

Sugathadasa National Sports Complex Authority – 2017

The audit of financial statements of the Sugathadasa National Sports Complex Authority for the year ended 31 December 2017, comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 9(2) of the Sugathadasa National Sports Complex Authority Act, No.17 of 1999. My comments and observations which I consider should be published with the Annual Report of the Authority in terms of Section 14(2) (c) of the Finance Act 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 Public Sector Accounting Standards 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 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.

An 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority’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 Authority’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. Sub - sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

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 paragraph 2:2 of this report, the financial statements give a true and fair view of the financial position of the Sugathadasa National Sports Complex Authority as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The instances of non-compliances with the following Sri Lanka Public Sector Accounting Standards , were observed.

a) Sri Lanka Public Sector Accounting Standard 01

In terms of section 48 of the standard assets and liabilities shall not be setoff unless required or permitted by the standard. Contrary to that, a credit balance of Rs.3,567,111 in the cash book had been included in the cash and cash equivalents and deducted it from the current assets, instead of being shown under the current liabilities.

b) Sri Lanka Public Sector Accounting Standard 03

(i) In terms of section 12 of the standard, the authority had not adopted a proper accounting policy for provision of doubtful debts Rs.27,377,431 disclosed in the financial statements in the year under review.

(ii) In terms of section 47 of the standard entity shall correct material prior period errors retrospectively restating the comparative amounts for the prior period presented in which the error occurred. However instead of that prior period adjustment of Rs.4,424,606 related to 2016 had been adjusted in statement of changes in equity.

c) Sri Lanka Public Sector Accounting Standard 07

Due to failure in reviewing the useful life of non-current assets annually in terms of section 65 of the Standard, the fixed assets costing Rs. 472.3 million had still been in use despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

d) Sri Lanka Public Sector Accounting Standard 09

As at 31 December 2017 slow moving inventory value of Rs.1,296,163 existing for a long period had been valued at cost. But according to the section 15 of the standard, that inventory had not been disclosed in the financial statements at lower of either cost or net realizable value.

2.2.2 Accounting Deficiencies

The following observations are made.

- a. Even though fixed deposit and sevenday interest income for the year of review was Rs.1,450,747, it had been stated as Rs. 7,907,177 in the statement of financial performance. Therefore fixed deposit income had been over stated by Rs. 6,456,430.
- b. As per the statement of financial position fixed and seven day called deposit balance was Rs. 29,860,199. But as per the bank confirmations said balance amounted to Rs. 29,850,879. Thus the balance had been over stated by Rs. 9,320 as at 31 December in the year under review.
- c. According to the calculation of audit as at 31 December 2017 the receivable seven day deposit interest amounted to Rs. 7,685,674. But the said value amounted to Rs.13,025,821 in the statement of financial position. Therefore the receivable interest has been overstated by Rs. 5,340,147.
- d. Even though a principle has been recognized in the financial statements for depreciation of capital grants, A sum of Rs.3,749,785,477 capital grants included in the capital balance of the authority had not been set off to income using a proper basis.
- e. Out of Rs.44,609,847 receivable value added tax balance as at 31 December in the year of under review, a sum of Rs.33,252,709 had been informed as non refundable by the Inland Revenue Department. However this balance had been further stated as a receivable balance in the financial statements.
- f. In terms of section 3 of Economic Service Charge Act No. 13 of 2006, if the economic service taxes are older than 3 years it should not be deducted from the payable income tax. However a sum of Rs. 679,535 Economic Service Charge exiting from the year 2013 had been disclosed as receivable in the financial statements.
- g. Instead of capitalizing a sum of Rs.426,031,447 related to 17 completed projects of the sports stadium has been stated as work in progress. Therefore the cost of buildings by that particular amount and the depreciation value of Rs. 13,127,167 had been understated in the financial statements.

2.2.3 Unexplained Differences

The Following observations are made.

- (a.) Even though a sum of Rs.3,332,206 had been shown in the financial statements of the Authority as receivable from the Sri Lanka Volleyball Association, according to the accounts of Sri Lanka Volleyball Association that value amounted to Rs.987,449 thus observing a difference of Rs.2,344,757.
- (b.) A sum of Rs.1,942,827 had been stated as receivable from the department of sports Development in the financial statements of the Authority. However, such a credit balance had not been stated in the accounts of department of sports Development.
- (c.) Even though a sum of Rs.16,553,844 had been included in trade debtors as receivable from the Sri Lanka Cricket Institution, according to the accounts of Sri Lanka Cricket Institution that value amounted to Rs.15,973,848 amount payable thus observing a difference of Rs.579,996.
- (d.) Employee loan balance as at 31 December 2017 totalled to Rs.24,127,690. However in accordance with relevant loan schedule that balance totalled to Rs.24,054,734 thus observing a difference of Rs.72,956.
- (e.) According to the financial statements as at 31 December of the review year payable expenses and refundable deposit balance amounted to Rs. 14,530,784 and Rs.10,407,436 respectively however in accordance with relevant register that balance amounted to Rs.11,902,019 and Rs.12,056,201 respectively thus observing differences of Rs.2,628,765 and Rs.1,648,765 respectively.

