

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Chamber of Construction Industry of Sri Lanka (“Chamber”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, 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(1) 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 Finance Act, No. 38 of 1971 and section 10(3) of Chamber of Construction Industry of Sri Lanka (in Corporation) Act No.23 of 2019. My comments and observations which I consider should be reported 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 2024 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Standards for Financial Reporting for Small and Medium Scale 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 Standards for Financial Reporting for Small and Medium Scale 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’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 Sub 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 Scope of Audit (Auditor's responsibility on Audit of 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 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 Preparation of the Financial Statements

1.5.1 Internal Control on preparation of the financial statements

Audit Observation	Comments of the Management	Recommendation
(a) Since a board of survey had not been carried out within preceding four years by Chamber, it couldn't be verified on the accuracy of the fixed assets with a value of Rs.1.78 million including in the financial statements. Furthermore, it was observed that the projector, 02 printers, 06 steel cupboards, sofa and refrigerator belonging to Chamber had not been included into the financial statements and the fixed asset register as per the sample audit checks.	This will be rectified once the assignment provided is completed for finishing the field activities of broad fixed assets verification by compiling a suitable fixed asset register.	After conducting annual board of survey, the fixed asset register should be maintained completely and accurately and the relevant rectifications should be made in the future financial statements.

1.5.2 Non-compliance with Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities (SLFRS for SMEs)

Non-compliance with reference to relevant standard	Comments of the Management	Recommendation
(a) Even though the useful life of the assets should be periodically reviewed and accounted in accordance with the provisions 10.15 to 10.18 of Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities (SLFRS for SMEs), no action had been taken to review the useful life of the assets with a cost of Rs.4.71 million as at 31 December 2022 which are currently used and fully depreciated. Said assets had been removed from the financial statements and the fixed assets register since 2022. In addition, though the assets with a cost of Rs.0.83 million and fully depreciated had existed in the fixed asset register in the year under review, no action had been taken to disclose on that matter.	We have completed the field activities of broad fixed asset verification by compiling a fixed asset register. We have entrusted this assignment to an independent company as Messrs MNGP Associates, Chartered Accountants and the fully depreciated assets which are currently utilized should be properly valued after completion of their final report and carried to our QB accounting system under fixed assets.	In compliance with Sri Lanka Financial Reporting Standards for Small and Medium Scale Entities the useful life of the assets should be reviewed.
(b) A land in extent of 30 perches had been obtained from Urban Development Authority under a lease agreement on 29 December 2021 for a period of 30 years for an annual lease of Rs.1.68 million for the construction of an office building for Chamber. Even though the lease rental is being paid for this land, it had not been accounted under property, plant and equipment or separately in the year under review as an right of use asset and a lease liability and the necessary disclosures had not been made as per paragraph 20.16 of Financial Reporting Standard for Small and Medium Scale Entities.	It is necessary to identify the ownership and the responsibility of usage of assets in the balance sheet only a financial lease. Under Sri Lanka Accounting Standards (LKAS 17), the provisions are available that lease out of lands of Urban Development Authority can be considered as a long-term asset under the fixed assets. As per the lease agreement No.367 signed between Urban Development Authority and Chamber of Construction Industry of Sri Lanka on 29 December 2021, there are certain rights and specially the lessor	An asset with ownership for usage should be accounted as an operating lease liability under property, plant and equipment or separately and the necessary disclosures should also be made as per paragraph 20.16 of the standard.

otherwise CCISL has the right to enjoy by using the land leased with the construction of higher office development project which can generate future income within the 30 years period of lease and have the right to renew with the terms and conditions agreed mutually after completion the lease with the end of the period.

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| <p>(c) Though the Income Tax paid in cash was Rs.4.12 million as per ledger in the year under review, a sum of Rs.4.37 million had been mentioned as Income Tax value related to year under the cash generated from the operating activities in the cash flow statement not in compliance with the paragraph 7.4 (e) of Financial Reporting Standards for Small and Medium Scale Entities (SLFRS for SMEs). Therefore, the cash outflows of the cash flow statement had been overstated by Rs.0.25 million.</p> | <p>This had happened because WHT had been considered. The accounting notes passed by Chamber in relation to fixed deposit capital /interest/WHT are available in the finance department and QB accounting system.</p> | <p>The Income Tax paid in cash should be mentioned under the cash generated from the operating activities in the cash flow statement.</p> |
| <p>(d) Even though the member subscription income of Chamber should be accounted on accrual basis as per the paragraph 2.36 of Financial Reporting Standards for Small and Medium Scale Entities (SLFRS for SMEs), such income had been shown as Rs.6.38 million on cash basis in the financial statements. Accordingly, Rs.0.58 million related to the preceding year and Rs.0.39 million related to the year 2025 had been identified as the income in the year 2024. Furthermore, member subscription of Rs.0.99 million receivable from 2021 to 31 December 2024 had not been accounted.</p> | <p>The accounting of annual member subscriptions on actual receipt basis is the practice and it will be inserted in the accounting policies in the future also.</p> | <p>The all income related to the year should be identified in the financial statements on accrual basis and the necessary rectifications should be made in the financial statements in the next year.</p> |

