

Sugathadasa National Sports Complex Authority - 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sugathadasa National Sports Complex Authority as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

Machinery and other equipment at a cost of Rs.27,447,432 belonging to the Authority which were zero value but being used up to 31 December 2011, had not been revalued and brought to account by the Authority in terms of Accounting Standards 18.

1.2.2 Accounts Receivable and Payable

The following observations are made.

- (a) Although a sum of Rs.4,160 and Rs.14,757 had to be paid to two private parties according to the accounts of the Authority, it was revealed that the balances were Rs.24,539 and Rs.345,746 respectively as confirmations received by the audit section.
- (b) According to the balance sheet as at 31 December 2011, the receivable balance was Rs. 42,959,310 and out of that a sum of Rs. 37,398,318 representing 87% had been outstanding for more than three years. Out of that balance a sum of Rs.34,769,162 representing 92% had been receivable from two parties.

- (c) A sum of Rs. 4,465,941 had to be recovered by the Authority as at 31 December of the year under review in respect of allocation of stadiums and out of that a sum of Rs. 4,309,400 had existed for more than 2 years.
- (d) A balance amounting to Rs. 234,020 had been shown in the advances account for the year ended 31 December 2011 and it consisted balances for the years 2007 and 2008 amounting to Rs.23,150 and Rs. 86,800 respectively.
- (e) Action had not been taken to recover a sum of Rs.86,800 paid as an advance on 30 January 2009 for Dayata Kirula and a sum of Rs.23,150 paid as travelling advances to the attendees for the XXXI National Games 2005.
- (f) Debtor balances as at 31 December 2011 amounting to Rs. 42,959,310 had included the balances receivable from miscellaneous debtors and 18 other institutions amounting to Rs. 5,865,850. A balance receivable from Sri Lanka Cricket amounting to Rs. 25,573,845 had also been included in the above balance and it represented 60 per cent of the total debtors. It was observed that the R. Premadasa Stadium belonging to the Authority had been given to the Sri Lanka Cricket as a long term lease and the recoverability of that balance was at a risk.
- (g) A sum of Rs.4,486,892 was due from 7 parties for allocation of Stadiums as at 31 December of the year under review.

1.2.3 Lack of Evidence for Audit

The following observations are made.

- (a) As confirmation of balances, detailed schedules, verification reports, etc. in respect of sums aggregating Rs. 17,227,876 relating to 03 items had not been submitted, those items could not be satisfactorily vouched in audit.
- (d) An Electronic Timing System to the value of Rs.44 million had been procured by the Ministry from the Omega Timing System and Swiss Timing System for South Asian Games in 2006. Any file relating to this procurement had not been handed over to the

- Authority. The Ministry had not officially transferred this system to the Authority and it had not been included in the fixed assets of the Authority as well. As the system was defaulted, it had been removed from use at present.
- (b) The accuracy of the Journal Entries could not be established in audit due to non-posting the narration relating to prior year adjustment clearly/ correctly and non-maintenance of Journal Vouchers.
- (c) The value of the retention money as at 31 December 2011 amounted to Rs. 3,439,727 of the Authority. Although this deposits should be posted to a separate ledger, and should be included in a prior year summary report in the ledger, it had not been so done.

1.2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with laws, rules etc. observed in audit are given below.

<u>Reference to Laws, Rules etc.</u>	<u>Non – compliance</u>
(a) Section 6.5.1 of the Circular No. PED/12 of 02 June 2003	Even though the draft financial statements should be rendered to audit within 60 days after the closure of the financial year, financial statements for the year under review had been rendered to audit on 04 April 2012.
(b) Financial Regulations 756	Physical verifications had not been carried out during the year under review in respect of assets amounting to Rs.781,784,954 and inventory items amounting to Rs.2,149,491 belonging to R.Premadasa Cricket Stadium.
(c) Treasury Circular No.	A separate register had not been maintained

IAI/2002/02 of 28 November 2002 for Computers and Software.

- (d) Department of Management Services letter No. DMS/E4/40/5/252/1 of 25 July 2011
- Even though the approval had been granted to recruit 26 Junior Security Guards in accordance with the scheme of recruitments, before obtaining the approval for the scheme of recruitment, 25 Security Guards had been recruited on 15 November 2011.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the operations of the Authority for the year ended 31 December 2011 had resulted in a deficit of Rs.76,090,410 as compared with the corresponding deficit of Rs. 82,603,520 for the preceding year thus indicating an increase in the financial results by Rs. 6,513,110 as compared with the preceding year.

2.2 Analytical Financial Review

An analysis of the income statement of the Authority furnished for audit observed an increase of Rs.4,900,000 in the Government grant for revenue expenditure of the year under review as compared with the previous year thus representing an increase of 7 per cent. Similarly, the operating income of the Authority had increased by Rs.7,397,134 and the operating expenditure had increased by Rs.5,784,024. The percentage of increase of income was 12 per cent while the percentage of increase of expenditure was only 2 per cent.

3. Operating Review

3.1 Performance

It was observed that the Authority had not taken effective measures to increase the income of the stadiums, especially to find new income opportunities by display hoarders in indoor and outdoor stadiums and proper management of expenditure. Observations on income earned and the expenditure incurred by each stadium of the Authority during the year under review and previous 2 years are shown below.