2.2.4 Lack of Evidence for Audit

Evidence indicated against the following items of accounts, were not made available to audit.

Item of Account -----	Value ----- Rs.	Evidence not Made Available -----
(a) Trade debtors	37,249,399	Age analysis and conformation of balance for sum of Rs.20,368,013.
(b) Stock of R.Premadasa stadium	2,149,491	Registers / Physical Verification Reports.
(c) Fixed Assets	4,915,015,139	Physical Verification Reports / Fixed Assets Register.
(d) Payable amount for 400 meters running track	13,713,615	Confirmation of Balance.

2.3 Accounts Receivable and Payable

The following observations are made.

- a) An action had not been taken to recover the 10 payable balances totalled to Rs.463,443 included in the trade payable balance existing 4 years period.
- b) Even though a sum of Rs. 8,939,262 had been allocated in respect of Value Added Tax payable for the years 2012 and 2013, action had not been taken either to remit those taxes to the Department of Inland Revenue, or settle the taxes in the accounts.
- c) Action had not been taken to settle the sum of Rs.1,124,068 payable to Colombo Municipal Council outstanding from 11 years period.

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

Instances of non-compliances with Laws, Rules, and Regulations, etc. observed in audit, are shown below.

Reference to Laws, Rules, and Regulations	Non-compliance
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(a) Financial Regulation of the Democratic Socialist Republic of Sri Lanka Financial regulation 880 & 891(1)	A security had not been taken from the officers who was working as the cashiers also the Authority had not maintain a security Register.
(b) Section 13 of the Sugathadasa Sports Complex Authority Act, No 17 of 1999	Even though the board of management should gather at least once in every month, management board meeting had not been held in months of April, June & September 2017.
(c) Public Finance Circular, No 03/205, dated 14 July 2015	Even though the advances should settle as soon as the job was completed, no action has been taken to settle the advance amount of Rs.825,252 granted from 2013 to 2016.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Authority for the year ended 31 December 2017, had been a deficit of Rs. 154,960,050 as compared with the corresponding deficit of Rs. 117,402,554 for the preceding year, thus indicating an deterioration in the financial result of the year under review by Rs. 37,557,496 or 32 per cent as compared with the preceding year. The said improvement in the financial result had mainly been attributed by the increase in the Government grants by Rs. 40,240,000 or 25 per cent as compared with the preceding year.

The analysis on the financial results of the year under review and 4 preceding years revealed that the financial result had deteriorated from the year 2013 up to 2017. However, as compared with the year 2015, the deficit had decreased in the year 2016 but again it decreased by Rs. 37,557,496 in the year under review. However, the employee remuneration, depreciation on non-current assets, and Government taxes are adjusted to the financial result, the contribution of the Authority in the year 2013 amounting to Rs. 106,361,763 had increased up to Rs. 125,701,859 at the end of the year under review.

3.2 Analytical Financial Review

The current ratio of the Authority had decreased from 2.47 to 1.55 whilst the quick ratio had decreased from 2.36 to 1.47 in the year under review as compared with the preceding year. Accordingly, the potential of the Authority to settle the short-term liabilities had increased.

4. Operating Review

4.1 Management Activities

In 2008 and 2012 the Authority had invested a sum of Rs. 24,919,980 in seven day announced deposit in state bank. According to the audit observation reveal that if those reserves were invested in long term fixed deposit authority could be able to earn higher interest income, thus the Authority missed the opportunity of obtaining financially advantageous situation.

4.2 Idle and Under- utilized Assets

It was observed in the audit, a sum of Rs.1,080,319 inventory purchased from year 2006 up to the year 2016 included in the inventory (Indoor & Outdoor) of Sugathadasa Stadium amounted to Rs.7,617,787 had been misused and under-utilized.

5. Sustainable Development

Even though the authority had been aware about the United Nations year 2030 Agenda for sustainable development through the internet, index had not been identified regarding the activities that coming under the scope of sustainable development goals & objectives, how to achieve those objectives and measurement of objectives. The Authority has informed that they are in process of identifying sustainable development programmes related to sustainable development.

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 Authority from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls

Observations

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|------|----------------------------|-------|---|
| (a.) | Control of Debt and Credit | (i) | Failure to decide on the maximum limit of debt and duration. |
| | | (ii) | Failure to obtain the confirmation of debtor balances. |
| | | (iii) | Failure to settle the balances of receivable and payable at on time. |
| (b.) | Accounting | (i) | Calculate the fixed deposit interest in correctly and had not been accounted. |
| | | (ii) | Failure to comply with Sri Lanka Public Sector Accounting Standards. |