

Construction Guarantee Fund - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Construction Guarantee Fund (“Fund”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 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 material accounting policy information 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 and provisions in Section 11 (d) of the Trust Deed of the Construction Guarantee Fund dated on 05 August 1999. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, because of the significance 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 2024, 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

I expressed qualified opinion 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 stability 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 Sub 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 Audit Scope (Auditor's Responsibility 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 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 Fund'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 Fund 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 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
According to the Supplement to the Public Sector Accounting Standard No. 11, Revenue from Non-Exchange Transactions (Taxes and Transfers), grants received from the Construction Industry Guarantee Fund Limited several years ago amounting to Rs. 0.98 million had not been correctly presented as capital grants under the accumulated surplus/deficit of the fund.	As pointed out, capital grants will be accounted under the accumulated surplus/deficit in the future.	Account balances should be presented accurately in accordance with Public Sector Accounting Standards.

1.5.2 Accounting Deficiencies

	Audit Observation	Management Comment	Recommendation
(a)	A sum of Rs. 0.19 million, paid by the Fund to an employer in 2023 as demand guarantee money and recorded as an expense, was repaid by the relevant contractor in 2024. This amount had been credited to the contingent liability reserve account instead of being adjusted against the accumulated surplus.	The amount stated was paid to an employer in 2023 to settle a demand guarantee money, and the amount was reimbursed by the relevant contractor in 2024. Action will be taken to correct this through the accounts in the future.	Refunds of demand guarantee money should be accounted correctly.
(b)	Prepayments of Rs. 0.42 million made in the previous year were not identified as expenses in the year under review and were shown as current assets in the financial statements. As a result, current assets were overstated, and expenses were understated by the same amount.	Action will be taken to correct in the next financial year under prior year adjustments.	Action should be taken to correct the accounting error related to prepayments made in the previous year.
(c)	Rs. 1.88 million, deposited by debtors into five of the Fund's bank accounts from 5 June 2018 to 8 September 2023, was neither identified nor adjusted and was recorded as current liabilities, resulting in the overstatement of the Fund's current assets and liabilities.	Due to the situation that prevailed in the country over the past few years, it has been difficult to identify the contractors who had deposited security fees or other amounts from time to time without notifying us promptly. Therefore, until these balances are properly identified, those amounts have been presented under current liabilities.	An appropriate system should be introduced to identify direct deposits into bank accounts and steps should be taken to correct the relevant asset and liability balances without delay.

1.5.3 Documentary Evidences not made available for Audit

	Item	Amount Rs.Million	Evidence not available	Management Comment	Recommendation
(a)	Payable balance for RRP/RDA projects	157.83	Balance Confirmation letters	Letters have been sent to the relevant contractors to confirm the creditor balances. However, many of them have not yet responded.	Necessary steps should be taken to verify project balances due in a timely manner.
(b)	Debtors	7.62	Balance Confirmation letters	As part of the accounting and auditing process, letters have been sent to the relevant contractors to confirm the final debtor and creditor balances; however, many contractors have not yet responded.	An effective methodology should be followed to ensure the accuracy of debtor and creditor balances.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Management Comment	Recommendation
(a)	The Fund issues Bonds and guarantees to registered contractors of Construction Industry Development Authority and employers demand guarantee money in the cases of poor performance of the contractors. From 2011 to 2019, an amount of Rs. 87.65 million was paid to the employers in 22 cases, out of this balance Rs. 4.68 million could not be recovered and was written off with the approval of the Board of Trustees in 2019. Further, from 2020 to 2023 the amount paid to the employers and to be recovered to the Fund was Rs. 56.83 million. In addition, in the year 2024 Rs. 31.80 million demanded to the fund.	After providing guarantees with 100 percent risk, contractors defaulted on their obligations, resulting in a payment of Rs. 102 million. Although an additional Rs. 8 million was spent on legal proceedings to recover the amount, it could not be recovered. The main reason for this was the contractors' unethical conduct (Code of Ethics).	Immediate action should be taken to minimize risk and recover receivables by coordinating with other institutions involved in the construction industry, improving the performance and conduct of contractors, and introducing a practical procedure to address cases where recovery of funds is not possible.
(b)	An amount of Rs. 68.70 million due from contractors for guarantee money paid by the Fund to various employers was written off from the Contingent Liability Reserve in 2024 with the approval of the Board of Trustees. This amount included Rs. 51.90 million that should have been recovered prior to the year 2024 and Rs. 16.80 million paid for the demand during the year 2024. Accordingly, the total amount of Rs. 102.90 million paid by the Fund to various employers had not been recovered by the Fund as of 31 December 2024. Although the decisions	Several years after the demand was paid, the Board of Trustees unanimously decided to write off the provisions set aside for risk due to recurring weaknesses arising from non-payment. Although efforts were made to recover the loss incurred from the payment of demand, a considerable amount of money had to be spent over several years.	-do-

of the legal proceedings, including arbitration, were in favor of the Fund, the relevant amounts could not be recovered, and a further sum of Rs. 3.19 million was incurred during the year under review for related legal proceedings.

