

Sugathadasa National Sports Complex Authority - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, 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 Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Sugathadasa National Sports Complex Authority as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

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

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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 misstatement, 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 intend 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 Sub 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 Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the authority's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the authority, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the authority has complied with applicable written law, or other general or special directions issued by the governing body of the authority ;
- Whether the authority has performed according to its powers, functions and duties,
- Whether the resources of the authority had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
Although the fixed assets costing to Rs. 706,536,074 were fully depreciated but continued to be utilized due to non-review in annually for non-current assets in accordance with paragraph 65 of Sri Lanka Public Sector Accounting Standards 07, However, the estimates of the useful life of these assets had not been revised and adjusted in the accounts.	Agree. Although the fixed assets have been fully depreciated, the process of revaluation of the assets is currently being carried out by identifying the asset classes that include the assets of still in use. This matter has not been done from many years and many practical problems have arisen in carrying out this. However, using instructions of the currently appointed management board and the instructions indicated in the circular 01/2017 issued by the Ministry of Finance and Masse media, this audit process is to be completed immediately and the fair	Should be submitted financial statements in accordance with Sri Lanka Public Sector Accounting Standards.

value of the assets is to be accounted. The revaluation will be completed and submitted in the year 2022.

1.5.2 Accounting Policies

Audit Observation

Although the financial statements indicated that assets acquired on capital grants are amortized in accordance with Accounting policy 4.4, the assets amounting to Rs. 2,671 million received by the authority in 18 years from 2002 to 2020 had not been amortized for the acquisition of non-current assets.

Management Comment

Agree. The problem related to the amortization of the grants received to the authority for the acquisition of non-current assets has been going on from many years and disclosing information in this regard is in a very problematic manner. However, based on the available information, these grants will be amortized in the submission of the financial statements of the year 2021.

Recommendation

Financial statements should be prepared in accordance with the mentioned accounting policies.

1.5.3 Accounting Deficiencies

Audit Observation

- (a) Although the gratuity allocation is Rs. 82,147,340 as per the financial statements as at 31 December 2020, since the correct gratuity allocation was Rs. 83,270,195, the gratuity allocation and gratuity expense for the year was understated by Rs. 1,122,855 and due to that the deficit for the year was indicated in the financial statements less than that amount.

Management Comment

- The total cost of the conversion year is Rs. 3,464,795 million. The actual amount paid in cash is Rs. 3,464,795 million.

Recommendation

- Proper accounting of conversion expenses and preparation of financial statements.

- (b) 09 construction projects with a value of Rs. 195,063,403 from the year 2017 to the year 2020 were indicated in the unfinished work balance of the financial statements as at 31 December 2020. Depreciation of Rs. 7,358,187 was indicated as less in the financial statements due to the failure to inspect the projects and obtain the completion certificates.

- Construction projects worth Rs. 75,658,354.80 from the completed construction projects from the year 2017 to the year 2020 have been transferred from the unfinished work account to the asset account. Completion certificates will be obtained for the rest of the projects and the relevant assets will be transferred

- Obtaining completion certificates promptly and accurately accounting for depreciation in the financial statements.

to the accounts and the related depreciation will be indicated in the financial statements as required.

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| (c) | The accumulated loss at the beginning of the year under review amounting to Rs. 1,841,071,525 was indicated as consolidated fund instead of being indicated as accumulated fund in the financial statements. | No comments. | Financial statements should be submitted correctly. |
| (d) | Rs. 8,418,371 irrecoverable value added tax was overstated due to recognition under current assets without adjusting to the financial statements. | Agree. Corrected on 12/31/2021. | Financial statements should be submitted correctly. |

1.5.4 Unreconciled Control Accounts or Records

Audit Observation

Management Comment

Recommendation

Although the sum of balances to be collected from 09 sports associations, sports development department, national olympic committee and sports associations included in the trade debtors of the financial statements of the authority is Rs. 8,982,811, the sum of the balance was Rs. 3,004,959 according to the financial statements of those institutions and due to that, a difference of Rs. 5,055,523 was observed between these balances.

A committee which includes board of management member executive director is act about the bad debts and a balance of Rs. 3,268,986.08 was recovered as at 06/01/2022 and the balances that have not yet been charged will be checked and collected and the balances will be settled promptly regarding the unsettled balance of Rs. 5,055,523.00 mentioned in this query.

