

Sugathadasa National Sports Complex Authority - 2013

The audit of financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 9(2) of the Sugathadasa National Sports Complex Authority Act, No.17 of 1999. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements 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 Authority's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 **Qualified Opinion**

In my opinion, except for the effects of the matters described in paragraph 2:2 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 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 **Comments on Financial Statements**

2.2.1 **Accounting Deficiencies**

The following observations are made.

- (a) Advances amounting to Rs.9,841,873 paid relating to five constructions in the year under review and Value Added Tax amounting to Rs.277,242 paid on advances had been inappropriately brought to account under Work-in-Progress.
- (b) An invoice had not been issued for a sum of Rs.1,507,764 receivable as charges for reserving the indoor stadium of the Authority to the Sri Lanka Basketball Federation and it had not been taken to the financial statements in the year 2013.
- (c) The receivable Value Added Tax as at 31 December 2013 amounted to Rs.44,370,072. Even though the Department of Inland Revenue had confirmed that Rs.33,252,709 out of it could not be recovered, no required provisions had been made or it had not been so disclosed.

2.2.2 **Accounts Receivable and Payable**

The following observations are made.

- (a) No action had been taken to recover the trade debtors' balance of Rs.34,865,252 exceeding 5 years as at 31 December 2013, the security deposit balance of Rs.22,410 and receivable withholding tax of Rs.2,416,804 lapsed from 2 to 4 years while no action had been taken to settle the sum of Rs.702,981 older than 2 years retained by contracts and the trade creditors' balance of Rs.215,293.
- (b) The accuracy of the following balances which should be recovered by the Authority from sports societies and Department of Sports Development could not be confirmed as differences were observed in comparing the said balances with the financial statements of those institutes.

Balance as at 31.12.2013

Institute	Balance according to the account of the Authority	Balance according to the account of the relevant institute
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	Rs.	Rs.
Archery Federation	222,091	Nil
National Olympic Committee	611,188	Nil
Sri Lanka Volleyball Federation	2,344,757	Nil
Department of Sports Development	1,562,869	59,227

2.2.3 Lack of Evidence for Audit

Due to lack of evidence of the following items shown in the accounts, they could not be satisfactorily accepted in audit.

Item	Value	Evidence not made available
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	Rs.	
(a) Balance to be paid to the Colombo Municipal Council	1,124,068	Schedules and confirmation of balances
(b) Unpaid balances	216,593	Schedules
(c) Income received in advance	139,449	Details relating to the income
(d) Refundable Deposits	3,925,338	Age analysis
(e) Trade Debtors	40,999,600	Confirmation of balances
(f) Trade Creditors	608,419	Confirmation of balances

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

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

Reference to Laws, Rules etc.	Non – compliance
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(a) Section 5.3.1 of Chapter XIX of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Even though 10 per cent of the salary of an officer residing in a scheduled quarter should be recovered as rental of quarters, the Authority had provided the Director with the Chairman's quarters without any charges.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	

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| (i) | Financial Regulation 110 | A Register of Losses had not been maintained. |
| (ii) | Financial Regulation 754 | Even though the Inventory Books should be balanced and maintained in an updated manner at the closure of a financial year, it had not been so done by the Authority. |
| (iii) | Financial Regulation 755(1) | Every storekeeper or any officer who is otherwise entrusted with the custody of particular stores and other Government property, relinquishes his duties, or is transferred to another post, or goes on long leave, he should hand over to his successor, or to any other officer delegated for the purpose, all Government stores and other property for which he is responsible, and obtain in duplicate, and acknowledgement from the officer to whom the stores etc. are handed over. The officers of the Authority had not taken action accordingly. |
| (c) | Public Enterprises Circular No. PED/12 dated 02 June 2003 | |
| (i) | Paragraph 5.1.2 | Officers responsible for each function had not been identified in the Action Plan. |
| (ii) | Paragraphs 5.1.3 and 5.2.1 | Even though the approved Annual Budget should be presented to the Auditor General along with the Action Plan and the Capital Expenditure Estimates 15 days before the commencement of the year, the Authority had not taken action accordingly. |
| (d) | Treasury Circular No. IAI/1/2002/02 of November 2002 | A separate Register for Computers and Software had not been maintained. |
| (e) | Section 5.1.1(a) of the Procurement Guidelines of 01 March 2006 | The Authority had not prepared Registers for Calling Bids relating to purchase of goods for the Bogambara Stadium to the value of Rs.2,022,849 and no securities had been obtained for bids. |

2.2.5 Transactions not supported by Adequate Authority

Iron and other material purchased for a sum of Rs.507,409 in the months of October and November in the year 2013 to repair the security fence and the main gate had been stacked in the stores for scrap materials in the outdoor stadium without utilizing for the above purposes.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Authority for the year ended 31 December 2013 had resulted in a deficit of Rs.71,210,496 as compared with the corresponding deficit of

Rs. 81,984,071 for the preceding year thus indicating an improvement in the financial result by Rs. 10,773,575 in the year under review. The increase of Government grants by Rs.18,400,000 as compared with the preceding year had mainly attributed to this improvement.

4. **Operating Review**

4.1 **Management Inefficiencies**

The following observations are made.