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| (c) | As per the statement of financial position as at 31st December 2024, the net income receivable from bonds and guarantees amounted to Rs. 7.62 million, including Rs. 4.69 million due within 1 to 3 years, Rs. 2.41 million due within 3 to 5 years, and Rs. 0.30 million due more than 5 years. It was also observed during the audit that there is uncertainty regarding the recovery of these long term receivable balances. | Even though there has been a delay, various measures are being taken to recover the debt, and it is expected that the debt will be settled eventually. | A system should be established to collect income from bonds and guarantees promptly, and outstanding balances should be addressed without delay. |
| (d) | The loan amount of Rs. 20.80 million due from the State Development & Construction Corporation to the Fund since 2012 had been written off in 2015 with the approval of the trustees, instead of showing as a recoverable balance in the financial statements, as it adversely affected the Fund's financial ratings. However, this balance had been shown as a payable balance to the Fund in this Corporation's financial statements for the year 2023. Accordingly, during the audit it was observed that the amount had been written off without taking necessary recovery action. | The institution's policy decisions are made by the trustees and are written off based on the advice given, as they could be detrimental to the institution. However, if there is a possibility of recovering the amount at any point in time, it has been made to be accounted for as other income. | Receivable balances should be written off only after taking all possible steps to recover them, in accordance with Public Enterprises Circular No. 01/2021 dated 16 November 2021 and Public Enterprises Circular No. PED/01/2021(i) dated 16 May 2023. |

1.6.2 Payables

	Audit Observation	Management Comment	Recommendation
(a)	The Ministry of Roads and Highways had given Rs.35,080.23 million to the Fund during 2020 to 2024 to pay the certified bills of 310 contractors carrying out the construction contracts under the 100,000 km rural road scheme, of which Rs. 34,449.18 million was released to the contractors. Furthermore, an amount of Rs. 157.83 million was retained by the Fund in the transit money account as of 31 December 2024 without being released to the relevant contractors. Out of this balance Rs.64.57 million was retained from 01 to 03 years and Rs.19.23 million from 03 to 05 years. An amount of Rs. 51.92 million, related to 105 completed projects, was retained by the fund without being released to contractors.	The fund has encountered several problems as a guarantor up to April 2025, due to factors beyond the contractual and guarantee terms between the two parties. Due to the complexity of recovering damages arising from errors in the employer's accounting system and the breakdown of mutual cooperation, the fund has been unable to prevent the withholding of funds from several contractors who were at risk.	The funds released for the payment of certified contractor bills should be disbursed to the relevant contractors after resolving the related issues within a reasonable period of time.
(b)	Out of the money given to the Fund by various other parties to be released to the contractors amounting Rs. 41.69 million had not been settled to the respective contractors on 31 December 2024. Out of this balance the total of Rs. 2.22 million and Rs. 14.81 million was retained by the Fund from 01 to 03 years and 03 to 05 years respectively and Rs.2.25 million were in periods of more than 5 years. Due to the current inadequate performance of the relevant projects, the liabilities of the fund have increased, as the funds provided by the employers are held in the fund as cash in transit for a long period of	The retained funds will be released once the associated risks and liabilities have been resolved.	-do-

time. Therefore, the risk of meeting those liabilities was observed during the audit.

- (c) A credit balance of Rs. 3.40 million was shown in the financial statements under creditors from 3 to 5 years, as the fund had over collected from contractors through bonds and guarantees. However, the fund had not taken steps to settle these balances.
- Approximately 80 percent of the outstanding balance has already been released, and the balance will be disbursed once the accountability is completed.
- Contractors who have deposited excessive amounts should be identified, and steps should be taken to release those funds. Additionally, measures should be implemented to assure stakeholders that the financial statements are accurate and fair.