1.5.3 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Since the direct deposits of Rs.0.11 million made to bank accounts of Chamber by debtors had been mentioned as “unidentified debtor receipt” under other liabilities in the statement financial position without identifying the relevant debtor, the trade debtors and liabilities had been overstated by same amounts as at 31 December 2024.	It will be possible to identify and account in the future years.	After accurately identifying the daily debtor receipts, a method should be introduced to account it and adjust in the financial statements.
(b)	The information related to the adjustments in the prior year of Rs.0.12 million which was the net difference of member subscription income and other expenses including electricity not accounted in the preceding year had not been disclosed in the accounts and it had been included in the statement of comprehensive income in the year under review instead of adjusting such value to the cumulative profit in the statement of changes in equity. As a result of that, the profit in the year 2024 had been overstated by same amount.	The system will be rectified from the next year.	The adjustments related to the prior years should be adjusted to the cumulative profit and the action should be taken to rectify the financial statements.
(c)	The computer hard disk items purchased at a cost of Rs.0.09 million in the year under review had been included in computer and printing machine maintenance expenses instead of accounting under the fixed assets and as a result of that, the fixed asset balance had been understated by same amount. Accordingly, the computer depreciation value in the year under review had been understated.	These are included in the assets after rectifying and the depreciation in the next year will be accurately made also.	The fixed assets purchased should be accurately identified and adjusted in the relevant fixed asset account and rectified in the financial statements in the next year.
(d)	An income of Rs.0.46 million received from rent of stalls for the exhibition to be held in 2025 had been included in the construction exhibition income in the year under review and consequently, the income of the year had been overstated by same amount.	This amount will be included into the income of 2025 through inclusion of prior year adjustments.	Since the income should be accounted on accrual basis, the necessary rectifications should be made in the financial statements in the next year.

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| (e) | Even though an income of Rs.0.97 million earned through the publication of the advertisements in the diaries in relation to 2025 in the year under review had been credited to the deferred income account, the printing expense and other relevant expense of such diaries of Rs.0.72 million had been accounted as the expense in the year under review. Therefore, the expense in the year under review had been overstated by same amount. | In the future, we will bring forward prepaid expenses and such relevant expenses will be adjusted in the year in which relevant income is accounted. | Since the income and expense related to that should be adjusted within the relevant period itself, the required rectifications should be made in the financial statements in the next year. |
| (f) | Even though Rs.2 million had been invested in the fixed deposits in the year under review, a sum of Rs.11.76 million had been mentioned as fixed deposit investment under investment activities of the cash flow statement. Similarly, though the fixed deposit investment interest of Rs.9.29 million relevant to the year had been reinvested, it had been mentioned as cash inflows under investment activities. | The management had not commented. | The investment value should be accurately shown in the cash flow statement. |

1.6 Non-compliance with laws, rules, regulations and management decisions

	Reference to laws, rules and regulations	Non-compliance	Comments of the Management	Recommendation
(a)	Section 319 of the Companies Act No.07 of 2007	The Chamber had acted as a company, limited by guarantee under the Companies Act No.07 of 2007 before incorporation. However, the Chamber had failed to complete the liquidation process of the company up to 10 August 2025 due to inability of obtaining the tax clearance certificate from Department of Inland Revenue.	The management had not commented.	The measures should be taken to immediately complete the liquidation process of the company after obtaining tax clearance certificate.
(b)	Public Enterprises Circular No. PED 01/2021(iii)	Even though every institute should prepare administrative and financial guidelines and manuals specific to that institute and obtain the approval of Department of Public	The management had not commented.	The action should be taken to prepare administrative and financial handbooks specific

dated 27 September 2023 Enterprises, Chamber had not prepared such manuals and get the approval.

to Chamber and get the approval as per the circular instructions.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.14.04 million and the corresponding profit in the preceding year amounted to Rs.16.11 million. Accordingly, a deterioration amounting to Rs.2.07 million of the financial result was observed. Increase of expenses related to Construction Exhibition of Sri Lanka by Rs.8.32 million in the year under review had mainly caused to this deterioration.

