

Football Federation of Sri Lanka (FFSL) - 2015

The audit of financial statements of the Football Federation of Sri Lanka for the year ended 31 December 2015 comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of cash flow and statement of changes in funds for the year then ended and a summary of 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 9 of the Sports (Amendment) Act, No. 47 of 1993. My comments and observations on the above financial statements of the Federation 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 Accounting Standards for Small and Medium sized Entities (SLFRS for SMEs) 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 conducting the audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 – 1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, income statement and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Transactions of Apparent Fraudulent Nature

The following apparent fraudulent transactions had already been brought to the notice of the Secretary to the Ministry of Sports and the Chairman of the Football Federation by my previous years audit reports. However, these matters had not been dissolved up to the date of this report.

- (a) The Italy Football Players Association had granted a sum of € 40,400 equivalent to Rs.6,287,670 on 08 January 2008 for the purpose of develop the Play Ground at Kaluthara and subsequently it was deposited in an official bank account maintained at the Standard Chartered Bank. Thereafter, then Chief Executive Officer (CEO) of the Federation had sent a letter to the Standard Chartered Bank to transfer this money to another private bank branch at Kollupitiya.

Accordingly, the Standard Chartered Bank had transferred a sum of Rs. 6,287,670 to that private bank branch and it was confirmed in audit that the actual owner of this bank account is then Chairman of the Management Committee of the Federation. Therefore, it was ensured in audit that then Chairman of the Management Committee had defrauded the funds of Rs. 6,287,670 (€ 40,400) granted by the Italy Football Players Association.

- (b) The Asian Football Federation had granted a sum of US\$ 60,000 equivalent to Rs.6,415,290 on 12 May 2008 for conducting the Asian Football Confederation President's Cup first round qualifying matches. Subsequently it was deposited in an official bank account maintained at the Standard Chartered Bank.

According to the audit examination carried out in this connection it was revealed that then CEO had advised the Director Finance on 14 May 2008 to transfer this money to a bank account number owned by a private Sports Club which is the host party of this tournament maintained at a private bank branch at Kotahena. However, this request had not been forwarded to the bank due to no bank account maintained by this Sports Club on such account number and at the same time he had issued a fraudulent advice to the Standard Chartered Bank asking to transfer a sum of Rs.6,415,290 to the personal foreign currency bank account of then Chairman of the Management Committee maintained at the same privet bank branch at Kollupitiya. Accordingly, the Standard Chartered Bank had transferred the above money to that account and it was confirmed in audit that no money had been received by the said Sports Club up to date.

- (c) A Private Limited Company had granted a sum of Rs.10,000,000 on 23 January 2006 to the Federation for the construction of 20 Tsunami affected houses in Kaluthara district.

Out of this a sum of Rs.5,000,000 had been transferred on 02 February 2006 to a bank account number maintained at a private bank on the request made by the Treasurer of the Help Sri Lanka Consortium on 16 January 2006 for the purpose of funding their "Educate a Child Project".

The then CEO of the Federation had informed on 05 February 2007 to then Director, Finance to pay the balance of Rs.5,000,000 in cash to then President of the Management Committee as enable him to handover such funds to the Treasurer of a private charity in charge for a Tsunami Project. Accordingly such funds had been handed over to then Chairman of the Management Committee. However, he had fraudulently retained this money without being handed over to the said charity.

- (d) The Asian Football Federation had directly deposited sums aggregating US\$ 200,000 during the year 2008 to the Federation bank account maintained at the Standard Chartered Bank, Colombo 01. Subsequently the Federation had transferred a sum of US\$ 40,000

fraudulently to the personal bank account of then Chairman of the Management Committee maintained at a foreign bank branch, Colombo 3.

On 06 June 2008 then CEO of the Federation had withdrawn a sum of Rs.3,217,500 equivalent to US\$ 30,000 from Federation bank account. Out of this sums of Rs. 1,337,151 and Rs.526,250 equivalent to US\$ 17,467 had been handed over to the Federation on 19 June 2008 and on 22 July 2008 respectively and the balance of US\$ 12,533 equivalent to Rs. 1,337,035 had not been handed over to the Federation up to the date of this report.