Action should be taken to identify unreconciled balances and correct adjustments in the accounts.

1.6 Receivable and Payable Accounts

1.6.1 Receivable Cash

Audit Observation

Management Comment

Recommendation

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| (a) | The receivable (trade) balance amounting to Rs. 22,370,836 from the period of 01 to 13 years had not been | A committee which includes board of management member executive director is act about the bad debts | Take formal action for prompt recovery of the due |
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recovered.

and a balance of Rs. 3,268,986.08 amount. was recovered as at 06/01/2022 and the balances that have not yet been charged will be checked and collected and the balances will be settled promptly regarding the unsettled balance of Rs. 5,055,523.00 mentioned in this query.

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| (b) | Rs. 3,297,976 of withholding tax receivable for a period of 8 years was not included in the income tax calculation reports annually and remained uncollectable. | Agree. Since our authority does not have to pay income tax, it was not necessary to include it in the income tax calculation reports. | Accounts receivable balances that have been outstanding for a long time should be properly adjusted. |
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1.6.2 Payable Cash

Audit Observation	Management Comment	Recommendation
(a) The value of the refundable deposits paid for the reservation of stadiums, playgrounds and swimming pools was Rs. 16,675,900 in the financial statements of the authority and the deposit amounting to Rs. 11,936,484 in that value, which was no longer liable from the year 2016 to the year 2019, had not been taken into income.	Agree. Deposits repayable within two years will be exempted and deposits of more than 02 years will be taken as income for the year ending 31-12-20210	Settle the outstanding balance payable from a long time.
(b) As the construction works of the projects were not carried out as scheduled, the balances of retained money amounting to Rs. 17,741,095 from the period of 01 to 06 years were not recognized and not taken into the income.	Agree. The money retain for this value has not been requested yet and if there are no deficiencies, arrangements will be made to release the money and take to remaining money as income.	The balances that are no longer liable should be identified and taken into income.

1.6.3 Advances

Audit Observation	Management Comment	Recommendation
The capital advance value of Rs. 11,072,007 related to 02 accounts from a period of 04 years had not been	Agree. The final bills and interim bills related to these projects have been received at	Arrangements should be taken to settle the capital advances.

settled.

present and these advance payments will be set off during the payment of those bills.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial Regulations 880 and 891(1) of the Democratic Socialist Republic of Sri Lanka.	No arrangements were made to obtain bail from the officers in charge of the money and no bail register was maintained.	Agree. According to circulars from the National Accounts Department of the Ministry of Finance, chosen the method of bailing that suit for the authority and have arranged to get the bail from the officers in charge of money and arranged to keep a register of bail.	Should be act in accordance with financial regulations.
(b) Public Administration Circular No. 02/2018 dated 24 January 2018	(i) Annual performance contracts were not signed for all staff.	Agree. It will be corrected in future.	Should be act in accordance with the circular provisions.
	(ii) A senior officer was not appointed with the responsibility of preparing a human resource development plan, organizing capacity development programmes and conducting skill development programmes.	Agree. It will be corrected in future.	

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 76,964,188 and the corresponding deficit in the preceding year amounted to Rs. 65,069,728. Therefore a

deterioration amounting to Rs. 11,894,460 of the financial result was observed. The main reason for the deterioration was a decline of operating income by 118,221,194.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) The R. Premadasa International Cricket ground, owned by the Sugathadasa National Complex Authority, had been leased to Sri Lanka cricket institute for a lease period of 30 years at a fixed rent of Rs. 750,000 per quarter from 01 November 2006. But the authority had lost the recoverable income due to not including the relevant conditions in the lease agreement to revise the lease rent to match the market value once in a certain period of time. Also, according to the lease agreement, Sri Lanka Cricket institute had not completed two construction projects agreed to be carried out at the ground.	Some advice has been received regarding the amendment of the lease agreement and advice has been sought from the Attorney General through the legal division of the authority to get a clear advice. After receiving the instructions, the lease agreements will be amended and acted accordingly.	Manage revenue collection to the authority in a formal manner.
(b) The money related to the gratuity fund has been deposited since the year 2015 and the balance is Rs. 5,322,801 as at 31 December 2020. The authority had not managed to invest the money effectively.	No requests were made to allocate money from the Ministry of Finance under recurring expenses for gratuity payments in this year and gratuity payments will be exempted from the money in the gratuity fund and the amount that will not be exempted will be calculated and invested effectively from this year.	Funds should be invested effectively.
(c) According to the Management board decision No. 31/2020 dated 11 March 2020, the value of the sports equipment in the ground was Rs. 2,149,491 when the R. Premadasa international cricket ground was assigned to Sri Lanka cricket institute, approval was given to recover according to the Sri Lanka cricket board. But, this	Some instructions have been received regarding the amendment of the lease agreement and in order to get a clear advice, advice has been sought from the Attorney General through the legal department of the authority. After receiving that advice, the tax agreements will be amended and dealt with accordingly and the charge of wholesale loss will also be dealt with	Action should be taken to recover the receivable amounts.

