

## **Sugathadasa National Sports Complex Authority - 2014**

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The audit of financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2014, comprising the statement of financial position as at 31 December 2014 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**

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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**

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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 Auditing 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 judgement, 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 audit opinion.

### **1.4 Basis for Qualified Opinion**

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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 2014 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 Policies**

The Authority had not introduced a policy for making provision for doubtful debts in respect of long standing unrecovered debtors balances and as such provisions had not been made for debtor balances of Rs.35,059,518 older than 5 years. Therefore, the current assets and net deficit shown in the financial statements had been overstated and understated respectively.

**2.2.2 Sri Lanka Public Sector Accounting Standard -07**

Although a sum of Rs.112,582,167 had been paid to the contractor for laying 400 meters of artificial track, it had been damaged beyond used. Nevertheless, action had not been taken to eliminate the artificial track from the assets and adjust the resulting loss to the deficit of the year under review in terms of the paragraphs 80 and 81 of the standard.

**2.2.3 Accounting Deficiencies**

The following observations are made

- (a) Cost of a work completed project amounting to Rs.148,406,912 had been shown under work-in-progress without being capitalized and as a result, provisions had also not been made for the depreciations relating to those assets.
- (b) Income amounting to Rs.3,498,073 receivable to the Authority from five institutions for the reservation of indoor and outdoor stadiums and the swimming pool of the Sugathadasa National Sports Complex Authority for the conduct of sports competitions and functions in the years 2012 and 2013 had not been brought to accounts.

**2.2.4 Unexplained Differences**

The following observations are made.

- (a) In comparing the balances receivable from Sports Associations and the Sports Development Department as at the end of the year under review with the balance shown in the financial statements, following differences were observed. Action had not been taken to reveal the reasons for the said differences and correct them.

Institute -----	Balance as at 31 December 2014 -----	
	Balance as per the accounts of the relevant institute -----	Balance as per the accounts of the Authority -----
	Rs.	Rs.
Sports Development Department	Nil	1,562,870
Sri Lanka Cricket	20,773,845	25,753,845
Sri Lanka Volleyball Association	987,449	2,344,757
Sri Lanka Football Association	293,249	3,291,433
Sri Lanka Billiard and Snooker Association	Nil	18,434

(b) In comparing the balance of the Advance Account as at 31 December of the year under review with the schedules relevant thereto, a difference of Rs.101,986 was observed.

### 2.2.5 Lack of Evidence for Audit

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

Item -----	Value ----- Rs.	Evidence not made available -----
(a) Income received in advance	136,444	Details relating to the income
(b) Receivable balances	14,923,867	Direct balance confirmations
(c) Creditors Balances	4,936,741	Direct balance confirmations, Age analysis
(d) Other payable balances	23,804,113	Schedules
(e) Refundable Deposits	7,495,173	Age analysis

### 2.3 Accounts Receivable and Payable

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The following observations are made.

(a) The balances older than one year receivable from 03 institutions totalled Rs.2,311,110 and the Authority had not taken effective measures to recover the balances aggregating to Rs.35,059,518 older than 5 years due from 13 institutions.

(b) The Authority had not taken effective steps to recover the sundry debtors balances of Rs.2,248,900 remained receivable from 03 institutions since the year 2006.

(c) The Authority had not put in place effective measures to recover balances totalling Rs.768,604 remained receivable for the supply of services on credit basis to 04 private institutions without approval that had been shown under sundry debtors and other balances.

(d) The Authority had not taken action to recover the VAT amounting to Rs.44,057,831 remained receivable as at 31 December 2014.

