

Sri Lanka National Olympic Committee - 2017

The audit of financial statements of the Sri Lanka National Olympic Committee for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of income, 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 (3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 9 of the Sports Act (Amendment) No. 47 of 1993 . My comments and observations which I consider should be published with the Annual Report of the Committee appear in this report.

1.2 Management Committee's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Enterprises 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 in 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.

The 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Committee'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 Committee'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.

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 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka National Olympic Committee as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Sized Enterprises.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards for Small and Medium Sized Enterprises

The following observations are made.

- (a) Although it had been mentioned as the revenue and expenditure should not be set off in the preparation of financial statements, except in the case of permitted standards according to Paragraph 2.52 in Chapter 2 of Sri Lanka Accounting Standard for Small and Medium Sized Enterprises, the losses on fixed asset sales amounted to Rs. 305,406 had been shown by setting off to other income during the year under review.
- (b) The present value of the gratuity provision in accordance with Paragraph 28.15 of Chapter 2 of Sri Lanka Accounting Standard for Small and Medium Sized Enterprises had not been identified and the allocation for gratuities amounted to Rs. 1,635,112 based on the half of the monthly salary for the each year from the commencement date for the staff of the Committee had been taken in to accounts under the liabilities.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) As a result of non-depreciation of assets purchased from the donation of Rs 3,093,635 that had received from the Asian Olympic Committee, the depreciation of the fixed assets had been understated by a sum of Rs. 593,918 .
- (b) The land in extent 1 rood and 20 perches alienated to the Head Office of National Olympic Committee in the year 2005 as per a Cabinet Decision had not been assessed and taken into accounts.
- (c) As a result of understating of the provision for income tax for the year under review by Rs. 204,600, the income tax expense and accrued income tax had been understated by the same value.

- (d) A sum of Rs. 6,878,916 that had to be paid to the Department of Sports Development had not been shown in the financial statements.

2.2.3 Unexplained Differences

The following observations are made.

- (a) As per the financial statements of the year, the balance receivable from the Ministry of Sports was Rs. 2,110,949 and thus it was Rs. 926,554 as per the accounts of the Ministry, there was a difference of Rs. 1,184,395 .
- (b) As per the financial statements of the year, the balance receivable from the Department of Sports Development was Rs. 640,906 and thus it was Rs. 9,614,817 according to the Departmental Accounts, there was a difference of Rs. 8,973,911 .

2.2.4 Lack of Evidence for Audit

The evidences shown against the following Items of Accounts had not been made available in audit.

Item of Accounts	Value ----- Rs.	Evidences not made available -----
(a) Group Assistance Grant Project for the Sri Lanka Basketball Federation -----		
(i) Purchasing of Basketballs	68,000	} Bills
(ii) Expenses on purchasing of food and water	102,000	
(iii) Accommodation and food expenses	831,000	
(iv) Payments for Trainers	220,000	Registers for confirmation of signatures as the money was received
(b) Funds given to the Sri Lanka Volleyball Federation Coaches' Project	264,096	The receipt issued by the Association as the money was received
(c) Trade and other balances receivable	352,611	Balance confirmation letters

(d)	Trade and other balances of payable	189,165	Balance confirmation letters
(e)	Property Plant and Equipment	174,775,158	Annual Board of Survey Reports
(f)	Grants received from the International Olympic Committee, the Asian Olympic Committee and Other Agencies	69,447,310	Confirmation letters on Grants and Bank Credit Notes for Rs. 168,079

2.3 Account Balance Receivable

Actions had not been taken to recover a sum of Rs. 173,603 recoverable from an external private institution for a period of 6 years.

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

A Procurement Plan and a Procurement Timetable had not been prepared for the year 2017 by the Committee in terms of Sections 4.2.1 and 4.2.2 of the Procurement Guidelines 2006.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Sri Lanka National Olympic Committee for the year ended 31 December 2017 was a deficit of Rs. 664,763 and thus the surplus of the preceding year as against to that was Rs. 3,740,138 a deterioration of the financial result amounted to Rs. 4,404,901 had been shown in the year under review. Even though the expenditure of the year under review had decreased by a sum of Rs. 88,743,722, the decrease in the income by a sum of Rs. 93,148,623 had mainly attributed to the deterioration in above financial results.

