

Sugathadasa National Sports Complex Authority – 2016

The audit of financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2016, comprising the statement of financial position as at 31 December 2016 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 2016 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

Due to failure in reviewing the useful life of non-current assets annually in terms of Sri Lanka Public Sector Accounting Standard 07, the fixed assets costing Rs. 468.9 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.

2.2.2 Accounting Deficiencies

The following matters were observed.

- (a.) Of the mobilization advance amounting to Rs. 46,257,776 paid for implementing 04 projects, a sum of Rs. 32,859,055 had been settled by 31 December 2016. Nevertheless, the settlement had not been shown in the accounts. As such, the Advance Account, and the Work in Progress Account had been overstated and understated respectively by that amount.
- (b.) Even though a sum of Rs. 5,718,147 had been shown in the statement of financial position as interest receivable on fixed deposits as at the last date of the year under review, the amount had been Rs. 6,706,120 in accordance with the confirmation of bank balances, thus the interest receivable on fixed deposits had been understated by Rs. 987,973 in the accounts.

2.2.3 Unexplained Differences

A difference of Rs. 5,941,349 was observed in comparing the balances relating to 05 items of account shown in the financial statements of the year under review, with the schedules relating thereto.

2.2.4 Lack of Evidence for Audit

 Evidence indicated against the following items of accounts, were not made available to audit.

Item of Account -----	Value -----	Evidence not Made Available -----
	Rs.	
(a.) Closing Stock	11,483,637	} Letters of confirmation of balances
(b.) Balances receivable from the sports associations	10,172,936	
(c.) Balances receivable	<u>33,536,437</u>	
	<u>55,193,010</u>	

2.3 Accounts Receivable and Payable

 The following observations are made.

- (a.) The total of the balances receivable amounted to Rs. 43,709,373, and of those outstanding balances, a sum of Rs. 28,246,743 continued to exist for a period of more than 10 years, but the Authority failed to recover that sum.
- (b.) Action had not been taken to settle 11 balances totalling Rs. 437,878 that had remained payable over a period of 03 years.
- (c.) Even though a sum of Rs. 8,939,262 had been allocated in respect of Value Added Tax payable for the years 2012 and 2013, action had not been taken either to remit those monies to the Department of Inland Revenue, or settle the monies in the accounts.

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

 Instances of non-compliances with Laws, Rules, and Regulations, etc. observed in audit, are shown below.

Reference to Laws, Rules, and Regulations -----	Non-compliance -----
(a.) Section 8(1) of the Finance Act, No. 38 of 1971	The budget should be prepared prior to 03 months of the commencement of the financial year, and approval of the Authority should be obtained thereon, but action had not been taken accordingly.
(b.) Public Finance Circular, No. 03/2015, dated 14 July 2015	Only the officers of the staff grade can be granted "ad hoc" Sub-Imprests at a maximum of Rs. 100,000 in one instance in respect of a specific purpose. Nevertheless, subject clerks of the Maintenance Division, and Purchasing Division, had been granted advances totalling Rs. 2,388,905 in 07 instances.

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 2016, had been a deficit of Rs. 117,402,554 as compared with the corresponding deficit of Rs. 246,797,596 for the preceding year, thus indicating an improvement in the financial result of the year under review by Rs. 129,395,042 or 52 per cent as compared with the preceding year. The said improvement in the financial result had mainly been attributed by the increase in the Government grants by Rs. 29,050,000 or 22 per cent as compared with the preceding year.

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 2016. However, as compared with the year 2014, the deficit had increased in the year 2015 and decreased in the year under review. The employee remuneration, depreciation on non-current assets, and Government taxes are adjusted to the financial result, the contribution of the Authority in the year 2012 amounting to Rs. 90,592,946 had continuously improved except for the year 2015, and reached Rs. 150,745,273 in the year under review.

3.2 Analytical Financial Review

The current ratio of the Authority had improved from 1.22 to 2.19 whilst the quick ratio had increased from 1.13 to 2.08 in the year under review as compared with the preceding year. Accordingly, the potential of the Authority to settle the short-term liabilities had increased.

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 observation is made in this connection.

Although provision amounting to Rs. 99 million had been made under special financial provisions in the year under review in respect of the project for the reconstruction of 400 meter and 200 meter synthetic tracks, that project had not been implemented in the year 2016 due to failure in completing the Procurement process.

4.2 Management Activities

The following observations are made.

- (a.) In the years 2008 and 2012, the Authority had invested a sum of Rs. 24,919,800 in Seven Day Call Deposits at a state bank. For the first 04 months, and the last 08 months in the year 2016, interest rates of 4.5 per cent and 5.75 per cent had respectively been received. An interest income of Rs. 6,706,120 had been received on the said Seven Day Call Deposits from the year 2008 up to the year under review, whilst the bank had paid interest on the aforesaid interest income at the rate applicable to the Seven Day Call Deposits. Had those monies been invested in long-term fixed deposits, a higher interest income would have been received. However, as the investment had been made in the Seven Day Call Deposit, the Authority had been deprived of an opportunity for a favourable financial benefit.
- (b.) The Sugathadasa Sports Hotel had been built with the objective of providing accommodation for the sportsmen and sportswomen visiting from rural areas for sporting events and training, but visitors had been provided with accommodation free of charge. Moreover, the security camera system installed in the Hotel had remained non-functional for a period of about one year.
- (c.) Allocation for retirement gratuity amounting to Rs. 2,770,919 had been deposited in a savings account of the Bank of Ceylon instead of being invested long-term.

4.3 Procurement and Contract Process

The following observations are made.

- (a.) The contract valued at Rs. 135 million for repairing the roof and wooden floor of the main stadium had been awarded on 03 December 2015, and it was targeted to complete the repairs by 30 November 2016. However, due to errors in the estimate, the repairs on the floor had not been done even by 30 November 2016.
- (b.) A contract valued at Rs. 29.45 million for the construction of a drainage system and laying floor tiles of the Sugathadasa indoor stadium, had been awarded on 02 February 2016. The contract should have been completed by 31 December 2016 though, the project had not been completed even by 31 December 2016.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the accounts and the draft annual report should be furnished to the Auditor General within a period of 60 days after the close of the year of accounts. However, the financial statements for the year 2016 had been furnished by the Authority on 15 August 2017.

5.2 Action Plan

The Action Plan said to have been prepared by the Authority in terms of Public Finance Circular, No. 01/2014, dated 17 February 2014 by including activities targeting the achievement of objectives with a long-term vision, had not been furnished to audit.

5.3 Budgetary Control

As variances ranging from 28 per cent to 121 per cent were observed between the estimated expenditure and the actual expenditure relating to 13 items of expenditure, the budget had not been made use of as an effective instrument of management control.

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.

Areas of Systems and Controls	Observation
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(a.) Assets Management	Failure to maintain the Register of Fixed Assets in an updated manner.
(b.) Control of Debtors and Creditors	(i) Failure to decide on the maximum limit for the debtors, and duration. (ii) Failure to obtain the confirmation of balances relating to the debtors. (iii) Failure to settle the balances receivable and payable.
(c.) Accounting	(i) Failure to make use of the entire accounting system with the software purchased for accounting. (ii) Failure to record journal entries under the approval of a responsible officer.
(d.) Budgetary Control	Significant variances between the budgeted and actual values.