit Unit of the Ministry.

5.2 **Audit Committees**

Any meeting of the Audit and Management Committee had not been held in terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003. 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**

The Annual Reports from the year 2002 to the year 2015 had not been tabled in Parliament in terms of Section 6.5.3 of the 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.

Areas of Systems and Controls

Observations

(a) Personnel Administration

Not taking action to obtain recommendations of the National Salaries and Cadre Commission by revising the Schemes of Recruitment, Promotions, Cadre and the Salary Scales and the approval of the Department of Management Services.

(b) Financial Management

Investing money in fixed deposits and Treasury Bills without the approval of the Secretary to the Treasury.