Further, then CEO of the Federation had obtained a sum of Rs. 6,000,000 as a loan from then Chairman of the Management Committee on 20 June 2008 without the approval of the Executive Committee to meet the expenses of the South Asian Football Games (SAFF GAMES) even though there were sufficient funds available in the Federation bank accounts. At the meantime then CEO of the Federation had transferred an amount of US\$ 60,000 from the Federation bank account to a personal bank account of then Chairman of the Management Committee via fake bank advice for settlement of the above loan.

2.2.2 Sri Lanka Accounting Standards for Small and Medium sized Entities

The following observations are made.

- (a) **Events After the end of Reporting Date:** The Federation had not disclosed the date which the financial statements were authorized for issue in terms of Section 32.9 of the Standard.
- (b) **Notes to the Financial Statements:** The Federation had not disclosed the accounting policy for the deferred income amounting to Rs.154, 577,236 recognized in the statement of financial position as at 31 December 2015.
- (c) **Concepts and Pervasive Principles:** The income of Rs 32,317,253 had been offset against the respective expenses in the statement of comprehensive income for the year under review in contrary to Section 2.52 of the Standard.
- (d) **Recognition of Finance Income:** The financial income amounting to Rs. 1,653,079 recognized on net basis after deducting withholding taxes. However, the Standard requires recognizing it on gross basis.
- (e) **Retirement Benefit Obligation:** The Federation had accounted the retirement benefit obligation of Rs. 4,692,750 at a half month salary of each year of services from the date commencement of service. However, according to the provision in the standard it should be recognized at the present value of its obligation at the net of its plan asset. Further, the entire amount of the retirement benefit obligation had been classified as non-current liability without being identified the current liability.
- (f) **Property Plant and Equipment:** Two leased hold assets amounting to Rs.9, 900,000 had been recognized as freehold assets in the financial statement for the year under review. Further, neither the depreciation nor the amortizing had been charged in the financial statements for the year under review. Further, The Federation had depreciated

its assets for whole year when they were disposed and no depreciation had been provided in the year of purchased the assets contrary to Section 17.20 of the Standard.

2.2.3 Lack of Evidence for Audit

The following observations are made.

- (a) Even I have continuously mentioned in my previous audit reports, a fixed assets register had not been maintained by the Federation and the physical verification reports for several years were not made available for audit as supporting documents to verifying the completeness, ownership, existence and value of the fixed assets shown in the financial statements. Therefore, the carrying value of the fixed assets totalling Rs.251,243,332 shown as at end of the year under review could not be relied upon in audit
- (b) It was unable to verify the accuracy of deferred income shown in the financial statements amounting to Rs. 154,577,236 as at 31 December 2015 and the amortization of deferred income amounting to Rs. 8, 291,439 for the year under review due to non-remission of required supporting documents.

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

Instances of non-compliance observed in audit during the year under review are given below.

Reference to Laws, Rules, Regulations etc.	Non-compliance
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(a) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 756	Annual Board of Survey Report of stores relating to all Departments of the Federation had not been submitted for audit.
(b) Public Accounts Circular No.431 of 24 April 2008.	Air tickets should be purchased from Sri Lankan Airlines Ltd and Mihin Lanka (Pvt) Ltd. through the BOC Travel Ltd or the People's Travel (Pvt) Ltd. However, the Federation had purchased the air tickets valued at Rs. 7,846,101 from the private institutions in contrary to this requirement.
(c) National Procurement Agency Circular No 08 of 25 January 2006 (Government Procurement Guidelines – 2006)	The Federation had not carried out any pre preparation activities such as environmental impacts assessment, social impact assessment etc. before commencing the construction of Football Training Centre at Kelaniya. Further, the contractor had been

selected without being followed the Government Procurement Guidelines.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operations of the Football Federation of Sri Lanka for the year ended 31 December 2015 had resulted in a surplus of Rs.30,696,804 as against the deficit of Rs. 5,310,952 for the preceding year, thus indicating an improvement of Rs. 36,007,756 in the financial results. The increase of funds received from Football International Federation by Rs. 72,440,986 was the main reason attributed for this improvement.

