

## **Construction Guarantee Fund - 2020**

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### **1. Financial Statements**

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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 2020 comprising the statement of financial position as at 31 December 2020 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 and provisions in Section 11 (d) of the Deed of Trust of the Fund. 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 2020, 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 based 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 intends 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 Auditor's Responsibility 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 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 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 (SLPSAS)

The following observations are made.

<b>Non-compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Credit balances of receivable income from bonds and guarantees aggregating Rs.6,956,286 had been offset against the debit balances of that account in 51 instances in contrary to paragraph 48 of <b>SLPSAS 1 - Presentation of Financial Statements</b> . As a result, the current assets and current liabilities had been understated by similar amounts.	There were instances contractors remitted funds directly to Fund's Account duplicating the levies and held under the situation when the Fund gradually identify those and arrangements made to release on request and to reconcile accounts.	Action should be taken to account them in accordance with provisions of the Standard.
(b) The fully depreciated assets such as Office Equipment & Others, Computer, Accessories & IT Equipment and Furniture, Fittings & Fixtures costing Rs.7,088,288 as at 31 December 2020 are being continuously used by the Fund without reassessing the useful economic lifetime of those assets as per the provisions in paragraph 65 of <b>SLPSAS 07 - Property, plant and Equipment</b> and rectifying the estimation error and showing accurate carrying value in the	We could not revalue due to the current global situation. As highlighted by you we will take action to re-value those during 2022.	Action should be taken to reassess the useful economic lifetime of the fully depreciated assets and account them in accordance with provisions of the Standard.

financial statements as per the **SLPSAS 03 – Accounting Policies, Changes in Accounting Estimates and Errors**. Therefore, the fair value of those assets had not been reflected in the financial statements for the year under review.

### 1.5.2 Accounting Deficiencies

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The following observations are made.

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
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(a) An amount of Rs.448,842 was shown as disposable and destroyed item under the investment activities in the cash flow statement prepared for the year ended 31 December 2020. However, the supporting documents and details of accounting entries made to the books of accounts with regard to this item had not been provided for audit in order to vouch or verify the accuracy and the reliability of this transaction.	It is a human error, occurred at the time of preparing Cash Flow. Therefore, no supporting documents available and we will correct it from the next Financial Statements.	Cash Flow Statement should be prepared correctly, and all the supporting documents have to be provided for audit.
(b) An unidentified credit balances aggregating Rs.7,790,561 was shown in five (05) Bank Reconciliation Statements prepared as at 31 December 2020. Out of that only Rs.354,100 had been identified up to 30 September 2021 and the remaining balance of Rs.7,436,461 belongs to the period ranging from 2018 to 2020 had not been identified and cleared from the books of accounts even up to 30 September 2021. Hence, the accuracy of the bank balances amounting Rs.133,736,801 shown in the Financial Statement as at 31 December 2020 could not be relied upon in the audit.	The Fund also agreed that there is a huge amount under unidentified credit resulting the contractors paid directly to Fund's accounts, without any supporting documents and any notification to the Fund. This situation arose during early march 2020 to 31 December 2021 a period where all suffered without direct contacts and without proper communication. We also accept that it is a difficult task which may take more time as per the current situation but ensure that we reconcile in time to come.	Action should be taken to identify the unidentified credit balances in the bank statements and make proper adjustments in the books of accounts accordingly.

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| <p>(c) Interest income on 15 fixed deposits amounting to Rs.68,636,766 had been overstated by Rs.2,830,574 while the interest income on 07 fixed deposits totaled Rs.5,050,937 had been understated by Rs.346,194 due to incorrect computation. As a result, the surplus and the interest receivables for the year under review had been overstated by Rs.2,484,380.</p> | <p>It is easy to reconcile as interest components of the fixed deposits is appeared at maturity and shown in the returns. However, as at a given date when compute there may be an arithmetical variation.</p> | <p>Interest income for the accounting period has to be correctly and accurately stated in the financial statements.</p> |
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## 1.6 Accounts Receivable and Payable

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### 1.6.1 Receivables

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The following observations are made.