4. Operating Review

4.1 Performance

(a) Actions not taken as per Directives

The Sri Lanka National Olympic Committee was established on 08 April 1937 and the membership of the International Olympic Committee had been obtained in the same year. After preparation of the provisions relating to legal procedure of the Committee from the Section 18 to Section 21 of the Sports Act No. 25 of 1973 and thereafter, those Provisions had been amended at two instances. Necessary Directives and revised Directives had been enacted with regard to the National Olympic Committee made by the Minister under Section 41 of the Act, read in conjunction with Section 19 of the Sports Act No 25 of 1973 . Even though the Quarterly Reports

in respect of all funds, equipment and other resources received to the Committee through local or foreign channels and according to the Directive No. 8 (a) and the reports on matters pertaining to activities executed by the Committee within each Quarter in terms of Directive 8 (b) should be provided to the Minister, the information were not confirmed in audit whether the actions were taken in order to that Directive.

The audit had been informed by the Secretary General of the Sri Lanka National Olympic Committee on 20 February 2019 that the Attorney General's opinion had been consulted with regard to the Sports Act and the independence of the Sri Lanka National Olympic Committee.

(b) Providing Money for Sports Federations

- (i) Due to the reasons such as failing to apply for funds by the Letter Heads of the Sports Association, failure to provide confirmation as the payment were made for International Membership fee, Annual Action Plan, non - submission of previous year audited accounts and the Performance Reports of the preceding year, the total amount of funds donated to the Committee by the International Olympic Committee Members to distribute among the member associations totalled to Rs. 3,297,111 had not been distributed to 15 National Sports Associations.

- (ii) The International Olympic Committee had given a sum of US \$ 18,300 (Rs. 2,421,830) as advances to the National Olympic Committee for conducting the Hockey Tournaments of the Sri Lanka Hockey Federation in the year 2015 and 2016. Because of the elections of the Sri Lanka Hockey Federation had not been carried out, the activities of the that Federation had been placed under control of the Director General of the Department of Sports Development and since the activities of the Federation had been implemented by the Interim Committee, this donation had not been given to the Hockey Federation. The Committee had not taken actions even to aware the Director General of the Department of Sports Development regarding the Funds that had not been allocated to hold Hockey Tournaments.

4.2 Management activities

Following observations are made.

- (a) The Rules and Regulation Code of the Staff Loans issued by the Committee had not been endorsed by the Executive Committee of the Committee and actions had not been taken even by 31 December 2018 to recover the staff loan amounted to Rs. 692,860 and the interest thereon amounted to Rs 43,874 receivable from 03 officers who had resigned from the service of the Committee during the year under review.

- (b) It had been entered in to an agreement on 14 November 2014 for the purchase of software for US \$ 30,000 from an American consulting firm in New York to collect data of athletes and to provide information without following the procurement procedure and without obtaining permission from the Executive Committee and without finding whether there was a possibility to buy as locally. Out of the US \$30,000 received from the International Olympic Committee for that, a sum of US \$22,500 in 2015 and a sum of US \$ 7,500 in the year under review had been paid to the Olympic Consultancy Institute. The matters such as software maintenance and services, software installation and maintenance institution, the possibility of occurring software changes in future, obtaining of facilities at the closure of the software supplier institution had not been included in the purchase agreement entered in to with the Olympic Committee and the Service Provider. The Consultancy Institute had informed the National Olympic Committee on 04 April 2018 as a sum of US\$ 7,500 was receivable for annual maintenance works and updating activities that had not included in the Agreement relating to the 2017-2018 period. Due to non-payment of those charges, the software had been disconnected on 14 August 2018 by the Consultancy Institution. Further, the collection of all players' data and providing information had not been not carried out during this period.
- (c) The Restaurant belonging to the Committee had been leased out to a private company for a period of five years from the 01 November 2016 to a selected lessee without following the Procurement Procedure and a sum of Rs. 360,000 per month for the first three years, a sum of Rs. 375,000 for the 4th year and a sum of Rs. 390,000 for the 5th year had to be paid monthly by the lessee as per the Lease Agreement. Even though the lease agreement entered in to with the lessor on 27 January 2017 had been submitted to the office of the Registrar of Lands on 08 February 2017 for registration, the Lease Agreement had been rejected by the Registrar of Lands on 12 April 2017. The liquor sales license obtained by the Committee had been given for the Restaurant and a sum of Rs. 998,500 in the year under review to renew that license and a sum of Rs. 133,200 had been paid to the Department of Excise obtaining from the lessee in the years 2016 and 2018 as Settlement Fees for the suspension / cancellation notice. This payment was not included in the financial statements of the Committee.
- (d) The electricity facility had been obtained from one electricity meter for the entire building that had been leased by the Committee including the Restaurant and Body Building Centre and no separate meters had been fitted for it. Even though the electricity cost of amounted to Rs. 4,412,446 for the year under review had been divided among these 3 divisions, none of these schedules had been submitted to the audit.
- (e) Thirteen body building equipment cost at Rs. 10,519,450 which were fully depreciated and not obtained recommendations to dispose from an Annual Board of Survey and not obtained a proper valuation report had been leased out to the Body Building Centre private institution belonging to the Committee in the year 2016. Only a sum of Rs. 300,000 had been provided to the Committee by the relevant institution after a one year delay for this. As a result, the favorable situation which could be able to obtain from disposal of the relevant equipment had been avoided by the Committee. In addition, 26 years old fully depreciated Body Building Equipment