4. Operating Review

4.1 Weaknesses in Management Activities

4.1.1 Human Resources Management

As I highlighted in my previous years audit reports, the Federation should have an approved cadre highlighting the cadre requirements of each Division consolidated in the form of a Human Resource Budget and Organization Chart. However, the Federation does not have an approved cadre and an organization chart since its inception.

4.1.2 Recruitments of a Foreign Coacher

The Federation had recruited a foreign Coacher on contract basis for two years period from 01 June 2014 to 31 May 2016 in order to provide training facilities for the National Football Team and a sum of Rs. 7,428,047 had been paid to him as fee for the first year of the contract period. The following weaknesses were observed in this connection.

- i. It was unable to satisfactorily verified whether the Federation had considered the technical specification when recruitment of Coacher.
- ii. A standard procurement procedure had not been followed by the Federation for this recruitment.
- iii. No any remarkable improvement was observed in the Nation Football team after appointing the Coacher and no any international match had been won during this period.
- iv. The Coacher had left the country on 31 May 2015 prior to one year of contract period.

4.1.3 Development of School Level Football Sport

It was observed that the Federation had not paid any attention to develop the school level football sport and no any projects had been introduced for this purpose. All the efforts had been focused to develop the football sport in Sri Lanka through football playing leagues and clubs. However, it is important to introduce a school football development program with the direct involvement of the Federation.

4.1.4 Weaknesses in the Procurement Process

The federation had procured the goods and services worth Rs. 35,642,355 during the year under review. The following observations were made in this connection.

- (a) A Master Procurement Plan or a Procurement Plan for the year under review had not been prepared by the Federation.
- (b) The Federation had purchased the sports kits valued at Rs. 4,167,100 without being followed any proper procurement procedure and all items had been purchased from two suppliers selected by the Federation.
- (c) The Federation had spent amounting to Rs. 30,985,277 for procurement of foods, refreshment and accommodation facilities etc. during the year under review without being complied with the provisions in the Government Procurement Guidelines and no proper mechanism had been introduced for this purpose. Further, the services had been obtained from two suppliers for more than 170 instances by written open cheques and this lead to misuse of the Federation funds.

4.1.5 Management of Football Leagues and Clubs

The Federation had provided the fund aggregating Rs.18,267,500 to 102 Football Leagues and Clubs island wide from the fund granted by Football International Federation (FIFA) during the year under review. The following matters were observed in this connection.

- (a) The funds had been granted without obtaining any work program or financial proposals from the Football Leagues and Clubs.
- (b) It was observed that some of the Football Leagues and Clubs had not been fully utilized the fund provided for the intendant purposes and there is no any follow up action had been carried out to ensure that the funds provided had been utilized for the intendant purposes.
- (c) According to the general policy of the Football Federation, at least five (05) football clubs should be consisted in a football Leagues. However, at the audit test checks revealed that 17 Leagues had not complied with this policy.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan for a period not less than three years by incorporating strategies such as future direction of the Federation, vision and mission statements, objectives, the resources available at present, and the organizational chart etc, had not been prepared by the Federation since its inception.

5.2 Action Plan

An action plan by identifying the responsibilities of managers with goals and targets to be achieved during the period had not been prepared.

5.3 Budgetary Control

A budget should be prepared before the commencement of each financial year for the effective control over the financial management. However, such budget had not been prepared by the Federation for the year under review.

5.4 Internal Audit

An internal audit division had not been established in terms of Public Enterprise Circular No. PED/12 of 02 June 2003.

6. Systems and Controls

Weaknesses in systems and controls observed during the course of audit were brought to the notice of the President of the Federation from time to time. Special attention is needed in respect of the following areas of control.

- (a) Accounting - No proper mechanism had been introduced for accounting the payables of Rs. 250,000 annually for every Football Leagues and Clubs which registered on or before 2013.
- (b) Control over Payment and Settlement of Advances