

## **Chamber of Construction Industry of Sri Lanka - 2023**

---

### **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 2023 comprising the statement of financial position as at 31 December 2023 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 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 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 2023, 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 Internal Control over the preparation of financial statements.**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Since the Chamber had failed to conduct annual Board of Surveys in the last 4 years, it was unable to confirm the accuracy of the fixed assets valued at Rs. 1.69 million included in the financial statements. Moreover, during a sample test it was observed that a projector, two printers, six steel cupboards, a sofa, and a refrigerator belonging to the Chamber had not been included in the financial statements or the fixed asset register</p>	<p>A proper annual Board of Survey will be conducted next year, and the fixed asset register will be updated and maintained accordingly.</p>	<p>Board of Survey should be conducted annually.</p>

### **1.5.2 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs)**

<b>Non Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) 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. Although, the rent is being paid for this land under Operating</p>	<p>The disclosures required under paragraph 20.16 of the SLFRS for SMEs will be made from next year.</p>	<p>Relevant disclosures should be made in the financial statements as per the accounting standards.</p>

Lease for the year 2023, no disclosures had 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 or rent paid during the year and limitation under the Lease agreement.

- (b) In accordance with the provisions in Sections 10.15 to 10.18 of the SLFRS for SMEs, assets with a written-down value of Rs. 0.27 million that are currently depreciating require to reassessment of the useful economic life of those assets. Nevertheless, the Chamber had erroneously removed the cost of Rs. 4.71 million of fully depreciated assets as at 31 December 2022, which are currently in use from the financial statements and the fixed assets register in the previous year. Furthermore, these assets were not accounted or disclosed in the current year financial statements. In addition, during the year under review, fully depreciated assets valued at Rs. 0.29 million had been presented in the financial statements; however, no steps had been taken to disclose them.
- Physical verification will be conducted, and the existing and in-use assets will be assessed and included in the accounting records from next year.
- Accounting standards should be followed.

### 1.5.3 Accounting Deficiencies

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	According to the Chamber's revenue recognition policy, revenue should be recognized on accrual basis. However, the membership fee of Rs. 4.97 million had been recognized on cash basis. Consequently, in the year 2023, a deficit of Rs. 0.68 million in membership fees had not been recorded. Therefore the revenue had been understated by that amount.	As a policy, revenue is recognized only when members are invoiced and make cash payments.	All revenue related to the year should be recognized on accrual basis in the financial statements.
(b)	The value of direct deposits made by debtors to the Chamber's bank accounts, totaling Rs. 0.15 million, had been classified as unrecognized receivables under	Since these balances could not be identified at the time of preparing the accounts and could be overstated if presented under	Debtor receipts must be identified accurately and accounted for.

other liabilities in the financial statements due to failure to recognize. Consequently, as of 31 December 2023, due to non-recognized unrecognised receivables, trade debtors and unrecognised liabilities had been overstated.

debtors, they were classified under trade creditors.

- |     |  |   |  |
|-----|--|---|--|
| (c) | Even though the Chamber paid an income tax of Rs. 5.59 million for the financial year 2023, only Rs. 1.93 million has been shown as income tax paid under cash flows generated from operating activities. Consequently, the cash outflows had been understated by Rs. 3.66 million.  | For the 2023/2024 tax year, only Rs. 1.93 million is applicable to the first and second installments of the income tax payment. For the previous year 2022/2023, the income tax provision was Rs. 5.12 million and the income tax payment of Rs. 3.63 million is relevant to that reporting period. | All income tax payments made during the year should be shown as income tax paid under cash flows generated from operating activities in the cash flow statement. |
| (d) | According to the Chamber's gratuity provision calculation schedule as of 31 December, the gratuity provision was Rs. 3.63 million, whereas the statement of financial position had been shown as Rs. 3.01 million under non-current liabilities. Consequently, there was a deficit of Rs. 0.61 million in the gratuity provision.              | Since the gratuity payment of Rs. 0.75 million was added to the opening balance, their calculation is incorrect it should be deducted.  | The financial statements should be prepared accurately.  |
| (e) | Gratuity expense reported by the Chamber For the year 2023 was Rs. 0.44 million in both the statement of comprehensive income and the cash flow statement. However, the calculation schedule had been shown it as Rs. 1.06 million. Therefore, a difference of Rs. 0.62 million had been observed.   | The accounts will be corrected in the following year.   | The financial statements should be prepared accurately.  |
| (f) | The donations received from Tahara Foundation in 2022 for the construction of the office building, which were previously recorded under other payables, had been included as other income in the statement of comprehensive income during the year under review. As a result, the surplus for the year had been overstated by Rs. 5.00 million | Donations are treated as income by the Inland Revenue Department; therefore, after receiving confirmations, the amount was recognized as income.  | Transactions should be classified accurately and recorded in the accounts.   |
| (g) | Even though it should have been adjusted to the accumulated profit in the statement of   | Prior year adjustment will be accounted accordingly from next year onwards.   | The impact of prior year adjustments on the accounts must be   |

changes in equity, the prior year adjustment of Rs. 0.81 million had been incorrectly included in the statement of comprehensive income for the year under review. Therefore, the surplus for the year under review had been understated by that amount.

accurately reflected in the financial statements.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
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 20 May 2024 due to delay in obtaining the tax clearance certificate from the Inland Revenue Department.	The liquidation process of the company is beyond our control and is now entirely entrusted to the Inland Revenue Department and the Companies Registration Department. We have made every effort to cancel this registration.	The Companies Act should be followed.