Audit Issue	Management Comment	Recommendation
<p>(a) Out of receivable income from bonds and guarantees amounting to Rs.50,182,648 as at 31 December 2020, sums of Rs.4,460,022 and Rs.833,520 had remained in the accounts without being recovered for over 01 year and 02 years respectively.</p>	<p>Out of Rs.833,520 more than 58 per cent collected and there may be a possibility other balance amount is line in the unidentified credits. Out of Rs.4,460,022 more than 54 per cent substantial amount being recovered and other identified balances are included in the unidentified credits.</p>	<p>Action should be taken to recover the remaining balances of receivable income from bonds and guarantees without any delay.</p>
<p>(b) The Fund is providing cash advances to contractors on the basis of recovering these advances from the future bill payments charging minimum rate of 2 per cent at the time of recovery of bills and this is calls as bills discounting. Accordingly, the outstanding bills discounting balance as at 31 December 2020 was Rs.10,296,098. Out of which Rs.9,631,752 or 93 per cent had remained unrecovered for more than one year from a contractor even up to the date of this report. Further, no legal action against this</p>	<p>The balance remain unrecovered is due to the delay in complete in the projects and expect to settle during 2022. Legal action cannot be taken as the projects are not complete.</p>	<p>Appropriate action to be taken to recover the outstanding amounts from the contractor.</p>

contractor and responsible parties had not been taken to recover the loss incurred to the Fund while the steps to blacklist this contractor by informing relevant authorities had not been performed by the Fund.

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| (c) The Demand Debtors as at 01 January 2020 was aggregating Rs.87,851,355 while a sum of Rs.6,039,704 had been added to this amount during the year 2020. Out of that only Rs.4,880,424 relating to the period of 2011 to 2020 had been recovered during the year under review. Accordingly, the long outstanding amount of Rs.89,010,635 had failed to recover by the Fund even as at 31 December 2020. | Recovery of demand debtors may take time than expected. The recovery tool is through arbitration where parties in-between can go after commercial high court against arbitration. Therefore, cannot read time line. | Fruitful actions to be taken to recover the long outstanding Demand Debtors without further delay. |
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### 1.6.2 Payables

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
The payable balance of cash in transit (NON RRP) as at 31 December 2020 was Rs.79,045,322. According to the age analysis presented for audit the balances of Rs.2,608,501 and Rs.2,127,393 had remained unsettled for more than 02 years and 03 years respectively due to the delays in completing the construction works within the specified contract periods.	These moneys consist a mix of employer payment on account of contractor and the security deposits. As both Employer and Contractor have not released the liability of Fund therefore retain such money until parties relived Fund from the liabilities of those Bonds & Guarantee issued.	Action to be taken to settle the payable balance of cash in transit on time.

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

----- Reference to Laws, Rules Regulations etc. -----	----- Non-compliance -----	----- Management Comment -----	----- Recommendation -----
(a) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka. (i) Financial Regulation 135	Although, the delegation of authority should be	The Fund has a clear administration structure	Delegation of authority should

	updated and approved by the Fund at the beginning of the each year, it had not been done so by the Fund.	and separately defined their responsibilities. In respect of the accounts, Accountant and other subordinate have duties, authority and delegated terms in the Accounts through the terms in the employers.	be updated and approved by the Fund at the beginning of the each year.
ii. Financial Regulation 395(b)	Responsible officer had not approved the monthly Bank Reconciliation after reviewing them even though the Bank Reconciliation Statements should be certified by the Paying Officer concerned and made available to Audit for inspection. Further, the date of preparation and initial of an officer who prepared, checked and authorized the Bank Reconciliations were not placed on those Bank Reconciliation Statements.	Usually once the Bank Reconciliation being done, the Accountant discusses and inform to the management immediately. But signature not placed. Hence we note the shortcoming and will adopt from now onwards.	A responsible officer should approved the monthly Bank Reconciliation after reviewing them.
(b) Paragraph 15.1 of the Public Finance Circular No. 1/2020 I dated 28 August 2020.	The performance report for the year 2020 had not been prepared and submitted as per the Format prescribed in the Circular.	Copy of Performance Report previously usually forwarded to the Board of Trustees in the month of January and immediately copy to the set law. If any request made by auditor the Fund will forward without any hesitation.	The performance report should be prepared in the prescribed format.
(c) Section 7(b) of Deed of Trust of the Fund dated 05 August 1999.	The Fund did not have approved schemes of recruitment and promotion for each post by prescribing very clearly and distinctly, the	The complete administration structure with SOR and approved salary scales have been adopted with the first five years corporate	There Should have to have an approved scheme of recruitment and promotion for

minimum educational plan commence in the each post of the and other qualifications year 2012. Even in Fund. required for a particular 2021 being use the post and salaries and same structure and allowances for each post depend on the volume and the activities absorb even though it was additional staff elapses more than 20 according to the carder. years since inception of the Fund.

