

## **Sri Lanka Karate Do Federation - 2022**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Sri Lanka Karate Do Federation (“the Federation”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended and notes to the financial statements, including a material accounting policy information 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 and Section 21 A of the Sports (Amendment) Act No.47 of 1993. 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 Federation as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standard for Small and Medium – Sized Entities. (SLFRS for SMEs).

#### **1.2 Basis for Qualified Opinion**

My opinion is qualified based 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 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.

#### **1.3 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 Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) 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 Federation’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 intends to liquidate the Federation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Federation’s financial reporting process.

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

#### **1.4 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 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 Federation'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 Federation'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 Federation 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 Federation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Federation has complied with applicable written law, or other general or special directions issued by the governing body of the Federation;
- Whether the Federation has performed according to its powers, functions and duties,
- Whether the resources of the Federation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## **1.5 Audit Observation on the preparation of Financial Statements**

### **1.5.1 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Management comment</b>	<b>Recommendation</b>
(a) General expenses amounting to Rs.930,744 and Rs.4,652,332 had been recognized under the administrative expenses and tournament expenses respectively without being identifying the nature of the expenditure and accounted accordingly.	Comments had not been received.	The nature of the expenditure should be identified.
(b) According to the Section 2.3.6 of Sri Lanka Accounting Standards for Small and Medium-sized Entities (SLFRS for SMEs) all the income and expenditure should be recognized on the accrual basis. However, in contrary to that, the membership fee had been accounted on cash basis. As a result, the membership fee for which year was received and the outstanding membership fee could not be determined in audit.	Comments had not been received.	Adhere to the provisions in SLFRS for SMEs.
(c) Provision for audit fees for the year 2022 had not been made in the financial statements.	Comments had not been received.	Provisions should be made in the financial statements.

### 1.5.2 Documentary Evidences not made available for Audit

Item	Amount Rs.	Evidence available	not	Management Comment	Recommendation
Payments	554,900	Supporting documents		Comments had not been received.	Related supporting documents should be provided to verify the accuracy of the payments.

## 2. Financial Review

### 2.1 Financial Results

The operating result of the Federation for year under review amounted to a deficit of Rs.2,879,470 and the surplus against this in the preceding year amounted to Rs. 3,431,972. Therefore, a deterioration amounting to Rs. 6,311,442 in the financial result was observed. The main reason for this deterioration was increase the expenditure by Rs. 37,726,013 as against the increase of income by Rs. 31,414,571 with compared to the previous year.

## 3. Operational Review

### 3.1 Management Inefficiency

Audit Issue	Management comment	Recommendation
The significant and material audit observations revealed in the Special Audit conducted on the Administrative and Operational Activities of the Federation for the period of January 2017 to March 2022 had been included in the report that was tabled at Parliament on 17 December 2024 under volume 10 of Parliamentary series No.95.	Comments had not been received.	Prompt action should be taken to observations revealed in the Special Audit.

## 4. Accountability and Good Governance

### 4.1 Budgetary Control

Audit Issue	Management comment	Recommendation
The approved budgets for Federation had not been made available to audit. Hence, the financial control of the Federation during the year under review could not been evaluated.	Comments had not been received.	Action should be taken to prepare the detailed budgets for each tournament.