

## **Sugathadasa National Sports Complex Authority - 2022**

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### **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 2022 comprising the statement of financial position as at 31 December 2022 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 2022 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**

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 Audit Scope**

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;

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 Financial Statements**

### **1.5.1 Internal Control Over Preparation of Financial Statements**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Non-compliances with Sri Lanka Public Sector Accounting Standard**

<b>Non-compliances with reference to Standard</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
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(a) The income was overstated, due to membership fees and stadium reservation income of Rs. 3.6 million for the year 2023 had been brought to the income of the year under review.	Membership fees are recognized on a cash basis. It will be corrected in the future.	Financial statements should be presented in accordance with Sri Lanka Public Sector Accounting Standards.
(b) According to paragraph 18 of Sri Lanka Public Sector Accounting Standard No. 02, eventhough only cash transactions should be reported in the cash flow statement according to the period, the handover of the sports hotel	Agreed.	Financial statements should be presented in accordance with Sri Lanka Public Sector Accounting Standards.

worth Rs.50 million by the Ministry to the Authority was stated in the cash flow statement.

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| (c) | According to the paragraph 55 of Sri Lanka Public Sector Accounting Standard No. 7, revaluation surplus of Rs. 9.3 million remained over only 11 years period was not transferred to deficit or certain amount of surplus to accumulated surplus.  | Agreed.<br>Actions will be taken to adjust and correct the deficiency or surplus caused by the future revaluations through this balance.   | Financial statements should be presented in accordance with Sri Lanka Public Sector Accounting Standards. |
| (d) | Assets worth of Rs.756 million still in use, eventhough fully depreciated as at 31 December 2022 had not been reviewed the estimated useful life again and adjusted in the accounts as per paragraph 65 of Sri Lanka Public Sector Accounting Standard No. 07.   | Agreed.<br>The revaluation works has commenced by now and will be completed by 30 June 2023 and the values will be taken into the books.   | Financial statements should be presented in accordance with Sri Lanka Public Sector Accounting Standards. |
| (e) | According to paragraph 69 of Sri Lanka Public Sector Accounting Standard No. 07, eventhough the depreciation calculation should be started from the date when a non-current asset is ready for use, the authority has calculated the depreciation expense of Rs.5.6 million for the entire year on the assets acquired in the year 2022 and stated in the financial statements. As a result, an amount of Rs. 4.3 million had been overstated in the financial statements. | Full depreciation is calculated for the year in which an asset is acquired and depreciation is not calculated for the year in which the asset is removed by the Authority. It has been disclosed under 3.1.4 of sub no. 03 under the accounting policies of the financial statements in this regard, | Financial statements should be presented in accordance with Sri Lanka Public Sector Accounting Standards. |

### 1.5.3 Accounting Deficiencies

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
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(a) Eventhough the retirement benefit obligation of Rs. 87.5 million had been shown in the statement of financial position as at 31 December 2022, according to the Authority it was Rs. 90.5 million. Therefore, the non-current liability understated by Rs. 3	Arrangements will be made to correct from the accounts of the year 2023.	Financial statements should be prepared accurately.

million and provision for retirement benefit obligation was understated by that same amount.

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| (b) | The depreciation of property, plant and equipment had been understated by Rs. 3 million in the financial statements of the year under review, due to non-capitalization of 05 projects valued at Rs.136 million that the construction works are completed during the period from 2017 to 2021 and currently in use and included in the work in progress. | These projects are completed in 2021. Final bill and retention money are available for release. The work completion certificate can be obtained after releasing the bills and remove from the work in progress account and capitalized on the basis of that certificate | Financial statements should be prepared by calculating the depreciation accurately from the date of assets are ready for used. |
| (c) | Withholding tax amounting to Rs. 3.3 million remained from a period of 09 years had not been recovered or adjusted in the accounts.  | Arrangements will be made to correct it in the future after discussions with the Inland Revenue Department, since the old information related to this balance cannot be found.  | Financial statements should be prepared accurately.  |

## 1.6 Accounts Receivables and Payables

### 1.6.1 Accounts Receivable

Audit Observations	Comments of the Management	Recommendation
(a) The Authority had not proceeded to recover the trade receivable balance of 26 million remained as at 31 December 2022 from the year 2007.	Agreed.	Arrangements should be made to recover the outstanding balance due from a long period of time.
(b) Out of the capital advances of Rs. 22 million included in other receivables, there was a balance of Rs. 11 million remained from the year 2017 and balance of Rs. 157,678 remained from 5 years.	Corrections will be made for the year ending 31 December 2023.	Arrangements should be made to recover the outstanding balance due from a long period of time.