#### 2.4 **Non-compliances with Laws, Rules, Regulations and Management Decisions**

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

<b>Reference to Laws, Rules etc.</b>	<b>Non – compliance</b>
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka  -----	
(i) Financial Regulation 104 (2)	Losses and damages had not been reported to the Auditor General
(ii) Financial Regulation 110	A Register of Losses and damages had not been maintained.
(iii) Financial Regulation 396 (c)	Action in terms of the regulation had not been taken on 14 cheques totalling Rs.251,655 issued but not presented to the bank and elapsed for 06 months.
(iv) Financial Regulation 395 (c)	Although the bank reconciliation statements relating to each month should be prepared before the 15 <sup>th</sup> of the following month, bank reconciliations had not been so prepared.
(v) 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.
(vi) Financial Regulation 755(1)	Any officer who relinquishes his duties, or is transferred, 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, an acknowledgement from the officer to

whom the stores etc. are handed over. Nevertheless, the officers of the Authority had not taken action accordingly over a long period.

- (vii) Financial Regulation 756  
The Board of Survey for the year under review had not been conducted up to 24 June 2015.
- (b) Section 5.1.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003  
Even though approved annual budget should be furnished to the Auditor General 15 days prior to the commencement of the year, it had not been so done.
- (c) Treasury Circular No. IAI/1/2002/02 of 18 November 2002  
A separate Register for Computers and Software had not been maintained.
- (d) Procurement Agencies Circular No.08 dated 25 January 2006  
Although specifications on purchasing should be determined on the recommendations of the Planning Officers or Technical Officers, purchasing totalling Rs.2,323,873 had been made from three institutions on the specifications and recommendations made by private institutions during the year.

### 3. **Financial Review**

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#### 3.1 **Financial Results**

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According to the financial statements presented, the operation of the Authority for the year ended 31 December 2014 had resulted in a deficit of Rs.71,308,087 as compared with the corresponding deficit of Rs. 80,460,127 for the preceding year thus indicating an improvement in the financial result by Rs. 9,152,040 in the year under review. The increase of Rs. 29,816,738 in the income of the indoor stadium had mainly attributed to this improvement in the financial results.

#### 3.2 **Analytical Financial Review.**

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The deficit of the Authority had gradually increased since several preceding years and the increase in employees' salary, allowances and other overhead cost had been the main reasons for that. According to the information in the financial statements furnished, the details on the financial results for the year under review and preceding four years were as follows.

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
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	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>	<b>Rs.</b>
Operating Income	131,309,826	143,868,569	155,573,543	185,831,160	235,593,748
Other Income	646,369	719,628	906,139	2,226,687	1,268,724
Total Expenditure	215,279,331	218,086,661	238,463,753	268,282,087	308,046,858
Tax Expenses	63,097	70,164	70,164	235,887	123,701

Surplus/ (Deficit)      (83,386,233)   (73,568,628)   (82,054,235)   (80,460,127)   (71,308,087)

**4. Operating Review**

**4.1 Management Inefficiencies**

The following observations are made.

**(a) Usage of Sports Hotels and mismanagement.**

- (i) Three rooms of the Sports Hotel with 42 rooms had been closed down for a period of 03 years while the beverage shop consisting of 800 Sqft. had not been utilized for a period of 8 years and as a result, the Authority had deprived itself of rental income which could have been earned.
- (ii) An agreement had been entered into with an external party to rent out the Sports Hotel belonging to the Authority 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 decided to cancel the said lease agreement on 23 March 2011 and take it under the management of the Authority. Therefore, Authority had deprived of an income of approximately Rs.15 million for the year 2011, 2012, 2013. Further, there were 15,330 daily room day facilities in 42 rooms of the hotel, whereas 4,157 room days or 27 per cent only had been utilized during the year.
- (iii) The cafeteria with 990 Sqft. which had not been maintained for approximately a period of 10 years had been leased out at a monthly rental of Rs.40,000 in the year 2015 without being fulfilled the requirements that should be satisfied in the selection of a suitable tenderer in terms of the National Procurement Circular dated 25 January 2006 and the contractor had further operated the cafeteria even after the expiration of the term of lease. Further, an additional space of 214 Sqft. apart from the 990 Sqft. referred to in the agreement had been allowed to be used for the affairs of the cafeteria.
- (iv) Although more income could have been earned by the Authority by hiring rooms, reception halls and conference halls than the annual income of Rs.7.8 million earned by renting rooms at concessionary rates, attention had not been focused on that matter.
- (v) Having made a memorandum of understanding between a Japanies company and the Authority to maintain the Sport Hotel as a trista hotel and reconstruct it under the Build Operate and Transfer basis (BOT), it had been dispatched to the relevant Japan {company. Nevertheless, no follow up action whatsoever had been taken up to date despite being elapsed a period of about two years.