- (a) The R.Premadasa Stadium belonging to the Sugathadasa National Sports Complex Authority had been handed over to the Sri Lanka Cricket Institute on a lease agreement from the year 2006 and the stocks valued at Rs.2,149,491 belonging to the Authority and in the custody of the said stadium had been brought to account without a physical verification.
- (b) Four finger print machines purchased at a cost of Rs.190,000 by the Authority in the year under review had been disposed of due to being inactive.
- (c) Even though the gratuity payments should be made within one month of leaving of the employee in terms Payment of Gratuities Act, No.12 of 1983, a sum of Rs.46,918 had to be paid as surcharges due to non-compliance with it.
- (d) The sports hotel belonging to the Authority had been rented out for an annual rental of Rs.9,120,000 from 15 November 2010 for a period of 3 years and the Board of Directors of the Authority had cancelled the said lease agreement on 23 March 2011 and taken it under the management of the Authority. However, in comparing the net profit with the annual rent of the sports hotel in the years 2011, 2012 and 2013, the income had been deprived of by Rs.6,001,547, Rs.4,167,772 and Rs.4,672,424 respectively.

4.2 **Transactions of Contentious Nature**

The following observations are made.

- (a) Two steam generators with the power of 6 kilo watts, 3 bush cutters and a vacuum cleaner had been purchased by the Authority for the Bogambara Stadium by spending Rs.559,776 , 179,850 and 91,915 respectively. In all three instances goods had been purchased from institutions which had not submitted goods according to required specifications and without selecting the institutions which had submitted the minimum bid.
- (b) It was not ensured whether the basketball equipment purchased for Rs.3,625,000 on the recommendation of the Procurement Committee for the 3rd Asian Women's under 16 Basketball Tournament held at the Sugathadasa National Sports Complex Authority, Colombo from 23rd to 30th December 2013, were in accordance with the relevant trade names. Further, despite having adequate time, limited quotations had been called for and purchasings had been made considering as an emergency requirement without calling for competitive quotations.

4.3 Underutilization of Funds

A total sum of Rs.24,919,800 in the years 2008 and 2012 and as at 31 December of the year under review had been invested in seven days deposits without investing in fixed deposits.

4.4 Idle and Underutilized Assets

At the physical verification carried out on 12 September 2014 relating to the stocks of the stores, goods at a cost of Rs.573,214 had remained idle and out of which goods at a cost of Rs.100,712 had expired. Further, a stock of goods at the cost of Rs.154,075 had been underutilized.

4.5 Deficiencies in Contract Administration

The following observations are made.

(a) According to the contract agreement of cleaning the outdoor stadium, indoor stadium and sports hotel of the Sugathadasa National Sports Complex Authority, the sum of Rs.270,892 relevant to 5 per cent to be deducted from the monthly contract payment when employees were deployed less than the number of employees stated in the agreement.

(b) Repairs of the Tennis and Basketball Courts – Rs.1,935,819

The following observations are made.

- (i) The contract had been awarded based on a Bill Of Quantities for Rs.1,935,819 submitted by the contractor without preparing a cost estimate for the repair of the tennis and basketball courts located in the outdoor stadium of the Authority.
- (ii) A sum of Rs.1,726,902 had been paid to the contractor only on the recommendation and approval of the Director (Engineering) of the Department of Sports Development on the basis of being completed about 98 per cent of the contract works of improving the tennis and basketball courts by 12 December 2013 without the approval of the Permanent Technical Committee. Even though the contract should be completed by 02 December 2013 in terms of the contract agreement, the completed works were not up to standard. It was also confirmed by the Chairman of the Authority to the Director (Engineering) that the works of the contract had not been completed by his letter No.04/03/03(13) 2013 of 28 March 2014 addressed
- (iii) The tennis court which had been completed had not been made use for training. Further, it was observed that the expenditure incurred in Phase I could be a fruitless expenditure as it was planned to construct a basketball court complex for an estimate of Rs.79,211,330 as Phase II within a short period of renovation.

4.6 **Delayed Projects**

Even though provisions of Rs.61.3 million had been made for 08 capital projects planned to be implemented by the Authority in the year 2013, the financial performance of the projects as at 31 December 2013 had been 1 per cent to 60 per cent.

4.7 **Personnel Administration**

The following observations are made.

- (a) Even though the prior approval of the Department of Management Services of the General Treasury should be obtained to fill the relevant vacancy, whenever a post becomes vacant, recruitments had been made to fill 08 vacancies existed in the Authority in the year 2013 without obtaining the relevant approval.
- (b) Applications had been called from internal employees for 08 posts of Karyala Karya Sahayakas and four applicants who had submitted applications after the closing date of applications had been recruited for the relevant posts. Further, out of 8 applicants recruited, 4 had been external applicants.
- (c) Thirty six officers recruited to the posts of Security Guard and Stadium Assistants had been attached to other duties outside the relevant duties. Further, there was no evidence to ensure the service of the relevant officers due to failure in handing over the assignment of duties in writing.
- (d) It was observed that 24 employees relating to 5 posts were employed exceeding the approved cadre due to attachment of officers from other posts exceeding the approved cadre relating to posts.
- (e) The applicant recruited to the post of Storekeeper had not fulfilled the basic qualifications and he had no service as well. Further, the other applications and reports of interviews for the relevant post had not been presented to audit.
- (f) Three fitness instructors had been recruited for the year 2013 for the Bogambara Fitness Centre without the approval of the Department of Management Services for the post of fitness instructor not in the approved cadre of the Authority.

5. **Accountability and Good Governance**

5.1 **Internal Audit**

Audit had not been carried out as planned, in comparing with the audit items carried out as per the Internal Audit Plan relating to the year under review.

5.2 **Budgetary Control**

The Budget for the year under review had not been presented to the Auditor General in terms of Paragraph 5.2 of the Public Enterprises Circular No. PED/12 of 02 February 2003.

6. **Systems and Controls**

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

- (a) Assets Management
- (b) Accounting
- (c) Human Resources Management
- (d) Contract Administration
- (e) Stock Control
- (f) Budgetary Control
- (g) Income Administration