that were 09 years old amounted to Rs. 9,898,727 had been provided for the use of the Private Institution which is being maintained by the Body Building Center without any levy.

- (f) Despite a sum of US \$ 10,000 (Sri Lankan Rupees 1,425,159) per each had been paid to the Chairman of the Committee and the Chief Secretary of the Committee for traveling expenses and accommodation expenses on 14 March 2016 for the participation of Rio Olympic Games held in the year 2016 as per a Report of the International Olympic Committee (Olympic Games Subsidies), the Committee had spent a sum of Rs. 791,690 for the Chairman and a sum of Rs. 1,064,018 for the Chief Secretary during the year 2016. Later on, the money which had received by officers earlier were retained for more than a year period and paid back to the Committee on 06 April 2017 and 04 December 2017 .

4.3 Transactions of contentious Nature

The following matters were observed.

- (a) For the purpose of printing and supply of 2000 souvenirs at a cost of Rs. 5,200,000 in parallel to the 75th Anniversary of the Sri Lanka Olympic Committee in the year 2013, a private institution had been selected deviating from the procurement process and the contract had been awarded without being entered into an agreement. . As a 50 per cent advance of the contract value, a sum of Rs.2,600,000 had been paid on 30 September 2013 for that purpose. Even though this matter was pointed out by the previous Auditor General's Reports, actions had not been taken perform that activity or to collect the value of the advance from the contractor even by 30 November 2018 . “ The Treasurer of the Committee had informed the audit that it was expected to set off this advance payment whilst printing of the souvenirs relating to 80th Anniversary which would be held on the year 2019 by the Sri Lanka Olympic Committee in this regard ”.
- (b) It was observed that the signatures that had made for the three invoices issued from a private institution for the garments purchased from that private institution amounted to Rs. 153,450 by the Sri Lanka Basketball Federation under the Group Assistance Grant Project were different from each other. The Bills in order to confirm as the payments occurred were also not furnished to audit.

4.4 Staff Administration

The following observations are made.

- (a) **Scheme of Recruitment**
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A proper Scheme of Recruitment approved by the Executive Committee for the staff of the Olympic Committee had not been prepared.

(b) Approved Cadre

- (i) The cadre of the Committee had not been approved by the Executive Committee.
- (ii) Seven posts including Chief Operating Officer, Financial and Administrative Manager, International Program Manager, Operations Manager etc. remained in vacant for more than 02 years.

4.5 Identified Losses

The surcharge amounted to Rs.3,154 had been paid at three occasions due to the non-remittance of membership contributions to the Employees Trust Fund by the Committee .

5. Accountability and Good Governance

5.1 Action Plan

The Action Plan should be prepared based on budget showing the responsibilities at the at the end of year to be confirmed the achievement of financial and physical targets timely and for the increase of the utilization of the provided funds effectively, such a plan had not been prepared.

5.2 Corporate Plan

The Corporate Plan should consist of strategies that determine the future direction of the Committee and a Corporate Plan incorporating targets that were realistic and achievable for the performance to be adjusted to the fixed targets, had not been prepared by the Committee.

5.3 Internal Audit

An Internal Audit had not been carried out during the year under review on the activities of the Committee.

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 Committee from time to time and special attention is needed in respect of the following areas of control

System

Deficiency

(a) Accounting

(i) Setting off expenses to revenue and taking in to accounts.

(ii) Not taking Fixed Assets into accounts.

(b) Staff Administration

(i) Not obtaining approval for a Scheme of Recruitment.

(ii) Not taken actions to fill up vacancies.

(c) Financial control

(i) Not carrying out sufficient supervision for the expenses from the money provided to the Sports Clubs for projects.

(ii) Failure to take proper action to recover the arrears employee loans.

(d) Procurement Control

The Committee had not followed the Procurement Guidelines of the Democratic Socialist Republic of Sri Lanka for the purchases.