**(b) Vehicle Rent and Management of Vehicle Park**

Although a period over 2 years had elapsed from parking certain vehicles within the vehicle park situated on a land area of 1.13 hectare in extent of the Authority only upon

the purchase of entrance tickets, the Authority had not taken action to recover the charges due from those vehicles and remove them from the park. Due to parking of those vehicles in an unauthorized manner, an income amounting to Rs.704,049 had been deprived of. Further, although the Authority had installed CCTV camera system ,it had not been properly installed so as to cover the entire park which generates an annual income exceeding Rs. 13 million.

#### **4.2 Apparent Fraudulent Transactions**

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The following observations are made.

- (a) In the examination of cash receipts and the banking of this cash revealed that, the cashier had embezzled a sum of Rs. 800,000 without being banked.
- (b) Two cars, a jeep and a cab owned by the Authority along with the drivers had been used by two members of the Director Board, a member of Pradeshiya Sabha and a security officer of the Minister and a sum totalling Rs.2,998,587 had been spent by the Authority as repair expenses of those vehicles. One of those vehicles had met with an accident on 18 December 2014 while being deployed in the presidential election campaign.
- (c) Within two months subjected to audit test check, a Karyala Karya Sahayaka employed in the Chairman's' office had fraudulently marked the arrival and departure and obtained Rs.28,063 as overtime without producing the particulars on the work done.

#### **4.3 Deficiencies in Contract Administration**

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Construction of the 400 meters artificial run way of the Sugathadasa National Sports Complex Authority. Contractual Price Rs.126,799,400.

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The following observations are made

- (a) Having cancelled the contract company selected for the first calling of bids stating that there was no provisions for the project according to the budget estimate for the year 2011, an inexperienced contractor had been selected for the construction through re-calling of bids. Further, out of the bids submitted, two of them had not been taken into consideration for the second evaluation.
- (b) Although works of the run way had been completed on 21 April 2012, the first and the second layers of the run way had been damaged within a short period of two weeks. In the inspection carried out by the audit on 24 November 2014 it was revealed that, the first and the second layers of the run way were completely detaching and water was percolating up to the Asphalt layer and also the run way was not in a usable condition to hold sport events.
- (c) Due to the faults arisen in the run way, the payment of the final bill and the retention advances had been suspended. Nevertheless, a sum of Rs.5 million had been paid to the contractor on 24 June 2014 on a special recommendation of the Minister of Sports

and this payment had been made contrary to the Financial Regulations 136,137,138,139 and 156.

- (d) It was revealed that the Civil Engineer and the Director (Engineering Services) appointed for the consultation services of the construction did not have either experience or professional skills on the construction of run ways . According to the technical report obtained on the construction from the University of Moratuwa, it was stated that impact of the chemical reaction caused to the run way as a result of carrying out construction in a rainy weather condition and the absence of expertise knowledge and suitable engineering supervision in laying run way track had adversely affected the above condition.
- (e) The condition which stated that the run way should be constructed in Pre- Fabricated or Full Pour system by using materials with first class or second class certificate recognized by the International Athletics Association on 01 March 2010, had been eliminated by the paragraph 1-10 of Section 6 of the tender document, whereas it had not been communicated to the bidders who had bought the bid documents. It was further observed that although this construction had been carried out as a first class run way, this type of tracks are needed only for the world trophy competitions and Olympic games.