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

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Public Finance Management Act, No. 44 of 2024, Section 39 of Part VIII dated 08 August 2024 and Financial Regulations 876(3) issued by Public Finance Circular No. 01/2020 dated 28 August 2020	Any non-statutory fund shall cease to operate from the date of commencement of this Act and such funds shall be dissolved within one year from the date of commencement of this Act. Nevertheless, if the Minister of Finance, after consulting the Secretary to the Treasury, decides that the fund should continue to be maintained, it may be converted into a statutory fund as directed. However,	Several meetings were held in 2024 and the first half of 2025 with the Deputy Secretaries of the Treasury and the Director General (Public Finance) regarding the structure and necessity of the Fund. In assessing the Fund's successful service over 25 years without impacting the Consolidated Fund, it was ensured that documenting its maintenance as an exemplary fund for the	Actions should be taken in accordance with the provisions issued under the relevant Act and circulars, and in cases where this is not feasible, proper approvals must be obtained in accordance with the Act.

as of 30 April 2025, the fund had not been legalized accordingly.

government and establishing it as a statutory fund through an Act of Parliament would be given priority under the Public Finance Management Act. In this regard, the financial strength and stability of the institution have been ensured through the special consideration of continuity (BB and positive) by Fitch Ratings, an international financial rating agency, since 2018.

- (b) Deed of Trust of the Fund dated 05 August 1999 Section 9 (e)
- The Board of Trustees shall not be entitled to receive salaries, allowances or honorarial salaries but may be reimbursed for expenses incurred in the performing of their duties. However, contrary to this, the Fund paid a fixed amount of Rs. 50,000 per month for additional services rendered based on the professional capacity of the Board, totaling Rs. 2.50 million, Rs. 2.30 million, Rs. 2.50 million, and Rs. 3.00 million in the years 2021, 2022, 2023, and 2024 respectively. However, details of the expenses incurred by the Board of Trustees in carrying out their duties
- The Board of Trustees is paid a predetermined amount monthly exclusively for performing their monthly Duties. It should be noted that they sign a name list to confirm the performance of their duties, rather than solely for attendance purposes. Under Section 9(f) of the Trust Deed, the responsibilities of the position include regularly reviewing matters that may be detrimental to the progress and day to day functioning of the Construction Guarantee Fund.
- Actions must be taken in accordance with the provisions of the Fund's Trust Deed, and in cases where this is not possible, proper approvals must be obtained and the relevant documents must submit for audit as well.

were not disclosed in the financial statements. It was further observed that no disclosure had been made in the financial statements regarding these related party transactions.

(c)	Financial Regulation 877(2)(b), as amended by Public Finance Circular No. 01/2020 dated 28 August 2020	Although the Fund is not authorized to incur any expenditure without approval under statutory provisions or the Financial Regulations, it paid a fixed monthly transportation allowance of Rs. 211,500 to 14 field officers without Treasury approval, totaling Rs. 2.54 million for the year. In addition, Rs. 1.71 million was paid during the year as transportation allowances to other employees.	The overall operation of the institution is the responsibility of the Board of Trustees, which includes a member representing the Treasury. These responsibilities are assigned to the Board under the Trust Deed and have also been confirmed by the instructions of the settlor.	Formal action should be taken against the parties responsible for expenditure not incurred in accordance with the provisions of the Financial Regulations, in line with the amendments made in the referenced circular.
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1.8 Non-compliance with Tax Laws

	Audit Observation	Management Comment	Recommendation
(a)	In accordance with paragraph 01 of Inland Revenue Department Circular No. SEC/2022/E/03 dated 23 December 2022, effective from 01 January 2023, a 5 percent withholding tax should be deducted on the total monthly payment to a resident individual who is not an employee of the payer and has a source in	Payments are made shortly after the legal services are received. Since it is not possible to predict whether the same service will be required again within a given month, deferring	Arrangements should be made to deduct withholding taxes and make payments as per the circular.

Sri Lanka, where the total payment in a month exceeds Rs. 100,000 excluding exempt amounts. However, the Fund paid Rs. 1.08 million to a lawyer for legal services over six months, but the withholding tax was not deducted and remitted to the Inland Revenue Department for exceeding monthly Rs. 100,000 payments.

payment on multiple occasions is not feasible. Therefore, as each payment individually falls below the taxable threshold, no withholding tax obligation arises in this regard.

