

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chamber of Construction Industry of Sri Lanka (“the Chamber”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of financial performance, statement of changes in equity 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 section 10(3) of the Chamber of Construction Industry of Sri Lanka (Incorporation) Act, No.23 of 2019. 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 Chamber as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs).

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 Accounting Standards for Small and Medium - Sized Entities (SLFRS for SMEs), 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 Chamber 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 Chamber or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Chamber 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 Chamber.

1.4 Audit Scope

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 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 Chamber'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 Chamber 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 Chamber, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Chamber has complied with applicable written law, or other general or special directions issued by the governing body of the Chamber;
- Whether the Chamber has performed according to its powers, functions and duties; and
- Whether the resources of the Chamber 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 Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)

Audit Issue	Management Comment	Recommendation
<p>(a) In accordance with the provisions in Sections 10.15 to 10.18 of the SLFRS for SMEs, fully depreciated assets that are currently in use need to reassess useful economic life and correct the estimation error or disposal of assets. However, the Chamber has erroneously removed Rs. 4.71 million cost of fully depreciated assets from the detailed schedule of the financial statements and the fixed assets register through a journal entry in the year under review.</p> <p>The Chamber had also failed to code fixed assets and conduct annual Board of surveys in 3 years. It was also observed that a projector and a refrigerator belonging to the Chamber had not been included in the financial statements and fixed assets register as identified during the sample audit. Due to these facts, it was observed that the security and management of the assets had not been done adequately.</p>	<p>Fully depreciated asset items appearing in accounting records contained items that were physically available as on 31 December 2022 and items not physically available. All these were taken out by creating a journal entry to show as a disposal.</p> <p>However, the internal board of survey appointed by the Chamber did a physical verification and based on the same, asset items though fully depreciated but being currently used will be revalued considering the future useful economic life and brought back into the accounting records as envisaged under 10.15 & 10.18 of SLFRS for SMEs. This exercise will be completed during the year 2023.</p>	<p>Arrangements should be made to reassess the useful economic life of assets that were fully depreciated but still in use, and carry out board of surveys and keep the fixed asset register up-to-date.</p>

<p>(b) The Chamber had acquired land through an agreement with the Urban Development Authority that was signed on 29 December 2021. The Land is with 30 perches for a period of 30 years at a rent of Rs.1.68 million per year.</p> <p>Although, the rent is being paid for this land under Operating Lease for the year 2022, no disclosures have been made according to paragraph 20.16 of the SLFRS for SMEs such as rent payable in one to five years and more than 5 years, rent paid during the year and limitation under the Lease agreement.</p> <p>Furthermore, as stated in Section 1.9 of the lease agreement with the Urban Development Authority, the new secretariat building was to be constructed within two years, but the construction of the building did not begin until 31 May 2023.</p>	<p>Undertakes to make required disclosures as per paragraph 20.16 (C) of SLFRS for SME standards from next year.</p>	<p>Relevant disclosures should be made in the financial statements as per the accounting standards.</p>
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1.5.2 Accounting Policies

Audit Issue	Management Comment	Recommendation
<p>The debtors amounting to Rs.1.89 million, which had been overdue for more than 03 months but had not been collected, were provisioned as bad and doubtful debts with the approval of the board of directors in the year under review. The board paper stated that it was the provision of bad debts as per the policy of the Chamber. However, according to the notes of the financial statements of the year under review, a policy for provision for bad and doubtful debt was not identified and disclosed.</p>	<p>The policy adopted by the Chamber with regard to writing off uncollectible debts are specifics. As almost all our debts are collectable even though some may take a long time span to collect and as a practice we have not been providing general provision for doubtful debts.</p> <p>In the specific instance referred to in your report the total amount due was Rs. 2,195,000 out of this Rs. 300,000 have been collected and the balance was</p>	<p>A correct accounting policy for provisions of bad and doubtful debt should be identified and disclosed in the financial statements.</p>

written off with the approval of the Management Committee of the Chamber. We will disclose the above policy in the Financial Statements from the next year.

1.5.3 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
The value of Rs. 1.69 million fully depreciated Property Plant and Equipment as of 31 December 2021 which was capitalized for office refurbishment of the prior office building, was eliminated from opening balances on 01 January 2022 rather than being formally eliminated from the accounts.	The amount of Rs.1, 691,092 as Office Refurbishment appearing under Fixed Asset Property, Plant & Equipment relates to expenses incurred prior to 2013 in partition of rented office building by the Chamber. Carrying this amount in the present Balance Sheet together with the corresponding fully depreciated amount does not have any meaning and therefore it was eliminated	The closing balances of the previous year should be compared with the opening balances of the year under review and the disposal should be properly recorded in the accounts.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Companies Act, No.07 of 2007 Paragraph 319	Before incorporation, the Chamber was operating as a company limited by guarantee under the Companies Act No. 07 of 2007. Nevertheless, the Chamber had failed to complete the liquidation process of the company by 30 April 2023 due to delay in obtaining the tax	The management has written several letters to the Inland Revenue Department regarding this and there has been no response from them and the delay is beyond our control.	The Chamber should directly connect and process the tax refunds and obtain the clearance certificate.

clearance certificate from the Inland Revenue Department.

