

## **Sugathadasa National Sports Complex Authority – 2021**

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### 1. Financial Statements

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#### 1.1 Qualified Opinion

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The audit of the financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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**

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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**

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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	Comments of the Management	Recommendation
(a) According to Paragraph 65 of Sri Lanka Public Sector Accounting Standard No. 07, the residual value and useful life of an asset should be reviewed at least at the end of each annual reporting period, however as at 31 December 2021, assets valued at Rs.731.3 million were fully depreciated and in use. Meanwhile, the estimate of the useful life of these assets had not been reviewed and adjusted in the accounts.	During the presentation of the final accounts of the year 2022, the adjustment of the relevant accounts will be done and presented.	The financial statements should be submitted in accordance with Sri Lanka Public Sector Accounting Standards.
(b) It was not possible to confirm the accuracy of the audit surplus balance of Rs.9.3 million for a period of 10 years due to non-disclosure of information related to revaluation in accordance with Paragraph 90 of Sri Lanka Public Sector Accounting Standard No. 7 and non-maintenance of schedules related to the revaluated assets.	This error will be rectified by transferring the surplus to the Accumulated Fund through amortization.	The financial statements should be submitted in accordance with Sri Lanka Public Sector Accounting Standards.

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) Depreciation related to the assets that were removed from use, considering it as a decrease in the depreciation expense, since the depreciation of those assets is deducted from the total depreciation expense, the depreciation expense of the year of Rs. 4.8 million had been understated in the financial statements, the surplus for the year was overstated in the financial statements.	Agree. The accounting error has already been corrected.	Depreciation expenses should be properly calculated and financial statements should be prepared.
(b) During the period from the year 2017 to the year 2021, the construction work has been completed and the cost that will be used now is Rs. 128 million 05 construction works were shown in the unfinished work balance without capitalization in the financial statements as at 31 December 2021. Due to this, the assets which are being used, Rs. 3 million depreciation was understated in the financial statements.	04 projects will be capitalized in the future. The final bill of the rest of the project has been submitted an application for completion certificate has been made by the consultancy firm in several discussions however still not submitted. Therefore, the construction work of this project has been completed by now, but the payment for the final bill has not been made.	Completion certificates should be obtained promptly and financial statements should be prepared correctly.
(c) The capital grant received in the year 2021 by the authority is Rs. 1.7 million due to the fact that the financial statements were presented as recurring grants contrary to the accounting policy used, income was overstated and capital grants were understated in the financial statements.	Agreed. This error will be corrected during the preparation of the 2022 financial statements.	The financial statements should be prepared accurately.

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| <p>(d) Withholding tax of Rs. 3.3 million receivable from a period of 8 years and provisions for income taxes not liable to payment from prior to 2019 amounting to Rs. 1.6 million had not been reconciled in the accounts.</p> | <p>As withholding taxes older than two years cannot be offset against income tax, it will be checked and corrected in the presentation of the 2022 financial statements. .</p>   | <p>Provision accounts for withholding tax and income tax should be reconciled.</p>                              |
| <p>(e) 72 per cent provision for the bad debtors had been made without following a clear basis for the provision by the debtors of Rs. 23.7 million.</p>   | <p>Instead of considering the uncertainty of recovering the debtor balances separately for each debtor, a policy of debt allocation and write-off has been prepared in relation to the three main sectors of government Institutions, Associations/Federations and private and allocations have been made accordingly.</p> | <p>The creditworthiness of each borrower should be analysed and bad and doubtful debts should be separated.</p> |

## 1.6 Receivable and Payable Accounts

### 1.6.1 Receivable Accounts

#### Audit Observation

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The action had not been taken to recover 63 balances of trade receivables amounting to Rs.22.3 million coming from period of one year to 13 years.

#### Comments of the Management

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From time to time by discussions and remind letters have been informed with the heads of the institutions where arrears are to be collected and in the future also awareness will be given to these institutions and efforts will be made to inform the progress in this regard.

#### Recommendation

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Arrangements should be made to collect the outstanding balances coming from long period of time.

### 1.6.2. Payable Accounts

#### Audit Observation

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The refundable deposits obtained in the allocation of the stadium and swimming pool in the years 2020 and 2021 amounting to Rs. 3.1 million had not been settled.

#### Comments of the Management

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Clienteles have been informed through letters to confirm the balance for this purpose by 31-12-2021.

#### Recommendation

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Arrangements should be made to settle the refundable deposits.

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

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Reference to Laws, Rules Regulations	Non-compliance	Comments of the Management	Recommendation
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The Para 1.2.1 (a) of the Procurement Guidelines of the Socialist Republic of Sri Lanka 2006	Although the cleaning contract period of Sugathadasa National Sports Complex Authority had ended on 30 November 2020, without selecting a new supplier in accordance with the procurement guidelines and, services were received until 30 September 2022, and for that, in the year under review, expenditure amounting to Rs. 6.4 million had incurred.	A paper was presented to the Board of Management as there were practical issues arising in the procurement process. Accordingly, the management board has approved the cleaning service till 30.06.2022 from the currently cleaning company.	The action should be taken to comply with the the Procurement guidelines

## 2. Financial Review

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### 2.1 Financial Result

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The operating result of the year under review amounted to a deficit of Rs. 18.3 million and the corresponding deficit in the preceding year amounted to Rs. 75 million. Therefore an increase amounting to Rs. 93.3 million of the financial result was observed. The main reason for this growth was the capital grants of Rs. 119.5 million had been recognized as an income of the year.

