

Sri Lanka Badminton Association – 2018

Qualified Opinion

The audit of financial statements of the Sri Lanka Badminton Association for the year ended 31 December 2018, comprising the balance sheet as at 31 December 2018 and the statement of comprehensive income, statement of changes in accumulated fund 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(3) 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. My comments and observations which I consider should be presented 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 financial statements give a true and fair view of the financial position of the Association as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium Scale Enterprises.

1.1 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.4 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibility under those auditing standards are further described in the Scope of Audit 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.

1.2 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 Accounting Standards for Small and Medium Scale Enterprises 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 Association'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 Association or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No.19 of 2018, the Association 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 Association.

1.3 Scope of Audit

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 it 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 Judgement 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 Association's 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 Association'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 report. However, future events or conditions may cause the Association 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 audit also had 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 Association and whether such systems, procedures, books, records and other documents are in effective operation;
- * Whether the Association has complied with applicable written law, or other general or special directions issued by the governing body of the Association;
- * Whether the Association has performed according to its powers, functions and duties,
- * Whether the resources of the Association had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.4 Financial Statements

1.4.1 Non-compliance with Sri Lanka Accounting Standards for Small and Medium Scale Enterprises

Non-compliance with relevant Standard	Comments of the Management	Recommendation
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(i) The computer accessories costing Rs.233,490 which are further being used had been fully depreciated due to not reviewing the effective life period of non-current assets annually in terms of paragraph 19 of Chapter 17 of the Standard and action had not been taken to revise the estimated error in terms of paragraph 18 of Chapter 10 of the Standards.	Action will be taken to revalue the computers and accessories which were fully depreciated.	The financial statements should be prepared in terms of Sri Lanka Accounting Standards for Small and Medium Scale Enterprises.
(ii) Even though, the income and expenditure should not be set off unless otherwise permitted by the Sri Lanka Financial Reporting Standards in terms of paragraph 52 of Chapter 2 of the Standard, the expenditure amounting to Rs.29,269,541 had been set off from the total income amounting to Rs. 42,044,023 and a sum of Rs.12,774,482 had been shown as income in the statement of comprehensive income during the year under review.	Action will be taken to disclose income and expenditure separately in future.	The financial statements should be prepared in terms of Sri Lanka Accounting Standards for Small and Medium Scale Enterprises.

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| (iii) Depreciation of Rs.45,906 had been made for 2 items of assets in the year under review without being disclosed the depreciation rate of the assets in terms of paragraph 31(c) of Chapter 17 of the Standard. | Action will be taken to disclose the relevant depreciation rate. | The financial statements should be prepared in terms of Sri Lanka Accounting Standards for Small and Medium Scale Enterprises. |
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1.4.2 Accounting Deficiencies

Audit Observation -----	Comments of the Management -----	Recommendation -----
The depreciation of fixed assets for the year under review had been understated by Rs.145,959.	Action will be taken to rectify it.	The depreciation of fixed assets should have been brought to account accurately.

1.5 Accounts Receivable and Payable

1.5.1 Accounts Receivable

Audit Observation -----	Comments of the Management -----	Recommendation -----
Action had not been taken to recover 02 balances of accounts older than 06 years totalling Rs.24,920 and 2 balances of accounts older than 03 years totalling Rs.109,446 remained outstanding as at the end of the year under review.	Action will be taken to write off the receivables which could not be recovered.	Prompt action should be taken to recover the receivables and suitable action should be taken in respect of the unrecoverable balances.

1.5.2 Accounts Payable

Audit Observation -----	Comments of the Management -----	Recommendation -----
Action had not been taken to settle 15 balances of accounts amounting to Rs.2,290,429 older than 6 years included in the accrued expenses and 04 balances of accounts amounting to Rs.3,746,110 older than	Action will be taken to take the accrued expenses into the revenue which were older than 12 years.	Prompt action should be taken to settle the money payable to external parties.

between 04 years and 06 years included in the other liabilities. Further, action had not been taken to identify and settle Employees Provident Fund payable and Employees Trust Fund payable amounting to Rs.29,300 and Rs.10,680 respectively.

1.6 Non-compliance with the provisions of the Laws, Rules and Regulations

Reference to the provisions of Laws, Rules, Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka. Financial Regulation 757	The assets had not been verified physically at the end of the year.	Comments had not been furnished.	The assets should be verified physically in a proper manner in terms of Financial Regulations.
(b) Treasury Circular No.842 dated 19 December 1978	Fixed Assets belonging to the Association amounting to Rs.3,271,021 had not been recorded and updated properly.	Comments had not been furnished.	Action should be taken to maintain and update the Register of Fixed Assets in terms of Treasury Circular No.842.

2. Financial Review

2.1 Financial Results

The operations of the Association had resulted in a surplus of Rs.2,104,178 as compared with the corresponding surplus of Rs.6,184,395 for the preceding year thus indicating a deterioration of Rs.4,080,217 in the financial results. Decrease of revenue by Rs.3,197,868, increase of administrative expenditure by Rs.546,874 and increase of expenditure of training programmes by Rs.1,244,044 had been the main reasons for this deterioration.

3. Accountability and Good Governance

3.1 Internal Audit

Audit Observation

An income of Rs.42 million and an expenditure of Rs.39.9 million were in the Association during the year under review and the value of the total assets as at 31 December 2018 had been Rs.11.6 million. However, even though an internal audit should be carried out in terms of Financial Regulation 133 of the Democratic Socialist Republic of Sri Lanka, action had not been taken to establish an Internal Audit Unit for the Association.

Comments of the Management

We have agreed with the audit observation and an internal audit unit will be implemented in the future.

Recommendation

Prompt action should be taken to establish an Internal Audit Unit.

3.2 Budgetary Control

Audit Observation

Even though, the Budget should have been prepared before commencement of the each financial year for an effective financial control in terms of paragraph 5.2.5 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, a budget for the year under review had not been prepared by the Association.

Comments of the Management

A Budget will be furnished for the year 2019.

Recommendation

The budget estimates should have been prepared properly and should be used as an instrument of controls and the variances should be taken into consideration periodically.