

Sugathadasa National Sports Complex Authority - 2015

The audit of financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2015, comprising the statement of financial position as at 31 December 2015 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 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

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 2015 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 Sri Lanka Public Sector Accounting Standards

The instances of non-compliances with the following Sri Lanka Public Sector Accounting Standards , were observed.

(a.) **Sri Lanka Public Sector Accounting Standard 3**

In case of the non-availability of a specific Public Sector Accounting Standard for transactions and cases, the management should formulate and make use of an accounting standard at its discretion in terms of Section 12 of the Standard. Contrary to that, a sum of Rs. 32,898,350 representing 75 per cent of the balance of income that had remained in arrears over a period of 5 years, had been written off in the current year, and instead of being adjusted to the profit of each year, the said amount had been adjusted to the financial result of the year under review. Furthermore, the overdraft, amounting to Rs. 28,766,675, had been set off against the current assets by including in the cash and cash equivalents instead of being shown under the current liabilities.

(b.) **Sri Lanka Public Sector Accounting Standard 7**

- (i) Due to failure in reviewing the useful life of non-current assets annually, the fixed assets costing Rs. 259.8 million had still been in use despite being fully depreciated. Accordingly, action had not been taken to revise the error in the estimate in terms of Sri Lanka Public Sector Accounting Standard 03.

- (ii) In case that an asset is revalued, the entire category which the said asset belongs to, should be revalued in terms of Section 49 of the Standard. However, when machinery and equipment had been revalued by the Authority, the machinery and equipment costing Rs. 8,307,878 as at 01 January 2015, that had been made use of in Bogambara, Nuwara Eliya, and R. Premadasa Stadium had not been revalued.
- (iii) In terms of Section 69 of the Standard, depreciation should be started on an asset once it is made available for use. However, only the foundation of the shops and office building at the Sugathadasa Indoor Stadium, had been constructed, and the sum of Rs. 16,103,042 incurred thereon, had been capitalized in the year 2014, thereby provisioning a sum of Rs. 805,152 as depreciation for the years 2014 and 2015.
- (iv) The necessary disclosures had not been made in terms of Section 90 of the Standard relating to the revalued machinery and equipment valued at Rs.9,334,652.

2.2.2 Contingent Liabilities

The contingent liability arisen in the wake of a case filed at the District Court, Nugegoda requesting a compensation of Rs. 50 million by the relatives of the girl who had died in a fatal accident involving a dual-purpose vehicle belonging to the Authority, had not been disclosed in the financial statements, whilst action had not been taken in terms of Financial Regulations on the said accident.

2.2.3 Unexplained Differences

The following observations are made.

- (a) According to the financial statements, the value of the repayable deposits amounted to Rs. 10,669,696 in the year under review, but the said value amounted to Rs. 15,191,048 in accordance with the schedules, thus observing a difference of Rs. 4,521,352.
- (b) According to the accounts of the Authority for the year under review, the value receivable from the Sri Lanka Cricket Institute amounted to Rs. 21,153,845, but that value amounted to Rs. 18,373,845 in accordance with the accounts of the Sri Lanka Cricket Institute, thus observing a difference of Rs. 2,780,000.

2.2.4 Accounts Receivable and Payable

The balances recoverable from sundry debtors totaled Rs. 43,912,053, and the Authority had not taken action productively to recover a sum of Rs. 32,744,245 continued to exist over a period of 05 years in that balances.

2.2.5 Lack of Evidence for Audit

The evidence relating to the following Items of Account, had not been made available to audit.

<u>Item of Account</u>	<u>Value</u> Rs.	<u>Evidence not Made Available</u>
Trade and other debtors, and retention money.	71,696,742	Verification of balances and detailed schedules.
Stock.	2,149,491	Stock Registers and Survey Reports.

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

The instances of non-compliances with Laws, Rules and Regulations, etc. observed in audit are as follows.

<u>Reference to Laws, Rules, and Regulations</u>	<u>Non-compliances</u>
(a.) Section 3(2) of the Sugathadasa National Sports Complex Authority Act, No.17 of 1999.	A post of Working Director had not been included in the approved cadre of the Authority; however, a member of the Board of Directors had been appointed to the post of Working Director on the basis of paying a sum of Rs. 60,000 monthly.
(b.) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
I. Financial Regulation 396 (d).	The Authority had not taken timely action on 22 cheques valued at Rs. 420,598 that had remained uncashed for more than 6 months from the date of issue.
II. Financial Regulation 571.	Action had not been taken either to refund or credit to Revenue the deposits valued at Rs. 2,386,109 that had remained lapsed for more than 2 years.
III. Financial Regulation 754.	Inventory Books had not been balanced at the end of the financial year.
IV. Financial Regulation 755 (1).	Before the officer who is 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, an acknowledgement from the officer to whom the stores, etc. are handed over. Nonetheless, the Store Keeper who had retired on 02 February 2016, had not acted in that manner.

- V. Financial Regulation 756. The Board of Survey had not been conducted as at 31 December of the year under review.
- VI. Financial Regulation 758. Action had not been taken to identify the unnecessary or unusable stocks by making test checks.
- VII. Financial Regulation 762. As purchases had been made without determining stock levels, excessive stocks existed. Stock balances valued at Rs. 1,252,847 relating to stationeries, electrical fittings, plumbing accessories, and inks that had not been issued for 1-13 years, existed.
- (c.) Treasury Circular, No. IAI/1/2002/02, dated 18 November 2002. A separate register had not been maintained for computers and software.
- (d.) Guideline 5.4.12 of the Government Procurement Guidelines – 2006. Details relating to the Value Added Tax paid, had not been furnished to the Auditor General monthly.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2015, had been a deficit of Rs. 246,797,597 as compared with the corresponding deficit of Rs. 71,308,087 for the preceding year, thus indicating a deterioration in the financial result of the year under review by Rs. 175,489,510 or 246 per cent as compared with the preceding year. The decrease in the revenue by a sum of Rs. 34,992,303, and allocation of Rs. 32,898,350 for doubtful debts in the year under review, had mainly attributed to the said deterioration in the financial result.