**2. Financial Review**

**2.1 Financial Result**

The operating result of the year under review amounted to a surplus of Rs. 11.67million and the corresponding surplus in the preceding year amounted to Rs 20.94 million. Therefore, a deterioration amounting to Rs. 9.27 million in the financial result was observed. The main reason for the deterioration was decline in income from the Build Sri Lanka exhibition and foreign labour visa fee.

## 2.2 Trend Analysis of Major Income and Expenditure items

Description	For the year ended 31 December 2023	For the year ended 31 December 2022	Variance {Favorable/ (Adverse)}	Percentage
	(Rs.Mn)	(Rs. Mn)	(Rs. Mn)	(%)
<b><u>Income</u></b>				
Build Sri Lanka exhibition	27.88	35.60	(7.72)	(21.68)
Trade Directory	-	5.39	(5.39)	(100)
Foreign Labour	4.59	9.52	(4.93)	(51.78)
Other Income	20.13	8.83	11.30	127.97
Sundry Income	3.21	-	3.21	100
<b><u>Expenditure</u></b>				
Direct Expenses	30.48	29.74	(0.74)	(2.48)
Administrative Expenses	29.39	28.27	(1.12)	(3.96)
Finance Cost	0.062	0.015	(0.047)	(313.33)

Compared to the previous year, exhibition income and foreign labor income decreased by 21 percent and 51 percent, respectively. It was also noted that other income increased by 127 percent due to the performance of the German project.

## 2.3 Ratio Analysis

Some important accounting ratios of the company for the year under review and the preceding years are given below.

Ratios	2023	2022
<b>Profitability Ratios</b>	<b>Percentage</b>	<b>Percentage</b>
Return on Asset	12.73	26.80
Net Profit Ratio	20.57	28.49
Return on Equity	15.99	34.16
<b>Leverage Ratios</b>	<b>Percentage</b>	<b>Percentage</b>
Debt to Equity Ratio	15.99	34.16
<b>Liquidity Ratios</b>	<b>Number of Times</b>	<b>Number of Times</b>
Current Ratio	1.38:1	1.21:1

Even though the Chamber's current ratio had increased, all the other ratios had decreased during the year under review. The main reason behind this was the decrease in the Chamber's net profit.

### 3. Operational Review

#### 3.1 Management Inefficiencies

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	During the financial year, the Chamber had paid an amount of Rs. 0.12 million as a VAT surcharge for the tax period from 01 June 2017 to 30 September 2017.	Management has not made any comments.	Taxes should be paid on time.
(b)	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.	Management has not made any comments.	Manual on Corporate Governance should be followed.

#### 3.2 Human Resources Management

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
	Although determining the number of employees to be engaged, appointing employees, handling promotions, dismissals, and disciplinary actions, as well as providing salaries, allowances, and gratuities are the responsibilities of the Chamber, there was no approved cadre or recruitment and promotion scheme in place to hire qualified, permanent employees for its smooth functioning. As a result, all officers and employees had been recruited on a contract basis, further, 16 officers employed on contracts ranging from 1 to 18 years, as of 31 December 2023. Furthermore, an inspection of personnel files revealed that the contract periods of two currently employed individuals had not been extended.	Management has not made any comments.	Responsible, qualified, and experienced staff should be approved, and recruitment should be done accordingly.

### 4. Accountability and Good Governance

#### 4.1 Annual Report

	<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
	According to paragraph 6.6 of the Public Enterprises Circular No. 01/2021 dated 16	Government circulars are not applicable to us, as we have	Guidelines on Corporate Governance of Public



November 2021 of the Guidelines on Corporate Governance of Public Institutions, the Chamber's draft annual report for the year under review had not been submitted to the audit along with the financial statements, while last year's annual report had not been tabled in Parliament until 20 May 2024.

not received any funds from the government since the incorporation of the institution. Additionally, we would like to note that the Chamber of Commerce does not fall under any category of 'audit firm' as defined in Section 55 of the National Audit Act No. 19 of 2018.

Institutions should be followed.

## 4.2 Corporate plan

Audit Issue	Management Comment	Recommendation
<p>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 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. Consequently, it was unable to assess the progress of the Chamber's operations during the year under review.</p>	<p>An organizational plan will be prepared in the future.</p>	<p>Manual on Corporate Governance should be followed.</p>

## 4.3 Internal Audit

Audit Issue	Management Comment	Recommendation
	<p>Considering the nature of financial transactions and the level of annual turnover, it is uneconomical to carry out an internal audit with a qualified officer.</p>	<p>Internal auditor should be appointed.</p>

#### 4.4 Audit Committee

Audit Issue	Management Comment	Recommendation
According to Section 41(1) of the National Audit Act No. 19 of 2018, the Governing Body should appoint an Audit and Management Committee to assist it, and the Committee shall continuously review the performance of each entity and report to the Governing Body. However, the Chamber had never held Audit and Management Committee meetings.	The Chamber has a Management Committee that meets monthly to review activities, including finances.	Audit and Management Committee meetings should be held.