- (b) Public Enterprises Circular No. 01/2021 dated 16 November 2021 Operational Manual on Corporate Governance of Public Institutions Paragraph 4.2
- The Audit and Management Committee shall meet at least once every three months and report its recommendations to the Board of Directors at the earliest along with the minutes of the meeting to facilitate corrective action. However, the Chamber had never held Audit and Management Committee meetings.
- Important management and financial decisions are taken by the Management Committee and the Board of Management which meet monthly.
- Arrangements should be made to establish the Audit and Management Committee as per the Guidelines on Corporate Governance.
- (c) Public Enterprises Circular No.01/2021 dated 16 November 2021 Operational Manual on Corporate Governance of Public Institutions Paragraph 2.3
- The Chamber had not prepared a procedural manual and a financial manual providing rules on all matters related to the management of human resources and financial resources for effective administration.
- A manual on administrative and financial procedures will be prepared in due course as the activities of the Chamber expand.
- The provisions of the Operational Manual on Corporate Governance of Public Enterprises shall be followed.

1.7 Cash Management

Audit Issue	Management Comment	Recommendation
The current account held by the Chamber at Sampath Bank has been inactive and idle for a period of two years and the balance was Rs.0.12 million.	The account has been reactivated.	Bank current accounts owned by the Chamber should be closed if not used for transactions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 20,935,761 and the corresponding surplus in the preceding year amounted to Rs 4,615,588. Therefore, an improvement amounting to Rs. 16,320,173 in the financial result was observed. The main reason for the improvement was income of Rs.35,597,825 from the Build Sri Lanka exhibition as compared to the previous accounting period.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The Chamber had entered into an agreement with Sampath Bank on 30 August 2017 to provide Sampath affinity card facilities for the members of the Chamber and this agreement had expired on 01 October 2021. However, it was also observed that additional income that could have been received could be lost as the Chamber had not taken steps to extend the agreement or enter into a new agreement.	Renewal of Sampath Affinity Card Agreement has been announced.	Arrangements should be made to extend the agreement or enter into a new agreement.
(b)	The Chamber had entered into a Memorandum of Understanding (MOU) with the Associated News Papers of Ceylon Limited (ANCL) on 06 March 2015 for a period of five years to obtain the service of printing and publishing the Chamber's monthly construction news bulletin and this agreement has expired on 06 March 2020. Nevertheless, it was observed that after the expiration of the MOU, printing and publishing activities were being carried out under the new rates imposed by the ANCL. However, open tender procedures were not followed to select a widely spread publisher with the lowest cost charges and receive maximum benefits to contributors.	It has been proposed to sign a new MOU with ANCL regarding the printing of monthly publications of the Chamber.	The procurement process should aim to select a publisher with the lowest cost and highest return for printing and distribution of the construction news bulletin.

3.2 Human Resources Management

Audit Issue	Management Comment	Recommendation
To recruit qualified and permanent employees for the Chamber's smooth function, there was no approved carder or scheme of recruitment and promotion. As a result, all the officers and employees were recruited on contract basis and out of 16 officers were employed on contract basis for a period of 01 to 17 years as on 31 December 2022.	In the beginning, the Council and the Board of Management had taken a policy decision that all appointments would be made on contract basis. All contracts of current employees have been extended till 31 December 2024 and EPF and ETF payments were updated.	Recruiting qualified and experienced staff on a permanent basis can ensure the smooth functioning of the organization.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comment	Recommendation
In terms of Section 11(1) of the Chamber of Construction Industry Incorporation Act No. 23 of 2019, the Board of Management shall prepare a report on the affairs of the Chamber for each financial year, and should submit a report together with audited Financial Statements to the Secretary of the Ministry of the Minister to whom the subject of construction has been assigned and to the Registrar of Voluntary Social Service Organizations appointed under the Voluntary Social Service Organizations (Registration and Supervision) Act No. 31 of 1980 before the expiry of six months of the year to which the report relates. Although the Chamber had not submitted as required.	When we asked the Ministry some time ago about sending the audited accounts and the annual report to the Ministry, they felt that it was unnecessary. However, we will send the relevant reports after this audit.	In accordance with the Chamber of Construction Industry Incorporation Act, a report on the Chamber's activities shall be prepared.

4.2 Corporate Plan

Audit Issue	Management Comment	Recommendation
According to paragraph 2.3 of the Public Enterprises Circular No. 01/2021 dated 16 November 2021 of the Guidelines on Corporate Governance of Public Institutions, the Board of Directors shall prepare its strategic plan to achieve the objectives set by the Board and	As the Chamber has not received any funds from the government or any state organization from its inception in 2001, it cannot be considered a State-Owned	A strategic plan and an annual action plan should be prepared for the smooth functioning of the Chamber.

submit the finalized strategic plan and annual budget together with the action plan. Although the Chamber had not prepared a strategic plan and an annual action plan showing how to fulfill the roles mentioned in the Act.

Enterprise. As such the said Public Enterprises Circular is not applicable. Important management and financial decisions are taken by the Management Committee and the Board of Management which meet monthly.

4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
<p>According to Section 40 (1) of the National Audit Act No. 19 of 2018, all activities carried out by the Chamber must be subject to internal audit, but the Chamber had not appointed a qualified auditor to carry out internal audit in the organization.</p>	<p>The management is of the opinion that considering the nature and size of its commercial activities and in particular as the Chamber has never received any funds from the government, engaging a separate internal auditor is not warranted or cost effective.</p>	<p>Internal audit should be done for smooth functioning of the Chamber.</p>