#### **4.4 Idle and Underutilized Assets**

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- (a) Software had not been installed in 16 computers purchased at a cost of Rs.2,908,160 for the establishment of an Enterprise Resource Planning System (ERP) and the Server valued at Rs.472,103 had also not been utilized.
- (b) It had been estimated that, if the land and the building in which the Sports Hotel is operated and the present assessed market value thereof amounting to Rs1,020,000,000 is leased out for a period of 30 years uninterruptedly, the recoverable lease amount should be Rs.783,870,000. Accordingly, a sum of Rs.26,129,000 could have been earned annually by leasing out the relevant property. Nevertheless, without being leased out it, the Authority had operated the Sports Hotel. However, the average profit of Rs.4 million only had been earned by the Sports Hotel during the period of preceding four years.
- (c) Hundred and two stock items costing Rs.1,063,823 had been kept in the stores without being utilized, over 5 years.

#### **4.5 Resources of the Authority given to Other Parties**

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The following observations are made.

- (a) A driver and a Karyala Karya Sahayaka had been deployed in the service of the Ministry while an officer of the Management service and a security guard had been deployed in the service of the office of the Minister during the year under review. Nevertheless, the Authority had incurred a sum of Rs.1,030,083 and Rs.391,033 for



their salaries and overtime allowances respectively and Rs.20,912 for the combined allowances.

- (b) A reception hall of the Sports Hotel from which an income of Rs.2,000 per hour could be earned by hiring it for a meeting or a function had been given to a sport association free of charge with effect from 12 July 2011.

#### **4.6 Transactions of Contentious Nature**

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In leasing out of an indoor cafeteria of the Sugathadasa National Sports Complex Authority, it had been leased out at a monthly rental of Rs.55,000 to a bidder who had furnished false information. Further, the dates indicated in the bid documents forwarded by the bidder were contradictory.

#### **4.7 Personnel Administration**

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The following observations are made.

- (a) The approved cadre and the actual cadre as at 31 December 2014 stood at 328 and 305 respectively and as such the number of vacancies was 23.
- (b) Nineteen officers had been attached to 06 posts that had not been included in the approved cadre and 30 officers had been recruited for 10 posts without seeking prior approval of the Department of Management Services.
- (c) Fifty four officers recruited to the posts of Security Guards and Stadium Assistants had been attached to other duties outside the relevant duties.
- (d) According to the scheme of recruitment, candidates who apply for the post of Assistant Director (Sports) should possess the first degree with the subject of Sports and 03 years' service experience in the relevant field, whereas contrary to that, an officer who had not fulfilled the relevant qualifications had been recruited and 06 Sports Officers who had not professional qualifications and service experience had also been recruited.

#### **4.8 Losses and Damages**

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The following observations are made.

- (a) The Lightning Arrestor installed on the top of the roof of the main pavilion of the indoor stadium had been misplaced during the year under review, whereas necessary action had not been taken in that connection.
- (b) Value Added Tax totalling Rs.2,476,769 relating to the preceding year had not been remitted on due dates and as such the Authority had paid a fine amounting to Rs.833,768 during the year under review.

**5. Accountability and Good Governance**

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**5.1 Internal Audit**

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Internal audit had not been carried out as per the Internal Audit Plan relating to the year under review.

**5.2 Budgetary Control**

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In comparing the budgeted income and expenditure with the actual income and expenditure significant variances were observed, thus indicating that the Budget had not been made use of as an effective instrument of management control.

**5.3 Action Plan**

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In terms of Section 5.1.2 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, an Action Plan should be prepared based on the Budget by specifying the responsibility meant for ensuring the timely fulfilment of financial and physical targets and enhancing the effective utilization of the allocated funds. However, the officers responsible for each activity had not been identified in the Action Plan prepared and the Authority had not introduced a methodology to review the progress of the achievement of the targets of the Action Plan in timely manner.

**6. Systems and Controls**

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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) Control of Debtors
- (d) Human Resources Management
- (e) Contract Administration
- (f) Stock Control
- (g) Budgetary Control