- (b) During the year, transport allowances of Rs. 2.54 million and overtime allowances of Rs. 1.42 million were paid to the officers of the Fund. However, these payments were not taken into account in the calculation of Advance Personal Income Tax (APIT) in accordance with Inland Revenue Department Circular No. SEC/2023/E/01 dated 29 March 2023.
- No adjustment was required, as the travel expenses incurred during the relevant month were reimbursed in subsequent months and did not exceed the prescribed limit at the time of payment.
- All allowances paid in accordance with the circular must be taken into account in the calculation of advance personal income tax and administered with proper understanding and supervision of the circular's provisions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 252.06 million and the corresponding surplus in the preceding year amounted to Rs. 332.69 million. Accordingly, a decline of Rs. 80.63 million was observed in the financial result. This decline was mainly due to a decrease in bond and guarantee income by Rs. 3.68 million, a decrease in fixed deposit interest income by Rs. 52.09 million and an increase in payments to external parties for consultancy services by Rs. 2.34 million.

2.2 Trend Analysis of major Income and Expenditure items

Description	For the year ended 31 December 2024	For the year ended 31 December 2023	Variance {Favorable/ (Adverse)}	Percentage of difference in percent
	Rs.	Rs.	Rs.	
<u>Income</u>				
Income from bonds & guarantees	9,779,425	13,455,756	(3,676,331)	27
Interest on Fixed deposit	313,269,041	365,362,719	(52,093,678)	14
Treasury bill Interest Income	78,304,782	68,635,138	9,669,644	14
Miscellaneous Income	267,567	5,569,321	(5,301,754)	95
<u>Expenditure</u>				
Personal Emoluments	70,500,898	63,728,178	6,772,720	11
Transport	7,201,350	6,514,435	686,915	11
Operational cost	2,100,285	1,208,931	891,354	74
Strategies and policies	3,181,565	2,657,913	523,652	20
Consultation	3,190,500	846,340	2,344,160	277
Infrastructures	7,433,953	6,433,830	1,000,123	16

2.3 Ratio Analysis

- (a) The fund's current ratio for the year under review was 9:1, while it was 6:1 in the previous year.
- (b) During the audit, it was observed that the Fund's assets were not being utilized efficiently, as the return on assets ratio declined from 12 percent in the previous year to 8 percent in the year under review.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Management Comment	Recommendation
(a)	The Fund was established in 1999 and received a Capital Grant of Rs. 55.00 million from the General Treasury in four instances during the period of 2000 to 2005. But there was no mechanism for remittance of annual profits to the treasury. Meanwhile, from the retained earnings of Rs.949.79 million as on 31 December 2020, Rs.500 million was transferred to a reserve account named “Provision for Infrastructure” and remained idle.	In accordance with the provisions of the Trust Deed, the funds received and the income generated by the institution as a non-profit service entity may be used as a reserve for providing guarantees, with the authority to extend guarantees up to ten times the value of this reserve at any given time. Accordingly, it is the responsibility of the institution to maintain and expand this reserve. Furthermore, due to the absence of a dedicated premises to be recognized as a financial institution, a portion of the assets has been allocated for this purpose in accordance with a unanimous decision of the Board of Trustees.	Being a fully state-owned institution, the Fund should contribute to economic development by remitting the surplus, or a portion of the surplus earned each year to the Treasury.
(b)	The Fund had entered into an agreement with Sri Lanka Telecom during the year 2015 to design and develop a Management Information System (MIS) to the worth of Rs.2.98 million. As per the agreement, the first installment and the second installment to be paid after	Although the Management Information System (MIS) requirement was fulfilled in 2015, the development of a fully automated system has been delayed due to periodic revisions of government	Actions should be taken to successfully adapt the management information system to meet current needs.

development, total Rs. 2.08 million or 70 percent of the contract value was paid to the relevant institution in the years 2015 and 2016 and it was shown under non-current assets as software development advances in the statement of financial position. Although about 09 years have been passed since the money was paid, the preparation of this Management Information System (MIS) was not completed even up to 31 March 2025. During the year under review, the fund had also failed to complete the work as per the agreement.

policies, Treasury circulars, and CIDA conditions. It is also clear that revising the existing procedures of the Board of Trustees in 2025 and adjusting contractors performance limits by the government in accordance with the criteria issued by the National Procurement Commission will take time.

A notable point is that, since the agreed amount represents only a very small percentage of the current value, completing the work under this arrangement would be financially advantageous.

- (c) In calculating the fund's bond and guarantee levy income, 2 percent and 2.5 percent were charged from the bond value for advance bonds and performance bonds, respectively, for 100,000 kilometer road development projects. Additionally, bond extension levy charges for advance bonds and performance bonds were 1.5 percent and 1.75 percent respectively. Although a special management report detailing these fees was submitted for audit, the meeting minutes with board of trustee's approval were not submitted to audit. Additionally, an amount was added to the bond and guarantee levy income based on existing risk levels on bond income. This value was assessed by

The Board of Trustees is responsible for policy matters as well as all other duties, including the determination of fees, and has been entrusted with full operational management. Accordingly, a standard minimum fee or project-specific fees will be established as a risk mitigation measure, and these decisions will be maintained as a public record.