## 1.6.2 Accounts Payables

	<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a)	Action had not been taken to settle the liabilities aggregating amounting to Rs. 476,239 included in the trade payables from the year 2019 to the year 2021.	Agreed. This payment has been stopped, due to deficiencies in the contractual functions of the Authority. These agreements have been amended now.	Liabilities should be settled promptly.
(b)	The Authority had not taken action to settle the retention money aggregating amount of Rs. 86.9 million shown in the financial statements as at 31 December 2022 since 2014.	Corrections will be made for the year ending 31 December 2023.	Retention money should be settled promptly.

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

<b>Reference to the Law, Rules Regulation</b>	<b>Non-compliance</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Financial Regulations 880 and 891 (1) of the Democratic Socialist Republic of Sri Lanka	No arrangements were made to obtain security from the officers in charge of the money and no security register was maintained.	I am kindly informed that the initial steps of this process have been completed and the security register will be updated by 31 December 2023.	Action should be taken according the financial regulations.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a deficit of Rs.93.8 million and the corresponding surplus of the previous year was Rs.16.2 million. Accordingly, a deterioration of Rs.110 million was observed in the financial result. This decline was mainly due to lower revenue grants.

**3. Operational Review**  
**3.1 Management Inefficiencies**

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
Eventhough construction works of Sugathadasa outdoor stadium's main entrance and iron fence project which was commenced in the year 2019 at contract value Rs.49.8 million required to be completed by 10 May 2020, work had not been completed even 03 years had passed spending of Rs. 31.7 million.	Retention have not been released as some final works remain to compleat. Arrangements will be made to capitalize and correct for the ended year 31/12/2023.	Construction work should be completed immediately.

**3.2 Operational Inefficiencies**

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a) The pump station installed for the main swimming pool and diving pool of Sugathadasa National Sports Complex Authority had not been repaired after 2010. Although there was a need to repair this pumping station from the year 2020, the maintenance cost had also increased since the water leakage due to the non-repair of this. However, the Institute had not repaired the pumping station yet.	Agreed. All activities were arrange to do from the capital allocations by including 2021 allocation.	Repairs should be completed promptly.
(b) The children pool of the Authority is not being used for training as it is dropping and it has not been repaired yet.	Agreed. the repair works have been commenced at present and the deficiencies will be completed in the near future.	Repairs should be completed promptly.

### 3.3 Delays in Projects or Capital Works

<b>Audit Observation</b>	<b>Comment of the Management</b>	<b>Recommendation</b>
(a) The construction work of the project to build the boundary wall of Sugathadasa Outdoor Stadium included in the work in progress which cost at Rs.18 million had started on 18 September 2019 and was supposed to be completed on 18 December 2019. Eventhough the contract period has been extended by the relevant consulting firm until 21 December 2021, due to the covid 19 pandemic situation in the country, the shortage of raw materials and the weather conditions, the construction work of this project has not been completed yet.	the contracts have now been cancelled, due to the problematic situation in this project. Corrections will be made for the year ending 31 December 2023.	The construction work of the project should be completed promptly.
(b) Repair and improvement contract of Football Ground of the Sugathadasa National Sports Complex Authority at Rs. 32 million (tax free) was given to a private company and the playground had become unusable condition. The Authority had not taken action to correct the defects from the contractor and necessary action have not been taken to recover the loss by identifying the parties who responsible for the failure of this project which cost at Rs.38 million.	Agree. The defects of the playground have been repaired and are currently it has become into useable condition. The playground can be reserved for all practises and sporting events.	The construction should be completed without delay by doing the project management properly and the expected construction properly.
(c)) A sum of Rs. 37.6 million allocated for 04 projects in the year 2019 had been retained from that year to the current year without implementing the relevant projects.	Agreed. after payments are made by resolving the problems in the construction of these projects, corrections will be made through journal entries.	Capital projects should be completed promptly.



### 3.4 Procurement Management

<b>Audit Observations</b>	<b>Comments of the Management</b>	<b>Recommendations</b>
(a) As per Clause 2.6.1(II) of the Procurement Guidelines, Eventhough the Technical Evaluation Committee should review and approve the specifications to ensure that they can promote an equal level of competition, the Authority had not done accordingly in procurement of sports goods of Rs.33.6 million.	Agreed. Procurement process has been followed in purchase of sports goods. However, the payment was not made, due to defects in the goods.	Procurement Guidelines should be followed.
(b) A procurement time schedule was not prepared as per clauses 4.2.2 (a) and (b) of the Procurement Guidelines.	Procurement time schedules have been prepared for the year ending 31 December 2022.	A procurement time schedule should be prepared formally as per the Procurement Guidelines.

### 3.5 Human Resource Management

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
The approved number of employees of the Authority was 379 and the actual number of employees was 288 and the number of vacancies was 91 as at 31 December 2022. Out of 10 approved senior level positions included in those vacant positions contribute directly to decision-making to increase the performance of the Institution, 05 positions representing 50 per cent had remained vacant.	Recruitment will be done by the year ending 31.12.2023 after done an analysis of actual needs.	Action should be made to fill the vacancies which will help the performance of the Authority without delay.