figure had not been recovered from the Sri Lanka institute by 31 December 2021. based on that advice.

- (d) The authority had not taken action to recover the sum of Rs. 2,048,660 from 14 construction companies as at 31 December 2020 for the water and electricity used by the contractors in the construction work. Agree. The amount of Rs. 1,114,010.04 has been recovered by the relevant contract agencies as at 31/12/2021. The remaining chargeable amount will be recovered through paid bills. Action should be taken to recover the chargeable amounts.

3.2 Delays in projects or Capital Works

Audit Observation

It was observed 2 years and 5 months delay in Sugathadasa National Complex Authority staff accommodation building construction project, 2 years delay in the construction project of the main gate and surrounding steel fence of Sugathadasa outdoor stadium and a delay of 1 year and 04 months in the renovation project of changing rooms, toilets and cafeteria of Sugathadasa indoor stadium as at 31 December 2021. Due to the non-completion of the construction of these projects, which had been paid Rs. 28,878,856 for the advance of work completion, it was delayed to settle the advance amount of Rs. 11,585,802 to the authority as at 31 December 2020.

Management Comment

In relation to the construction project of the accommodation building, a recommendation has been given to extend the construction period of the consultant institute while the construction is being carried out with considering the Covid-19 epidemic situation and the imposition of movement restrictions in the country, given the building to quarantine people as a quarantine center based on the needs of the country and the shortage of raw materials and the weather conditions. Also, the advance payments have been settled according to the agreement from the currently paid bills related to this project and it has been informed in the progress review discussions that the final bill is currently being checked by the consultancy firm. Accordingly, the remaining advance amount will be fully settled by the final bill. The project work related to the changing room and cafeteria renovation project was completed in the year 2018. Also, since this project is a building that is more than 20 years old, the repair work was done this, but due to some defects, the delivery and acceptance work was delayed and the final bill was also

Recommendation

Arrangements should be made to settle the claims to the authority without delay.

delayed. The final bill has been checked by the consultancy firm yet and submitted to this authority and the full advance amount will be settled from it.

3.3 Deficiencies in Contract Administration

Audit Observation

According to the contract dated 13 October 2011, the repair and improvement works of the Sugathadasa National Sports Complex Authority's football ground were given to a private company at a value of Rs. 32,000,000 (without tax) to be completed within a period of 6 months. Even after the completion of the playground, the playground had become unusable due to defects. The authority had failed to rectify the deficiencies in this playground and the authority had not taken legal action to recover Rs. 38,272,147 spent by the authority for these works.

Management Comment

The contractor was continuously informed with point out the deficiencies in writing in this regard. Accordingly, the contract agency rectified the deficiencies. According to the instructions of the Attorney General, the running track and playground were renovated by the then board of directors and the chairman due to this stadium, which is the only international institution in Sri Lanka, was unable to conduct sports events and training activities for the athletes in the country. Also, about Rs. 11 million, which is a part of the retention money related to the project and the final bill, has been retained without payment to the contract agency.

Recommendation

The amount spent on the project executed without proper standards should be recovered from the authority.

3.4 Human Resource Management

Audit Observation

The Sugathadasa National Sports Complex Authority had a total of 69 vacancies including 02 senior level vacancies of Assistant Director Media, Electricity and 04 tertiary level posts of Internal Auditor, Maintenance Officer, Procurement officer and Security manager and the authority had failed to fill the vacancies.

Management Comment

I kindly inform that the posts of Assistant Director (Administration), (Technology) were not vacant in the year 2020. The new recruitment procedure has been submitted to the Department of Management Services to conduct recruitment for senior level posts in Media and Electrical. Not yet approved.

Recommendation

Recruit the approved staff without delay.