The approval of the Board of Trustees and the decisions taken by the management should be documented in the bond and guarantee revenue files and steps should be taken to make that information and documents available for audit purposes.

management according to the prevailing risks and included in the bond and guarantee levy income. However, there was no any document related to the risk assessment or discussion notes and any source documents related to the bond service charges, were made available for audit.

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| <p>(d) The Fund incurred expenditures of Rs. 2.90 million and Rs. 5.51 million in 2023 and 2024 respectively for the reimbursement of staff medical expenses, including hospitalizations and accidents, as well as for the purchase of medical equipment. However, the Fund had not implemented a proper methodology for reimbursing these medical expenses with the approval of the Treasury.</p> | <p>In accordance with the Trust Deed and the instructions issued by the settlor, the institution provides support to staff during emergencies and similar situations as a measure to ensure the orderly and continuous functioning of its operations.</p> | <p>Treasury approval must be obtained for reimbursement of medical expenses and other related expenses incurred by the Fund.</p> |
| <p>(e) Although the Fund should conduct audit and management committees to review the operational activities of the Fund and timely report to the Board of Trustees, the Fund never held an audit and management committee meeting. Additionally, the Fund had not participated in the audit and management committee meetings of the Ministry of Finance or the Ministry of Construction.</p> | <p>The Board of Trustees has taken steps to establish an Audit and Management Committee in accordance with the Trust Deed and the instructions issued by the settlor from time to time. The Committee has also taken measures to hold appropriate meetings annually and to implement corporate services in a more systematic and transparent manner.</p> | <p>Arrangements should be made to held audit and management committee meetings to obtain the necessary support for the Board of Trustees.</p> |

3.2 Identified Losses

Audit Observation	Management Comment	Recommendation
As of 31 December 2023, Rs. 10.30 million from bills discounted by the Fund remained unsettled, as the employers had not paid the corresponding amounts from the funds disbursed to contractors. This amount had remained uncollected from two construction companies for over four years. In 2024, the entire balance was written off with the approval of the Board of Trustees.	The contractors' failure to properly fulfill their obligations to the Construction Guarantee Fund and employers makes it inevitable for the institution providing guarantees to be exposed to such outcomes.	Losses must be prevented, and appropriate measures should be taken to recover them even after they have been written off. The Board of Trustees must take immediate action to minimize losses by ensuring that the Fund's operations are conducted with maximum efficiency and effectiveness.

4. Accountability and Good Governance

4.1 Annual Performance Report

Audit Observation	Management Comment	Recommendation
According to Financial Regulation 877(2)(e) issued by the Public Finance Circular No. 01/2020 dated 28 August 2020, the Accounting Officer of the Fund shall prepare the Annual Performance Report in all the three languages under the prescribed provisions, and aforesaid report to be tabled in Parliament within 150 days after the end of each financial year. As of 31 March 2025, the Annual	The quarterly Financial Performance reports, Annual Budget, Annual Performance Report, and Annual Report are submitted to the Settlor, together with the pre audit accounts, in the language in which they were originally prepared (Sinhala/English), for tabling in Parliament within the first month of the	The circular's provisions must be thoroughly studied, and all actions should be carried out in compliance with them.

Performance Reports for the years following year. Thereafter, all 2021, 2022, and 2023 had been relevant reports are prepared in submitted to the Secretary to the the other two languages and Treasury. However, these submissions submitted at a later stage. The did not include the audited financial final financial statements, statements and the Auditor General's following the audit, are also report, and no evidence was presented submitted subsequently, and to the audit to confirm that the Annual receipt of these documents has Performance report had been tabled in been confirmed. Parliament.

4.2 Budget control

Audit Observation	Management Comment	Recommendation
According to the Financial Regulation 877 (1) (c) issued by Public Financial Circular No. 01/2020 dated 28 August 2020, the budget prepared by the Board of Trustees for the next year should be remitted to the Director General of National Budget before 30 September of the current year for obtaining the approval thereof. However, the budget of the Fund for the year 2024 had not approved as per the provisions in the above circular.	All budget contents are analyzed and approved by the Board of Trustees. While the budget is submitted to the Treasury for recommendations, the receipts and expenditures stated therein do not impact the Consolidated Fund in any way and are recorded solely under the authority of the Board of Trustees, as provided in the Trust Deed.	The circular's provisions must be thoroughly studied, and all actions should be carried out in compliance with them.