

1.1 Qualified Opinion

The audit of the financial statements of the Chamber of Construction Industry of Sri Lanka (“The Chamber”) for the nine month period ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the period 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 reported to Parliament appear in this report. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

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 2019, and of its financial performance and its cash flows for the nine month period then ended in accordance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (LKAS 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, 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 Company’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 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 Company 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 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 Chamber'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 Company, 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 Financial Statements

1.5.1 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The Build Sri Lanka Exhibition income of Rs.8,310,195 received during the period under review consisted of Rs.6,420,195 and Rs.1,890,000 related to previous year and forthcoming year respectively. However, the Chamber had treated these amounts as income for the period instead of being accounted in respective accounts. As a result the deficit of the period had been understated by Rs. 8,310,195.</p>	<p>Before incorporation by Statute the practice had been account Build SL Exhibition income on actual full payment basis due to the uncertainty on the partition of many of the customers until they make the full payment. However, we will correct this and follow provisions of LKAS 1 herein after.</p>	<p>Accrual basis of accounting should be used when preparing the financial statements.</p>
<p>(b) The processing fee of Rs. 500,000 paid to the Urban Development Authority for allocation of a land to establish a professional centre had been accounted under Property Plant and Equipment as refundable deposit. However, there is no evidence made available to consider this as a refundable deposit. Hence, the deficit for the period under review and Property Plant and Equipment as at 31 December 2019 had been understated and overstated respectively by similar amount.</p>	<p>The payment of Rs.500,000 to UDA was the deposit we were asked to pay as processing fee to obtain a land on a 30 year lease to the Chamber to construct its own office building and hence it has been shown under Property, Plant & Equipment. In the subsequent period we will charge it as an expense.</p>	<p>Measures to be taken to identify the assets and expenditure item separately.</p>

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| (c) Subscription amounting to Rs. 74,409 received excessively and income from Build Sri Lanka Exhibition of Rs. 24,227,663 received in advance was accounted as trade debtors instead of being shown in separate accounts. Hence, the trade and other receivables shown in the statement of financial position as at 31 December 2019 has become the negative balance of Rs. 7,114,258. | Hereafter such payments will be accounted under correctly designed accounts. | Measures to be taken to mitigate these types of fundamental accounting errors. |
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1.6 Related Parties and Related Party Transactions not disclosed

Audit Issue	Management Comment	Recommendation
A lease agreement was entered into between the Chamber and a Private Limited Company on 02 August 2019 to obtain an office premises for the period of 09 years commencing from 15 November 2018 to 31 December 2027 by paying a sum of Rs.15,000,000 as total lease rental for whole period in advance. However, it was observed that the Director of the above Private Limited Company is also being the President of the Chamber.	No comment.	Action to be taken to properly disclose all Related Parties and Related Party Transactions.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Inland Revenue Act, No. 24 of 2017 and Department of Inland Revenue Circular No. SEC/2018/06 dated 18 April 2018	Withholding Tax (WHT) of Rs. 1,500,000 had not been deducted and remitted to the Department of Inland Revenue from the building rent payment of Rs. 15,000,000 made to the Sanken Construction (Private) Limited.	This is an omission and falls in to tax year 2018/2019 as the payment of the done in November 2018.Sanken Construction (Pvt) Ltd. would have finalized and paid their taxes without claiming any WHT credit as we have not deducted the same nor issued a WHT certificate.	The Chamber should take actions to comply with the provisions in the Inland Revenue Act.

(b)	Section 12 of the Chamber of Construction Industry of Sri Lanka (Incorporation) Act, No.23 of 2019 .	All debts and liabilities of the Chamber existing on the day immediately preceding the date of commencement of this Act, shall be paid by the body corporate and all debts due to and subscription and contribution payable to the Chamber on that day shall be paid to the body corporate. However, the Chamber had not complied with these requirements even though there were trade & other receivables of Rs.2,641,767 and current & non-current liabilities of Rs.6,304,866 as at the beginning of the accounting period.	We have not acted as observed in the report as it an uninterrupted continuation of the financial business activities with only a status change absorbing all Assets and Liabilities to the new entity and with no change to the Board Management.	The Chamber should comply with the provisions in the Act.
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2. Accountability and Good Governance

2.1 Corporate Plan

Audit Issue	Management Comment	Recommendation
No Corporate Plan was prepared by the management by identifying the strategies to achieve the organization goals and objectives.	No comments	A Corporate Plan should be prepared for a period of not less than three years by including strategies for the future direction of the enterprise.

2.2 Annual Action Plan

Audit Issue	Management Comment	Recommendation
No Annual Action Plan had been prepared by the Chamber by setout the targets and assigning responsibilities to the officers in order to achieve those targets within the specific time period.	No comments	An annual Action Plan should be prepared in line with Corporate Plan by setout the targets and assign the responsibilities and given timeline to respective officers.

3. Budgetary Control

Audit Issue	Management Comment	Recommendation
Significant variances ranging from 46 per cent to 518 per cent were observed between the budgeted and actual figures of four items of income and expenditure, thus indicating that the budget had not been made use of as an effective instrument in management control. Details are as follow.	No comment	Management should take proper actions to use the budget as an effective instrument in management control.

	2019 Actual	2019 Budget	Difference	
	Rs.	Rs.	Rs.	(%)
Revenue	28,911,694	19,677,872	9,233,822	46
Direct Costs	18,250,424	6,779,996	11,470,428	169
Other Income	3,633,803	-	3,633,803	363
Finance Cost	27,824	4,500	23,324	518