

Chamber of Construction Industry of Sri Lanka - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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 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 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 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) Action had not been taken to reassess the useful economic life and rectify the estimation error of the fully depreciated assets costing Rs. 6,405,463 which are being currently used by the Chamber as per the provisions in Section 10.15 to 10.18 of Sri Lanka Accounting Standard for Small and Medium-sized Entities (SLFRS for SMEs).	To change Accounting Estimates of the assets categorized under Computers, Office Furniture, Office Equipment and Office Refurbishment which are fully depreciated would have to result from new information or new developments as per section 10.15 During the year under review we have not being confronted with neither new information nor new developments to warrant change of accounting estimates.	The Chamber should reassess the useful economic lifetime of fully depreciated assets for the fare presentation of its financial statements.
(b) Required discloses such as contingent rent, renewal or purchase options and escalation	We have not received the registered lease copy related to this Land Lease during the year under review and we got	Action should be taken to make necessary

clauses, subleases, and restrictions imposed by lease arrangements etc. as per the paragraph 20.16(c) of SLFRS for SMEs had not been made in the financial statements with regard to the Right-of-use Assets (leasehold land) obtained from the Urban Development Authority (UDA) for 30 years lease period with the annual lease rental of Rs.1,680,000 (excluding VAT).

the attested lease copy, which is the legal document of the said lease, only on 21st March 2022. As such, we will make the necessary disclosures in the next year's Financial Statements.

disclosures in the financial statements with regard to the leasehold land.

1.5.2 Accounting Policies

Audit Issue

An accounting policy for provide the provisions for bad and doubtful debts was not established and disclosed by the Chamber in the financial statements since its inception, though the Chamber had written-off 3 receivable balances aggregating Rs. 473,500 against the surplus for the year under review.

Management Comment

The outstanding were discussed in many Management & Finance Committee meetings. Thereafter with the concurrence of the above Committee which is vested with the delegated authority on all operational financial matters of the Chamber these balances were written off.

Recommendation

The Chamber should establish an accounting policy for provide the provisions for bad and doubtful debts instead of written off the outstanding balances.

1.5.3 Accounting Deficiencies

Audit Issue

A Projector and Refrigerator owned to the Chamber had not been valued and brought to the financial statements and fixed asset register even up to the date of this report.

Management Comment

No Comment

Recommendation

The Chamber should be valued it's all fixed assets and brought those to the fixed assets register and the financial statements in order to mitigate the risk for loss of these assets.

1.5.4 Documentary Evidences not made available for Audit

Item	Amount	Evidence not made available	Management Comment	Recommendation
	Rs.			
Office Equipment	2,247,919	Detailed schedules	These balances are very old and we are not in a position to get the details and propose to take out the same from Financial Statements through a disposal account which will result a zero balance.	Detailed schedules for every line items included in the financial statements should be submitted to audit.
Office Furniture	644,218	-do-		

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 319 of the Companies Act, No. 07 of 2007	Before incorporating the body, the Chamber was functioned as a company limited by guaranteed under the Companies Act, No. 07 of 2007. Nevertheless the Chamber had failed to complete the liquidation process of then company due to delay in obtaining the tax clearance certificate from the Department of Inland Revenue even by 30 April 2022.	Still the Inland Revenue Department has not issued the Tax Clearance without which the Registrar of Companies would not entertain our application for liquidation. We have even contacted Secretary to the Ministry of Finance on this Matter as this is beyond our control.	Action should be taken to complete the liquidation process without any delay.
(b) Section 40 (1) of the National Audit Act No.19 of 2018.	Although the all activities performed by the Chamber should be subjected to the internal audit, the Chamber	Considering the nature of minimal financial activities of the Chamber, the	Activities performed by the Chamber should be subjected to

had not appointed a management the internal audit.
 qualified auditor to perform considers it is not cost
 the internal audit functions effective to institute
 within the organization. an Internal Audit Unit
 and appoint a
 qualified auditor.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.5,939,945 and the corresponding surplus in the preceding year amounted to Rs.19,138,967. Therefore, a deterioration amounting to Rs.13,199,022 in the financial result was observed. The main reason for the deterioration is decrease of income from Build Sri Lanka Exhibition as compared to the previous accounting period.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
<p>(a) The Chamber had entered into a lease agreement with a Private Limited Company on 02 August 2019 to obtain an office premises for a period of 09 years commencing from 15 November 2018 by paying a sum of Rs.15,000,000 as total lease rental for whole period in advance. Meanwhile, the Chamber has entered into another lease agreement with the Urban Development Authority (UDA) on 29 December 2021 to obtain a land with extent of 30 perches for a period of 30 years with an annual lease rental of Rs.1,680,000 in order to build a secretariat building for the Chamber within two years.</p> <p>Despite the fact that the lease agreement entered into between the Chamber and a Private Limited Company on 02 August 2019 is being valid until the year 2027, the Chamber intends to construct the Secretariat Building and shift the existing office to the</p>	<p>The Lease Agreement provides for termination after 4 years giving notice of 6 months and the Lessor has undertaken to refund the lease rentals paid in advance for the unutilized period.</p>	<p>Management should pay its attention to take decisions in order to mitigate the future losses for the Chamber.</p>

new building by 2024 without being taken any arrangement to recover the lease rental of Rs. 5,000,000 which is already paid for the period from 2024 to 2027 to the above private company. As a result, the possibility for incurring a loss of Rs. 5,000,000 to the Chamber in the future could not be ruled out in audit.

