

## **Construction Guarantee Fund – 2018**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Construction Guarantee Fund for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Fund.

#### **1.4 Auditors Responsibilities for the Audit of the Financial Statements**

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My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial statements

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### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

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The following observations are made.

<b>Non-compliance with applicable standards</b>	<b>Comments of the management</b>	<b>Recommendation</b>
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(a) Although the fixed asset classes should be classified separately according to paragraph 50 of the Public Sector Accounting Standard 07, the Fund is classified under one category as property, plant and equipment.	Please note that 2019 accounts will be presented correctly.	Fixed assets classes should be disclosed separately.
(b) Temporary cash amounting to Rs. 80,956,150 received from contractors was invested in Treasury Bills but no action was taken to disclose by notes in the accounts as Investments in the Treasury Bills.	We inform to that our 2019 accounts are clear.	Investing in Treasury Bills included in the Investments were not disclosed by notes to the accounts.

## 1.5.2 Accounting Policies

The following observations are made.

Audit Observation	Comments of the Management	Recommendation
(a) The financial statements did not disclose the accounting policy used to identify revenue.	This service is available at 100% risk with no security at 1% interest on bid security, 1.5% for performance guarantees and 1.5% for other guarantees.	The disclosure of the accounting policy used to identify revenue.
(b) Without determine the real debtor risk of the outstanding balance of the debtors for the period from 1 to 5 years and over 5 year the provision for bad debtors as 5 per cent and 100 per cent respectively for which the accounting policy had applied in the paragraph 2.8.	Debtors of the Construction Guarantee Funds are classified under 2 categories on follows. i. Direct revenue from the services. ii. Non-payment guarantees from the debtors.	Failure to meet the risk of the debtor
(c) When payments need to pay in certain instances out of the security provided by fund, a sum of Rs. 300 million allocated in the accounts as contingent liability for the year 2011. Despite that, another Rs. 100 million had been allocated in 2018, but the accounting policy adopted to allocate funds to the reserve was not disclosed.	Depending on the circumstances of the country up to 2011, claims of the employer had been considered and allocated Rs.300 million based on the guarantees and another Rs.100 million by 2017.	The accounting policy used for provision of contingent liabilities should be stated.

### 1.5.3 Accounting deficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Debtors balance of Rs. 53,444,870 was classified as Long-Term Assets in the Financial Statement of Financial Position.	We inform have by that the adjustments will be done correcting in the year 2019.	Balances of debtors should be shown under current assets.
(b) Exceptional negative balances amounting to Rs.304,238 pertaining to two contractors included in lapsed transit money as at 31 December 2018.	The money received from two contractors was credited to the Revenue Account instead of the Transit Account.	Transit money received should be shown in the account.
(c) The interest income on Treasury Bills amounting to Rs.80,959,124 had been accounted understating by Rs.180,795.	It was confirmed that these calculations were not done correctly	Interest Income should be accounted accurately.
(d) Due to errors in calculating of fixed deposit interest had been understated by Rs. 392,977 in the year 2018.	Please note that arrangements will be made to negotiate with the Bank in and adjustments will be made accordingly in accounts in the year 2019.	Deposit interest should be correctly stated in the accounts.

## 1.6 Accounts Payable

The following observation is made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
As at December 31, 2018, a balance of Rs.107,831,858 was considered as transit cash and the fund had been long retained longer period without paying the subcontractors and a balance of Rs. 7,181,838 in that retained balance was exceeded 2 years.	The transit amount will be considered for release after the validity of the guarantee or improvement of the performance of all the projects as a whole. Therefore, the timing of the release of the transit amount will be uncertain.	The transit money should be made after taking into consideration the guarantee risk.

## 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following instances of non-compliance with Laws, Rules, Regulations and Management Decisions were observed.

<b>Reference to Laws, Rules Regulations</b>	<b>non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) National Audit Act No.19 of 2018.			
Clause 40(2) of the Act.	A suitable auditor should be appointed to carry out the internal audit work but no internal auditor was appointed until May 2019.	We are pleased to inform that the Audit Committee has been established since the beginning of 2019.	Taking action to appoint an internal auditor.
Clause 41(1) of the Act	There should be audit and management committees appointed by the Governing Body to assist them, and the committee should continually review	In addition to the members of the Board of Trustees in 2019, several members from the staff of the organization have been included in the Committee.	Taking action to appoint audit and management committees to assist the Governing Body

the performance of the organization. However, no action had been taken to appoint the above committee for the fund.

(b) Management Services Circular No. 30 of 22 September 2006.

The Fund had paid Rs. 38,838,202 salaries for 37 employees in 2018 without approving the number of employees and salary scales, although the required approval for the fund's staff had to be approved by the Department of Management Services.

The Board of Trustees is given full freedom under Section 7 (b) of the Trust Deed for recruitment and payment of staff

Approval should be obtained from the Department of Management Services

## 2. Financial Review

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### 2.1 Financial Results

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The operating results of the year under review amounted to a surplus of Rs.118,466,610 and the corresponding surplus in the preceding year amounted to Rs.117,764,156. Therefore an improvement amounting to Rs.702,454 of the financial result was observed. The increase in Revenue by Rs.9,956,228 was mainly attributed to the increase in financial result, although the expenditure incurred by Rs.9,253,773.

## 2.2 Analysis of trends in major income and expenditure subjects

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The following observations are made.

- (a) Treasury bill interest rates decrease by 19 percent, while bond / Guarantee income increased 1 percent, fixed deposit interest income increased 8 percent and bill discount interest income increased 25 percent. Overall, revenue growth was only 6 percent compared to the previous year.
- (b) Compared to the previous year, research expenditures increased by 100 percent, abuse by 100 percent, and withholding taxes by 100 percent. Total expenditure increased by 18 percent over the previous year.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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The following observations are made.

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) A sum of Rs.2,088,800 was spent in the year 2015 for the development of the computer system but it was not developed enough to be used for the work of the institution.	Provide services to monitor construction activities using modern technology, electrification for data gathering, Cloud to Employer, Contractor, Construction Protection Fund, Treasury and the general public to get the development work of Sri Lanka to their mobile phone. And this is with the broad objective of devising a mechanism to request and provide service to construction contractors.	Should improve the efficiency of the fund relative to the expenditure incurred.



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| (b) | A formal lease agreement for the office premises was signed up to June 30, 2017, and a sum of Rs.3,400,972 in 2018 million entering into a formal lease agreement. | It is ensured that the monthly rent is paid continuously and that CIDA has obtained the money. Since this situation is withdrawn in 2019, arrangements have been made to renew the agreements with effect from June 2017. | Should have paid the rent after entering in to a formal agreement. |
| (c) | It has been decided to write off a sum of Rs. 4,169,308 from 05 contractors as per the Board paper No. B / P 2018-03-03 without obtaining a Treasury approval.     | The Treasury Secretary / Secretary of the Ministry of Finance has delegated to the Board of Trustees all the provisions entire management powers under the section No. 07(a) of the Deed of Trust of the Fund.            | Decisions to be taken after formal approval                        |