- The increasing trend of expenditure had been faster than the increasing trend of income every year in the Indoor Stadium.
- The Bogambara Stadium also had been a decreasing trend in its income level as compared with the income for the year 2009. With regard to expenditure it had shown a fast increasing trend.
- Expenditure of the Beliatta Stadium had increased than the income every year ranging from 70 per cent to 100 percent.

3.2 Management Inefficiencies

The following observations are made.

- (a) It was observed in audit that seven cheques valued at Rs. 524,729 written in the year 2011 had been delayed for 1 to 3 months to hand over the relevant suppliers.
- (b) Six vehicles belong to the Urban Development Authority, 02 vehicles belong to Ministry of Sports and 02 Hand Tractors details of the ownership of which was not available are being used by the Authority without being vested legality in the Authority.
- (c) It was observed in audit that the Bogambara Stadium which was shown in the financial statements of the Authority as land, valued at Rs.135,000,000 belongs to the Urban Development Authority. Action had not been taken to transfer the ownership of the stadium to the Authority.

3.3 Operating Inefficiencies

The following observations are made in respect of leasing the Sport Hotel belonging to the Authority.

- (a) A decision had been taken to lease out the Sports Hotel belonging to Authority to a private party for a sum of Rs.760,000 per month for a period of 3 years at the meeting of the Tender Board held on 18 October 2010 and entered into an agreement on 15 November 2010. As the Secretary to the Ministry of Sports had informed to the Chairman to suspend the lease agreement due to a discrepancy made by the lessee, the lessee had been informed on 16 December 2010 that the lease agreement had been suspended.

- (b) According to the subsequent instruction given by the Secretary, the lease agreement had been terminated on a decision made by the Board of Directors at the meeting held on 23 March 2011 to run the Hotel by the Authority and operated the Hotel by the Authority accordingly since then. Although the overall income of Rs.6,961,761 had been earned during the year 2011 an income of Rs.2,158,230 had been deprived of due to non-implementation of the lease agreement by the Authority. However, action had not been taken to lease the Hotel again by the Authority.

3.4 Idle and Unutilized Assets

- (a) An electronic Barrier Machine had been purchased in the year 2009 from a private company for Rs. 4,912,403 for the installation in the Car Park. The following deficiencies were observed in this regard.
 - (i) Even though it was mentioned that the following facilities were available in the relevant equipment at the time of purchasing according to the report of the Technical Evaluation Committee, it was revealed by the observations of the internal audit that those facilities were not available.
 - System of identifying the number plate
 - Automatically identifying the motorcycle and other vehicles

- Sensitivity of that machine for self-identification of any class or any type of Vehicle
- Utilization of this vehicle observation equipment to close the road barrier or other gates automatically after departure of a vehicle.

(ii) This instrument had been handed over to a private institution for repairs according to the letter dated 13 January 2012 of the Technical Officer of the Authority. Instead of the original system an alternative system was provided by this institution which was a subsidiary of the original company and the Authority had operated the new system. The Chairmen informed me that the original system had been sent to Singapore for repairs but it could not be repaired.

(b) Forty two items valued at Rs.430,936 had remained at the stores as no-moving. The Authority had not taken any action to dispose these goods.

3.5 Resources of the Authority given to the other Government Institutions

The following deficiencies were observed in the lease agreement for leasing out of R. Premadasa Stadium to the Sri Lanka Cricket.

Condition in the Lease Agreement

Deficiency

(a) According to Section 04(q), of the agreement, the Sri Lanka Cricket should recruit at least 20 employees who had been working at the R. Premadasa Stadium.

Due to non-recruitment of any employee by the Sri Lanka Cricket, the conditions of the agreement were breached and the Authority had to spent a sum of Rs.4,004,430 during the year under review for seventeen employees with specialised knowledge attached to the stadium.

(a) According to Section 04(s), of the agreement, the lessee should

However, such an insurance policy had not been obtained up to the year under review.

obtain a full insurance cover by obtaining the advice of the lessor to cover the entire buildings and premises of the stadium.

(c)The decision to maintain a fixed lease rental of Rs.750,000 per quarter for such a long period of 30 years.

Making a revision to the value of lease in order to avoid future disadvantage arisen on the devaluation of money had not been considered.

(d)According to Section 05(i), of the agreement, all assets should be physically verified and prepared a stock register and handed over the copy to the lessee.

Assets had not been verified.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Even though the financial statements should be presented to audit on 28 February 2012 in terms of Section 6.1.1 of the Treasury Circular No. 01/2004 dated 24 February 2004, the draft financial statements for the year 2011 had been presented to audit on 04 April 2012.

4.2 Corporate Plan

According to the Public Enterprises Circular No.PED/12 dated 2 June 2003, a Corporate Plan should have been prepared containing information such as the resources belonging to the Authority, organization chart, operating results of the past 3 years, duties and responsibilities of managers and performance, but a Corporate Plan had not been prepared for the year 2011.

4.3 Audit and Management Committee Meetings

Although the Audit and Management Committee should meet once in every three months in terms of Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, only two meetings had been held in the year 2011.

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were reported to the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Management of Assets
- (b) Maintenance of Inventory Registers
- (c) Stores Management
- (d) Compliance with Laws, Rules, Regulations and circular instructions
- (e) Collection of money from debtors
- (f) Management of Revenue
- (g) Maintenance of Journal Entries