**1.8 Investment Management**  
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<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
The Fund had earned a net interest income of Rs.143,422,139 on short-term and long term investment of Rs.2,088,707,421 invested in Repo and fixed deposits etc. as at the end of the year under review and this net interest income is represent 39 per cent of the surplus of the year under review.	We thank you for highlighting the interest income is only 39 per cent of the total surplus which clearly state 61 per cent has earn by adopting complex and tedious exercise to minimize the RISK and liability of the facilities provided. Also we noted it's a part of financial transparency, discipline and dedicate of the management.	The attention of the management should be paid to increase the operating income rather than increasing the financing income.

**2. Financial Review**  
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**2.1 Financial Result**  
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The operating result of the year under review amounted to a surplus of Rs.366,657,320 and the corresponding surplus in the preceding year amounted to Rs.122,612,562. Therefore, an improvement amounting to Rs.244,044,758 of the financial result was observed. The reasons for the improvement are increase of income from bonds or guarantees and interest on treasury bills by Rs.234,525,766 and Rs.8,446,300 respectively.

**3. Operational Review**  
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**3.1 Management Inefficiencies**  
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The following observations are made.

<b>Audit Issue</b> -----	<b>Management Comment</b> -----	<b>Recommendation</b> -----
(a) The Fund had entered into an agreement with the Sri Lanka Telecom during the year	MOU with SLT continues until 2021. However, as	Effective actions should be taken to



2015 for the Development of Management Information System (MIS) to the value of Rs. 2,984,000. Out of that first and second instalment of Rs. 2,088,800 or 70 per cent of the contract value had been paid to the Sri Lanka Telecom in the year 2015 and 2016. However, this MIS had not been completed and operated even up to 30 November 2021.

the asses the outcome is in slow progress the Fund terminated and though SLT has done part of the package to the satisfaction without in full.

complete and operate the MIS without any further delay.

(b) For the implementation of 100,000 km Alternative Roads Project of the Government, the Fund has provided necessary Bonds and Guarantees worth Rs. 12,900 million to 256 selected contractors up to 31 December 2020 and the number of road works to be completed by those contractors were 614 and value of those works were Rs. 48,900 million. However, out of those road works, only 25 road construction had been completed by 31 December 2020 and the physical progress of the other contract works was only 39 per cent as at that date. It was further observed that out of the above 614 contracts, the works completion period of remaining 296 contracts have been already elapsed.

The Employer ability and attitude and the contractor too always depend on timely completion and as the Guarantor are helpless of not completing works as plan.

The Fund should take necessary actions to ensure the completion of construction works within the specified time period in order to mitigate the risk of increasing the demand debtors.

#### 4. Accountability and Good Governance

##### 4.1 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>Activities performed by the Fund had not been subjected to the internal audit in terms of Section 40 (1) of the National Audit Act No.19 of 2018 and Financial Regulation 133(b) of the Government of the Democratic Socialist Republic of Sri Lanka.</p>	<p>As the organization is small and the accounts department also with selected staff, rather than creating audit reports immediately brought to the notice of draw backs and human errors to rectify. Unlike in a large organization maintain in records will not arise and immediately rectification of any being done.</p>	<p>Activities performed by the Fund should be subjected to the internal audit.</p>

## 4.2 Budgetary Control

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### Audit Issue

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Significant variances ranging from 61 per cent to 2590 per cent were observed between the budgeted and actual income and expenditure of the Fund for the year under review, thus indicating that the budget had not made use of as an effective instrument of management control.

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### Management Comment

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Some of the budgetary items could not achieve due to unhealthy situation and due to save the management took extra precaution and adopt cost cutting method to minimize expenditure due to the global environmental issues.

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### Recommendation

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The management should use the budget as an effective instrument of management control.