

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 2020 comprising the statement of financial position as at 31 December 2020 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 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.

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 2020, 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’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 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 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 the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. The following observation is observed in this regard

Audit Issue	Management Comment	Recommendation
The Chamber had not coded its fixed assets as enable to identify and carry out the annual asset verification. It was further observed that the Annual Boards of Survey too had not been carried out for the year 2020. Hence, the ownership and the physical existence of the fixed asset costing Rs.7,651,673 shown in the Financial Statements could not be relied upon in the audit.	A Board of Survey will be appointed and the recommendations implemented during the audit year 2021/2022.	A proper internal control mechanism should be introduced with regard to the maintenance of fixed assets.

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

Non-compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Fully depreciated assets such as Computer Items, Computer Software, Office Furniture and Office Equipment etc. approximately costing Rs. 3,965,061 are being still used by the Chamber without reassessing the useful economical lifetime of those assets and accounted them accordingly as per the provisions in Sections 10.15 to 10.18 of SLFRS for SMEs. Further, a proper revaluation policy was not established for this purpose. In the meantime, a projector and a refrigerator belong to the Chamber had not been valued and brought to the financial statements even up to the date of this report.	A Board of Survey will be appointed and the recommendations implemented during the audit year 2021/2022.	The Chamber should reassess the useful economic lifetime of fully depreciated assets as per the provisions in the Standard and rectify estimation error accordingly.
(b) A net effect of prior period errors amounting to Rs. 456,755 had been credited to the administrative expenditure for the year under review instead of being adjusted retrospectively and disclosed as per the requirements in Sections 10.21 to 10.23 of the SLFRS for SMEs. As a result, the surplus for the year under review had been overstated while understating the administrative expenditure by a similar amount.	In future error corrections related to previous years will be disclosed as required by Section 10.21 to 10.23 of SLFRS for SMEs.	Error corrections of prior period items should be done in accordance to the provisions in the standard to avoid misstatement in the financial statements.

1.5.3 Accounting Policies

Audit Issue	Management Comment	Recommendation
According to the explanation given by the management to audit, it was revealed that the debtor balances amounting to Rs.730,500 out of total outstanding balance of Rs.4,229,405 as at 31 December 2020 may become unrecoverable. However, no provision for impairment had been made in the financial statements in this regard. Further, an accounting policy for	According to the periodic meeting of the Finance Committee and the collection meetings by the SG/CEO, debts which are very unlikely to be collected are directed to be reversed or written off. This procedure we follow with IRD also.	An accounting policy for impairment of trade debtors and accounts receivables should be established and disclosed by the Chamber.

providing provisions for impairment on trade debtors and accounts receivables was not established and disclosed by the Chamber.

1.5.4 Accounting Deficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
An overpaid Value Added Tax (VAT) amounting to Rs.346,371 had been offset against the other payables during the year and in the previous year without being adjusted appropriately. Hence, the other payables and current assets as at the end of the year under review had been understated by the same amount. Meanwhile, an amount of Rs.229,792 was shown as Withholding Tax receivable for the last two years without being taken any action to resolve this matter.	VAT over paid in future will be shown under Current Assets instead of set off against Other Payables. The Withholding Tax amount stated would be claimed and resolved next year.	Debit balances should be separately shown without being offset against the credit balances in order to ensure the fair presentation of financial statements.

1.5.5 Unauthorized Transactions

Description of unauthorized transaction -----	Management Comment -----	Recommendation -----
The Chamber has written off the accounts receivables aggregating Rs.769,469 against the surplus for the year under review without obtaining required approvals from the respective authorities.	The clarification on the written off amount of Rs 769,469 were submitted in the replies to the Audit Query.	Proper and required approvals should be obtained from the respective authorities before write off the accounts receivables.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Chamber of Construction Industry of Sri Lanka (Incorporation) Act, No. 23 of 2019 Section 05 (2)(d)	The first Board of Management of the Chamber shall be appointed or elected within one year of the date of commencement of this Act. However, the Chamber had failed to do so even up to 31 May 2021.	To hold AGM it is necessary to submit the audited accounts for the preceding year. As such the above issue can be settled only after we received the audited accounts for the year 2020 and AGM is held.	The Management of the Chamber should timely take action to comply with the provisions in the incorporated Act.
(b) Paragraph 319 of Companies Act, No. 07 of 2007.	Before incorporating the Chamber, it was functioned as a company limited by guarantee under the Companies Act, No. 07 of 2007. Nevertheless, the Chamber had failed to complete its liquidation process even up to the date of this report.	The winding up of the previous CCISL a Company by guarantee is entrusted to our company secretaries, Via Corporate Advisory Services (Pvt) Ltd who has submitted the application with relevant details to Registrar of Companies in first week of April 2021.	The Management of the Chamber should timely take action to comply with the provisions in the Companies Act.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.19,138,967 and the corresponding deficit in the preceding 09 months period amounted to Rs.5,138,109. Therefore an improvement amounting to Rs. 24,277,076 of the financial result was observed. The reasons for the improvement is increase of income from build Sri Lanka exhibition by Rs.33,917,821 as compared to the previous accounting period.

3. Operational Review

3.1 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) The Chamber does not have an approved cadre and a scheme of recruitments and promotions in order to recruit competent and permanent staff for the smooth operation of the Chamber. However, the actual cadre of the Chamber as of 31 December 2020 stood at 17 and these entire staff was recruited on a contract basis. Although the contract period of the entire staff had expired by the end of the year under review, the Chamber had not taken any action in this connection even up to the date of this report.	Observation is noted and action will be taken to update the contracts of employment and personal files.	The Chamber should take action to prepare a scheme of recruitments and promotions and get approval thereof before conclude the recruitments activities.
(b) Even though there should be a Manual of Procedure and a Financial Manual providing rules and regulations on all matters relating to management of human and financial resources, the Chamber did not have such manuals for the smooth and effective administration of human and financial resources of the Chamber.	No comment.	Necessary measures to be taken to establish a Manual of Procedure and a Financial Manual for the smooth and effective administration of human and financial resources of the Chamber.

3.2 Cash Management

Audit Issue	Management Comment	Recommendation
Necessary action had not been taken in respect of a lapsed cheque valued at Rs.50,000 issued on 02 March 2020 through a bank current account of the Chamber.	As the comment does not give adequate references and identifications for us to trace the transaction it refers to, we are not in a position to make any comment.	If a cheque uncashed for more than six months from the date of issue, those cheques to be treated as cancelled cheques and proper entries to be made in the accounts accordingly.