

Sugathadasa National Sports Complex Authority – 2018

1.1 Disclaimer of Opinion

The audit of financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2018, comprising the statement of financial position as at 31 December 2018 and the statement of financial performance and statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements including a summary of significant accounting policies 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 provisions of the National Audit Act No.19 of 2018 and the provisions of the Finance Act No.38 of 1971. My comments and observations which I consider should be presented to Parliament appear in this report.

I do not express an opinion, on the accompanying financial statements of the Authority. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report. I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

My opinion is disclaimed based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Authority's financial reporting process.

As per Section 16(1) of the National Audit Act No.19 of 2018, the Authority is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Authority.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My responsibility is to conduct an audit of the Authority's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section, I was not able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.5 Financial Statements

1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with the relevant Standard	Comments of the Management	Recommendation
(a) In terms of paragraph 12 of the Sri Lanka Public Sector Accounting Standards 03, the Authority had not disclosed the precised accounting policy adopted for provision of bad debts amounting to Rs.21,728,717 shown in the financial statements of the year under review. Similarly, in terms of paragraph 47 of the Standard, an entity should be retrospectively rectified the material prior period errors by re-stating the comparative figures furnished for the prior periods of which the error occurred. Nevertheless, without taking action accordingly, the prior year adjustments amounting to Rs.20,764,303 relating to the year 2017 had been adjusted to the statement of changes in equity.	Action will be taken to rectify in future.	The financial statements should be furnished according to the Sri Lanka Public Sector Accounting Standards.
(b) Even though, the fixed assets costing Rs.213,675,861 had been fully depreciated due to not reviewing the effective life period of the non-current assets annually in terms of paragraph 65 of the Sri Lanka Public Sector Accounting Standards 7, the fixed assets are being utilized further. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standards 3.	Action will be taken to rectify in future.	Even though, the assets had been fully depreciated in terms of Sri Lanka Public Sector Accounting Standards, action should be taken for revaluation of the assets already utilized.

1.5.2 Accounting Deficiencies

Audit Observation

Comments of the Management

Recommendation

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| (a) Even though, the interest revenue on fixed deposits relating to the year under review amounted to Rs.3,269,229, it was shown as Rs.11,897,204 in the statement of financial performance and as such interest revenue on fixed deposits had been overstated by Rs.8,627,975. Even though, the interest on fixed deposits receivable as at 31 December 2018, amounted to Rs.2,821,082, that value had been shown as Rs.13,630,190 and as such the interest receivable had been overstated by Rs.10,809,108. | Action will be taken to rectify in future. | The interest on fixed deposits should be computed accurately and brought to account on accrual basis. |
| (b) Even though, the balance of the fixed deposits according to the financial statements amounted to Rs.40,398,589 that value had been shown as Rs.37,483,793 according to the confirmations of bank balances, thus the fixed deposits as at 31 December of the year under review had been overstated by Rs.2,914,796. | Action will be taken to rectify in future. | The value of the fixed deposits should be brought to account accurately. |
| (c) According to the Section 3 of the Economic Service Charges Act No.13 of 2006, it was shown the Economic Service Charges already paid could not be deducted from the income tax payable amount if they are older than 3 years. Nevertheless, the economic service charges brought forward from the year 2013 amounting to Rs.679,535 had been shown as receivable income. | Action will be taken to rectify in future. | Action should be taken to adjust the Economic Service Charges accurately in the accounts. |

- (d) The assets costing Rs.779,914,195 relating to 21 projects which completed the work and included in the work-in-progress amounting to Rs.844,352,325 existed as at the end of the year under review had not been capitalized. Therefore, the depreciation relating to above assets had been understated by Rs.19,497,854 in the financial statements. Similarly, the depreciation for other assets as well had been understated by Rs.29,065,594 for the year under review.
- Action will be taken to rectify in future.
- The depreciation expense for fixed assets should be computed accurately and brought to account.

1.5.3 Unreconciled Control Accounts or Reports

	Subject	Value according to Financial Statements	Value According to Subsidiary Reports	Difference	Comments of the Management	Recommendation
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		Rs.	Rs.	Rs.		
	Recoverable Balances					
(i)	Sri Lanka Volley ball Association	3,479,608	987,449	2,492,159	Action will be taken to rectify in future.	The unreconciled balances should be identified and adjusted in the accounts accurately.
(ii)	Sri Lanka Cricket	13,953,845	13,573,845	380,000		
(iii)	Sri Lanka Athletic Sports Association	1,903,798	121,358	1,782,440		
		<u>19,337,251</u>	<u>14,682,652</u>	<u>4,654,599</u>		
(iv)	Staff Loans	27,521,733	27,313,252	208,481		
(v)	Department of Sports Development	1,758,165	0	1,758,165		
	Payable Balances					
(vi)	Payable to a private firm	3,118,902	3,832,044	713,142		