2.2 Trend Analysis of major Income and Expenditure items

Description	Value as at 31 December 2024 (Rs. Million)	Value as at 31 December 2023 (Rs. Million)	Difference {Increase / (Decrease)} (Rs. Million)	Percentage in difference (percent)
<u>Income</u>				
Sri Lanka Construction Exhibition	25.86	27.88	(2.02)	7
Member subscription	6.38	4.97	1.41	28
Foreign labour	7.84	4.59	3.25	71
Other Income	28.82	20.13	8.69	43
<u>Expenditure</u>				
Direct expenses	40.95	30.48	10.47	34
Administrative expenses	31.76	29.39	2.37	8
Financial cost	0.021	0.063	(0.042)	67

2.3 Ratio Analysis

- (a) The current ratio is 1 : 1 in the year under review and the preceding year of Chamber and it was observed a decrease in the return on assets ratio and the return on equity ratio in the year under review as compared with the preceding year. The reason for this decrease is decrease of net profit due to increase of total expenditure of Chamber by Rs.10.48 million.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A late fee of Rs.0.50 million or 30 percent had to be paid due to non-payment of annual lease rental in terms of the lease	The management had not commented.	The action should be taken to prevent the payment of late fee by paying the annual lease rental on due

agreement entered with Urban Development Authority on 29 December 2021.

date and the further action should be taken against the officers who should be held responsible for the delay after identifying them.

3.2 Human Resource Management

Audit Issue	Comments of the Management	Recommendation
(a) The Chamber had recruited its all staff on the contract basis and the total staff was 16 at the end of the year 2024. Though such officers had served from 01 to 18 years on contract basis, the action had not been taken by Chamber to approve the staff, prepare the scheme of recruitment and promotion and prepare the human resource plan in compliance with the Public Enterprises Circular No.01/2021 dated 16 November 2021.	The Management had not commented.	The action should be promptly taken to approve an experienced staff with qualifications and recruit in accordance with the Scheme of Recruitment.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation	Comments of the Management	Recommendation
(a) Though the draft Annual Report of Chamber for the year under review should be submitted within 60 days from the end of the accounting year with the financial statements as per the paragraph 6.6 of the Operational Manual introduced by Public Enterprises Circular No.01/2021 dated 16 November 2021, the draft Annual Report for the year 2024 had not been submitted to the Auditor General so far and the Annual Report for the year 2023 had not been tabled in the Parliament even up to 10 August 2025.	The management had not commented.	As per the Operational Manual on the Public Enterprises Circular, the draft Annual Report should be submitted to the Auditor General and the step should be immediately taken to table the annual Reports for 2023 and 2024 in the Parliament.

4.2 Corporate Plan

Audit Observation	Comments of the Management	Recommendation
(a) Even though the Strategic Plan for the achievement of the objectives of Chamber and in compliance with that, Action Plan and Annual Budget should be prepared and presented to the Treasury through the Secretary to the Ministry in accordance with the paragraph 2.3 of the Guidelines on Corporate Governance introduced by the Public Enterprises Circular No.01/2021 dated 16 November 2021, a Strategic Plan and an Action Plan which show how to perform the objectives and functions mentioned in the Act had not been prepared. Similarly, an Annual Budget had not been prepared for the year under review also.	The management had not commented.	As per the Guidelines on Corporate Governance, the action should be taken to prepare the Strategic Plan and Action Plan and get the approval for those.

4.3 Internal Audit

Audit Observation	Comments of the Management	Recommendation
(a) Even though an Internal Auditor should be appointed by the governing body of said entity for carrying out the internal audit of the entities, a qualified Internal Auditor had not been appointed by Chamber for that.	It had not been commented by the management.	After appointing an Internal Auditor for Chamber, audit activities should be implemented. Through that the action should be taken to strengthen its internal control.

4.4 Audit Committee

Audit Observation	Comments of the Management	Recommendation
(a) There shall be an audit and management committee in order to support the governing body and even though the functions of each entity should be reviewed on continuous basis and reported to the governing body by said committee, no audit and management committee had been appointed for this Chamber and such activities had not been carried out.	It had not been commented by the management.	The action should be taken to effectively perform the decisions of the governing body through the activities and recommendations of audit and management committee after appointment of those committees.