## 3. Operational Review

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### 3.1 Management Inefficiencies

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Audit Observation	Comments of the Management	Recommendation
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(a) The R. Premadasa International Cricket Stadium, owned by the Sugathadasa National Sports Complex Authority, was leased to Sri Lanka Cricket for a period of 30 years at a fixed rent of Rs.750,000 per quarter from 2006. When making the agreement, the authority had lost the	Since this agreement is a signed agreement based on the decision of the Cabinet of Ministers, the opinion of the Management Board and other ideas for amending the agreement have been conveyed to the Attorney	Arrangements should be made to revise the lease agreement.

advantage of getting the rent based on the conversion price due to not including in the lease agreement the conditions to revise the annual rent to match the current market value.

General and the advice of the Attorney General has been sought.

(b) The sum of estimated monthly rent income for 03 shop houses built facing Arthur Silva Mawatha at Sugathadasa Outdoor Stadium for the purpose of earning income, is Rs. 113,000 . Due to the non-leasing of these shops, the authority had lost an annual rental income of Rs.1,356,000.

Inform that two shop rooms have been used for two essential reasons of the institute.

The shops rooms should be leased out promptly and focus should be placed on revenue generation.

(c) The action had not been taken to acquire and handed over to the authority of the ownership of the land of Sugathadasa National Sports Complex Authority Indoor Stadium Outdoor Stadium and R. Premadasa Sports Complex until 30 September 2022.

It is observed that actions have been taken regarding the transfer of land to this authority. A few years ago, there was an exchange of letters between this authority, the Colombo Regional Secretariat and the Urban Development Authority.

Arrangements should be made to transfer the ownership of the land to the authority.

Kindly inform that after finding the relevant files and verifying at which stage the process has stopped; further action will be taken in coordination with the Urban Development Authority.

(d) Due to not taking necessary action to prevent water leakage in the water purification system established for the main swimming pool and diving pool of the Sugathadasa National Sports Complex Authority and the children's swimming pool, the water fee of the authority's indoor stadium in the year 2021 had increased by Rs.3.8 million or 71 per cent.

The procurement activities had been started in the year 2021 and 2022 to carry out the project related to the prevention of water leakage. However, due to the Corona disaster and the economic decline in the country and the circulars issued by the Ministry of Finance, as instructions were given to stop new projects, it was decided to do it in the year 2023. At present, necessary measures are being taken to prevent the above-mentioned deficiencies.

Necessary measures to prevent water leakage should be taken immediately.

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| (e) | <p>The Nuwara Eliya racecourse, where the authority conducts administrative work, was leased to a horse racing club for a monthly rent of Rs.110,000 as per the memorandum of understanding reached in 2015. Due to unauthorized use of the said property by the horse racing club for a period of 04 years from 2018 without a lease agreement and without payment of rent, the authority had lost significant income that could be obtained. The authority had not taken necessary measures regarding the construction done by the horse club of the racecourse without obtaining prior written approval.</p> | <p>Informed that considering the financial loss caused to the authority due to the continued refusal to sign agreements by the Royal Horse Racing Club and the unauthorized enjoyment of government owned property, expect the advice of the Attorney General to take legal action against the Royal Horse Racing Club. Kindly inform you that as soon as the Attorney General receives the advice, legal action will be taken against the Royal Horse Racing Club and will be taken action regarding the lost income as per the instructions.</p> | <p>Legal action should be taken regarding the recovery of tax rent income.</p> |
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### 3.2 Delays in projects or Capital Works

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#### Audit Observation

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The construction had been started in the year 2019 and Rs. 12.3 million had been spent for the surrounding wall of Sugathadasa outdoor stadium and Rs. 31.7 million was paid for the main entrance of the Sugathadasa outdoor stadium and the construction of the iron fence should be completed in 2019 and 2020 respectively, however the work has not been completed yet.

#### Comments of the Management

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The project continued to be delayed due to the contractor's poor contract management and the contractor was informed about this in a number of meetings.

#### Recommendation

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The action should be taken to complete the construction work promptly.

### 3.3 Human Resource Management

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#### Audit Observation

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Out of 10 senior level approved posts in the authority, 04 posts were vacant. There were 03 vacancies related to 03 tertiary level positions, 08 vacancies related to 03 secondary level positions and 09 vacancies related to 05 primary level positions. Also, there were 19 staff vacancies in the authority due to non-approval of a recruitment procedure for a total of 10 posts, including one senior level post, one tertiary level post, 03 secondary level posts and 05 primary level posts. Also, on the advice of the Department of Management Services, the recruitment activities for 23 vacancies related to 06 secondary level and primary level posts were suspended.

#### Comments of the Management

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Necessary steps are being taken to fill the existing vacancies in the authority's staff

#### Recommendation

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The action should be made to fill the vacant posts which will help the performance of the authority and to revise the recruitment procedure based on the need of the posts.