Construction Guarantee Fund - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Construction Guarantee Fund for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Section 11(d) of the Deed of Trust to the Construction Guarantee Fund and 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 2019, 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

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

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 Auditor's Responsibilities for the Audit of the Financial Statements

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 skepticism 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 Company'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

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

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Non-Compliance with the reference to particular Standard	Management Comment	Recommendation		
The value of Rs. 53,287,995 with regard to 07 legal cases instituted against the Fund had not been adequately disclosed in the accounts as per the Sri Lanka Public Sector Accounting Standards 08 and a sum of Rs.1,453,000 had been spent as legal charges for these cases.	It could not be exactly identified the future costs and time involved in these cases.	Adequate disclosures should be made in accordance with the Accounting Standard.		
The following observations are ma Audit Issue	Management Comment	Recommendation		
(a) Interest income on 07 Treasury Bills was overstated by Rs. 289,353 and interest income on 05 Treasury Bills was understated by Rs. 255,758 due to incorrect calculation of interest for the accounting period.	adjustments in the forthcoming year.	Interest income on Treasury Bills should be accurately stated in the financial statements.		
(b) The interest income on 14 fixed deposits had overstated by Rs. 4,745,162 and the interest income on 4 fixed deposits had understated by	adjustments in the forthcoming year.	Interest income for the accounting period should be accurately stated in the financial statements.		

Rs. 659,633 due to incorrect calculation of interest for the accounting period.

- (c) The fixed assets worth Rs.494,600 given as grants to a Technical College were stated as receipts under the investment activities in the cash flow statement.
- (d) As the main risk of the Fund is on the value of Demand Debtors, a sum of Rs. 61.3 million had been transferred to the Contingent Liabilities Fund in the year 2019 as a policy of transferring an amount equal to 50 per cent in each year to that Fund. However, it was observed that a provision had been made twice for the same activity in the year under review, due to a provision of Rs. 5.4 million made on behalf of this debtors against the surplus of the year.

Accounts Payable

1.6

We will correct these adjustments in the state for the compared of the state of the

In 2020, we will re-evaluate the previous year's profit and write-off it from the contingent liability reserve account. The cash flow statement should be prepared correctly.

The accounting deficiencies needs to be corrected.

-----Audit Issue **Management Comment** Recommendation The balance of Rs. 76,553,077 То reduce the risk. the Appropriate action to be taken received from the client (Transit contractors' to find out the reasons for the money is Money) as at 31st December 2019 temporarily deposited in the long-unsettled balances. 3.602.302 Construction Protection Fund's included Rs. which remained unresolved from 2013 to Transit Account and is kept 2016 and 55 balances valued at less until the end of the project to than Rs. 1.000 reduce the risk. This task may take years. 1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc. _____ The following observations are made.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Deed of Trust of the Construction			

Guarantee Fund

(i) Section 7(b)	Although the Fund has been in existence for over 20 years since its inception in 1999, the Fund did not have a formal set of rules and regulations for the recruitment of persons suitable for active work and for the calculation of their salaries and the qualifications for their recruitments.	Presently the salaries, wages, institutional and general operations are being carried out under the five-year plan prepared up to 2016/2021.	The terms of the deed of trust must be complied with.
(ii) Section 5 (a)	Although the Fund authorized the issuance of various bonds, the Fund did not formulate a system of formal rules and regulations that included the relevant basis for determining the bond rate to be issued by the Construction Guarantee Fund.	The fees charged for various bonds were fixed in 1999 and remain unchanged to date. Since the organizational service is unprofitable, causing fees to remained the same level.	That the terms of the Deed of Trust must be complied with
	There have been instances where bond rates charged for extended bonds have been offered below the standard rate and it has been observed that setting the rate at the discretion of an individual without setting a formal rate is a weakness of internal control.		
 (b) Financial Regulations of the Government of Democratic Socialist Republic of Sri Lanka. Financial Regulation 133 	According to the Regulation, an internal audit had not been conducted.	A committee consisting of a staff member including a member of the Board of Trustees advises on the audit of the accounts of the Institution.	It should be act in accordance to the Financial Regulations.
(c) Management Audit Circular	According to paragraph 5.3 of the Circular, the activities of this Fund had	A management committee consisting of Board of Trustees and	It should be act in accordance to the Circular

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2. Financial Review

2.1 Financial Results

The operating results of the year under review amounted to a surplus of Rs. 122,612,561 and the corresponding surplus in the preceding year amounted to Rs. 103,096,421. Therefore, an improvement amounting to Rs. 19,516,140 of the financial result was observed. Although personal emoluments and infrastructure expenditure increased by Rs. 3,317,131 and Rs. 3,509,939 respectively, increase of fixed deposit interest income by Rs. 7,255,708, increase of Treasury bill interest income by Rs.7,524,058 and decrease of provision for doubtful debts by Rs. 9,968,729 were the main reasons attributed for this improvement.

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3. Operating Review

3.1

Management Inefficiencies

The following observations are made.

Audit Issue	Management Comment	Recommendation		
 (a) The Fund was established in 1999 and had issued around Rs. 1,790 million worth of bonds as at 31 December 2019, but did not have the management information system required to properly administer these bonds. However, a separate IT department was maintained and a system manager was recruited for its functions. 	A Technical Division and system inherent for a small-scale organization is maintained under the responsibility of a manager. Thus, the activities carried out manually in the past, are being done in a semi-automatic manner.	The computer system needs to be further developed.		
(b) The Fund had issued Rs.1,790 million worth of bonds to contractors at the end of the year under review and had not held any deposit with contractors like other financial institutions. As a result, a risky situation has arisen.	It has been the policy from the very beginning to provide guarantees through very lenient conditions by considering the difficulty of obtaining those guarantees from commercial banks.	Action should be taken to reduce the risk.		
(c) A sum of Rs. 2,088,800 was paid to Sri Lanka Telecom in the year 2015 for a software development. However, the system was not operated even up to the end of the year under review.	Sri Lanka Telecom has completed about 60% of the system and the agreement has been extended until May 2021 by mutual agreement.	The development of the computer system should be expedited.		