The analysis on the financial results of the year under review and 4 preceding years revealed that the financial result had deteriorated from the year 2012 up to 2015. However, as compared with the year 2013, the deficit had decreased in the year 2014 and increased in the year under review. The employee remuneration, depreciation on non-current assets, and Government taxes are adjusted to the financial result, the surplus of the Authority in the year 2012 amounting to Rs. 90,592,946 had continuously improved, and deteriorated to Rs. 799,261 in the year under review.

3.2 Analytical Financial Review

The current ratio of the preceding year being 2.61 had dropped to 1.60 in the year under review, whilst the quick ratio had also dropped from 2.5 to 1.52. Accordingly, the potential of the Authority to settle the short term liabilities had deteriorated.

4. Operating Review

4.1 Performance

The objectives of the Authority are not specifically stated in the Sugathadasa National Sports Complex Authority Act, No.17 of 1999 according to which the Authority had been established. However, the activities mentioned included : facilitation of infrastructure for conducting track and field and swimming events, and training sessions, providing infrastructure facilities for conducting examinations , seminars , summits and public recreation, providing hostel facilities for sportsmen, and providing parking facilities for those visiting the premises in that connection. The following observations are made in this connection.

- a) Due to failure in maintaining the Sports Hotel being administered and owned by the Sugathadasa National Sports Complex Authority, by covering with wire mesh properly, in the year 2015 it was observed that those being accommodated had been severely affected by the pigeons.

- b) As the 400 meter synthetic track constructed in the year 2011 incurring a sum of Rs. 112 million, had become damaged after 2 months, the track and field events could not be held.

4.2 Management Activities

The following observations are made.

- (a.) With the objective of increasing revenue through the facilitation of promotional activities of the private institutions, and increasing the sales of the services provided by the Authority, it had been planned to erect 02 digital advertisement screens at the premises of the Sugathadasa Indoor Stadium facing the Sirimavo Bandaranayake road, Colombo under an estimate of Rs. 10 million. Accordingly, only one screen had been erected at an expenditure of Rs. 4.9 million. However, due to failure in taking action to increase the sales of the services provided by the Authority by advertising on the services, the Authority had failed to achieve the intended objective. Furthermore, a sum of Rs. 5 million from the estimated amount had been transferred without a proper approval to the project for the construction of administrative building of the outdoor stadium.

- (b.) A project for the installation of security cameras had been implemented without a proper approval by utilizing the provision of Rs. 10 million allocated in the year 2014 for the construction of cafeteria. However, the project had become unsuccessful due to blurred pictures generated by the security system, and the cameras often becoming non-functional.
- (c.) Although a businessman had been allowed to maintain the cafeteria of the Sports Hotel belonging to the Authority without an Agreement, for a period of 4 months, action had not been taken even by March 2018 to recover the sum of Rs. 252,929 on taxes, and charges for electricity and water relating thereto.

4.3 Idle and Under-utilized Assets

Three rooms of the Sports Hotel of the Authority comprising 42 rooms, had remained unused for a period of one year, whereas the beverage hut in extent of 800 square feet had remained unused for 08 years.

4.4. Uneconomic Transactions

The following observations are made.

- (a.) Due to failure of the Authority to pay the Value Added Tax on time, a surcharge amounting to Rs. 3,310,537 had remained payable to the Commissioner of Inland Revenue.
- (b.) Although Cabinet approval had been granted to implement the works worth less than Rs. 30 million through Land Reclamation and Development Company without following the procurement procedure, the renovation of the Sports Hotel estimated to be Rs. 63 million had been divided in to 03 stages and assigned to a company selected out of procurement procedure, on 08 April 2015. The said work should have been completed by 04 August 2015 as per agreements, but remained incomplete even by March 2018.
- (c.) The cafeteria with an area of 990 square feet that had remained unused for about 10 years, had been leased out without calling for quotations in the year 2015 for a monthly rental of Rs. 40,000. The lessee had made use of another area of 214 square feet without making a payment.

4.5 Staff Administration

Twenty seven officers recruited to the security service by the Authority had not been attached to that service; instead, they had been attached to the posts such as, cashier, and internal auditor.

4.6 Utilization of Vehicles

A Cab belonging to the Ministry of Sports had been insured by the Authority without being taken over properly. That vehicle had been withdrawn from use due to not being repaired.

5. 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.

Areas of Systems and Controls

Observations

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| (a.) Assets Management. | (i) Failure to accurately capitalize the value of the assets.
(ii) Failure to maintain the Register of Fixed Assets in an up-to-date manner.
(iii) Failure to revalue and account the assets in use despite being fully depreciated. |
| (b.) Accounting. | The software purchased for accounting does not cover the entire accounting system. |
| (c.) Control of Debtors. | (i) Failure to determine limits on the maximum limit for debtors, and time.
(ii) Failure to obtain verification of balances from the debtors. |
| (d.) Human Resource Management. | Failure to properly make use of the fingerprint machines. |
| (e.) Contract Administration. | Failure to pay special attention to the preliminary facts such as, proper identification of requirements, following the Procurement Guidelines, preparation of estimates accurately, proper supervision, and recovery of liquidated damages for delays. |