1.5.4 Lack of written Evidence for Audit

	Subject	Amount	Evidence not available	Comments of the Management	Recommendation
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		Rs.			
(i)	Trade Debtors	39,995,540	Balance confirmations relating to 82 accounts	Action will be taken to rectify in future.	Adequate and expertize audit evidence should be furnished.
(ii)	Trade Debtors	987,703	Age analysis		
(iii)	Payable amount for 400 metres runway	13,713,615	Balance confirmations		
(iv)	Stocks of R.Premadasa Playground	2,149,491	Physical verification reports		

1.6 Accounts Receivable and Payable

1.6.1 Accounts Receivable

Audit Observation	Comments of the Management	Recommendation
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The total of the accounts receivable as at 31 December 2018 amounted to Rs.39,995,539 while action had not been taken to recover a sum of Rs.31,665,703 recoverable from 101 debtors older than 01 year included in above balance.	Action will be taken to rectify in future.	Proper action should be taken to recover the receivable amounts promptly.

1.6.2 Accounts Payable

Audit Observation	Comments of the Management	Recommendation
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(a) Even though, a sum of Rs.8,939,262 had been allocated for Value Added Tax payable for the years 2012 and 2013, action had not been taken to remit those taxes to Department of Inland Revenue or to take action to settle in the accounts.	Action will be taken to rectify in future.	Prompt action should be taken to settle the payable amounts.

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| (b) | Action had not been taken to settle a sum of Rs.1,124,068 payable to Colombo Municipal Council for over a period of 11 years. | Action will be taken to rectify in future. | Prompt action should be taken to settle the payable amount. |
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1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules and Regulations	Non-compliance	Comments of the Management	Recommendation
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(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulation 371(2)(c)	Even though, the advances obtained should be settled immediately after the completion of the purpose action had not been taken to settle the advances amounting to Rs.102,258 paid from the year 2013 up to the year 2018.	Action will be taken to rectify in future.	Action should be taken in terms of the relevant Financial Regulation.
(ii) Financial Regulation 396(d)	Action in terms of this Regulation had not been taken in respect of 02 cheques issued but not presented for payment and elapsed 06 months totalling Rs.82,933.	Action will be taken to rectify in future.	Action should be taken in terms of the relevant Financial Regulation.
(iii) Financial Regulation 880 and 891(1)	Action had not been taken to obtain security deposits from the officers handling cash in the Authority and a Security Register had not been maintained.	Action will be taken to rectify in future.	Action should be taken in terms of the relevant Financial Regulation.

- (b) Paragraph 3.1 of the Public Administration Circular No.30/2016 dated 29 December 2016. A fuel consumption test for 15 motor vehicles of the Authority had not been carried out after the year 2013 in terms of the instructions of the circular. Action will be taken to rectify in future. Action should be taken in terms of the provisions of the circulars.

2. Financial Review

2.1 Financial Results

The operating results of the year under review had been a deficit of Rs.80,179,897 as compared with the corresponding deficit for the preceding year amounting to Rs.154,960,050 thus observed an improvement of Rs.74,780,153 in the financial results. Increase of operating income by Rs.18,321,994 and increase of Government grants by Rs.58,940,000 had mainly attributed for this improvement.

2.2 Ratio Analysis

The current ratio had increased from 1.55 to 2.42 in the year under review as compared with the preceding year. Accordingly, the ability to settle the short term liabilities of the Authority had improved as compared with the preceding year.

3. Operating Review

3.1 Human Resources Management

Audit Observation	Comments of the Management	Recommendation
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Seventy six vacancies had existed including 05 vacancies in senior level in the Divisions of Technical, Planning, Media, Electrical, Mechanical and Consultancy by the end of the year under review and the Authority had failed to fill those vacancies.	Action will be taken to rectify in future.	Prompt action to be taken to recruit approved cadre.

3.2 Use of Resources belonging to other Organizations

Audit Observation	Comments of the Management	Recommendation
----- A motor vehicle and an ambulance belonging to 2 external institutions had been utilized for the activities of the Authority without a formal course of vesting.	----- Action will be taken to rectify in future.	----- Action should be taken for formal vesting of assets.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
----- Even though, in terms of Section 8(1) of part II of the Finance Act No.38 of 1971, the Budget should have been prepared before commencing of the ensuing financial year and should be approved by the Governing Board of the Authority, action had not been taken accordingly. A comparison of the budgeted revenue and expenditure with the actual revenue and expenditure presented with the financial statements for audit, revealed the variances ranging from 14 per cent to 133 per cent relating to 15 items of revenue and variances ranging from 12 per cent to 608 per cent relating to 20 items of accounts. Thus it was observed that the Budget had not been made use of as an effective instrument of management control.	----- Action will be taken to rectify in future.	----- The Budget estimates should be prepared accurately and to be used as an instrument of controls and the variances should be taken into consideration periodically.