Further, no fund had been established for the development of a new secretariat building within the stipulated time period mentioned in Clouse 1.9 of the lease agreement entered into with UDA.

- (b) The Chamber had entered into a Memorandum of Understanding (MOU) with the Associated Newspapers of Ceylon Limited (ANCL) on 06 March 2015 for a period of five years in order to obtain the services for print and publish the Chamber's monthly Construction News Bulletin and this agreement have been elapsed on 06 March 2020. However, the Chamber had not taken any action to extend or update this MOU even though the new rates were imposed by the ANCL after the elapsed of the MOU.

We are now in the process of negotiating and signing a fresh MOU.

Action should be taken to extend or update the existing MOU.

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| <p>(c) Three (03) item of accounts to the value of Rs.2,442,028 had been continuously brought to the financial statements for over 03 years under other payables and receivables without being taken action to clear those accounts even as at 31 May 2022.</p> | <ul style="list-style-type: none"> - Withholding Tax Receivable of Rs.229,792 relates deductions made on interest paid to us by Merchant Bank of Sri Lanka and could be claimed within 3 years and we will claim same next year. - Income Tax Receivable Rs. 1,865,865 and VAT payable Debit of Rs 346,371 - The Inland Revenue Department has not finalized our returns and they are still raising queries in respect of Income Tax related to 2017/2018. | <p>Steps to be taken to clear these accounts by taking fruitful actions.</p> |
| <p>(d) The Chamber did not have a manual of procedure and a financial manual providing rules and regulations on all matters relating to management of human resources and financial resources for the smooth and effective administration of the Chamber.</p> | <p>We have commenced compiling a Manual of Procedures.</p> | <p>Action should be taken to introduce a manual of procedure and a financial manual without further delay.</p> |
| <p>(e) According to the Financial Statements for the year 2021, the income tax payable by the Chamber was Rs.2,304,743 out of which Rs.2,097,275 had not been remitted to the Department of Inland Revenue for over two years.</p> | <p>The amount of Rs. 1,096,789.00 claimed from the total refund due to us has not been transferred to the above related account as the Department of Inland Revenue has not yet finalized Tax Returns even as far back 2017.</p> | <p>Action should be taken to finalize the Tax Returns and to remit the tax outstanding to the Department of Inland Revenue without any delay.</p> |
| <p>(f) The cost of Office Refurbishment amounting to Rs.1,691,092 shown under the Property, Plant & Equipment (PPE) in financial</p> | <p>Office Refurbishment of Rs.1,961,092 related to our earlier place of</p> | <p>Details of the each and every asset shown in the</p> |

statements as at 31 December 2021 had not been included in the Fixed Assets Register of the Chamber.

tenancy which we have terminated 3 years ago and should now be taken off from the Financial Statements.

financial statements should also be included in the Fixed Asset Register.

(g) The Chamber had not properly coded its fixed assets costing Rs.7,993,623 as at 31 December 2021 and those codes were not included to the fixed asset register as enable to correctly identify the value of Property, Plant and Equipment shown in financial statements and carry out the annual asset verification accordingly.

The management has instituted a Board of Survey and these omissions would be rectified in the ensuing year.

Fixed assets should be code properly to identify them correctly.

3.2 Human Resources Management

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
<p>The Chamber does not have an approved cadre or scheme of recruitment and promotions in order to recruit competent and permanent staff for the smooth operation of the Chamber although it is the responsibility of the Chamber to determine the number of employees to be deployed and appoint, dismiss or terminate the services of those employees and exercise disciplinary control over them and to pay them such salaries, allowances and gratuities. As a result, the all officers and employees were recruited on contract basis and out of them, 09 officers are being worked on contract basis for a period ranging from 05 to 16 years as at 31 December 2021.</p>	<p>From the inception in 2001 the Chamber did not have an approved cadre. All recruitments were effected on a need basis after discussing at the Management Committee and Board of Management. Right along the policy had been to have all staff on contract basis.</p>	<p>The Chamber should have an approved cadre or scheme of recruitment and promotions in order to recruit competent and permanent staff for the smooth operation of the Chamber as per the Sections 6 (g) of Chamber of Construction Industry of Sri Lanka Incorporated Act, No. 23 of 2019.</p>