



Special Audit - Final Report
Colombo Swimming Club

Report - March 2024

B D O P A R T N E R S
CHARTERED ACCOUNTANTS

08-03-2024

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[Annexures are attached in a separate document]

A. Special Audit Team and Timelines

Special Audit Team	
Mr. Ashane Jayasekara	Partner - Risk Advisory Services
Ms. Chrishnilla Sandrasegar	Assistant Manager - Risk Advisory Services
Ms. Hashani Athukorala	Audit Associate - Risk Advisory Services
Ms. Malmi Madhushani	Audit Associate - Risk Advisory Services
Mr. Shehan Seneviratne	Audit Associate - Risk Advisory Services

Reporting Schedule	
Fieldwork Commenced on	16.01.2024
Fieldwork Completed on	26.02.2024
Report Issued on	08.03.2024

B. Scope of the Special Audit

The scope of the audit is as follows:

- To examine the assets capitalized in 2022 and assess whether they were approved in accordance with the constitution of the CSC (if applicable).
- To ascertain the capex processes followed by the club's General Committee in the past 10 years.
- To assess whether the process followed by the GC in 2022 is consistent with the procedures followed by GCs in the past 10 years (on a sample basis).
- To identify process weaknesses and make recommendations.

C. Our Approach and Methodologies to this Special Audit

It is important to note that although BDO has reviewed documents submitted by the key stakeholders involved, our work was conducted independently, and our findings are based on the review of documentation and interviews conducted.

We reviewed the following documents:

- Fixed assets register as of 31.12.2022.
- Respective fixed asset GLs as of 31.12.2022.
- Fixed assets file for building from 2017 to 2022.
- Payment vouchers and supporting documents for the year 2022.
- AGM meeting minutes from 2013-2022.
- GC meeting minutes from 2013-2022.
- AGM annual report for the year 2022.
- Capital work-in-progress account for the year 2022.

D. Executive Summary

Findings:

Approval of projects by members

The Constitution states that capital expenditure exceeding Rs. 1,000,000 for a one new entire project must be approved by members at a General Meeting of the Membership and this excludes maintenance required for normal wear and tear of buildings, pools, machinery, and equipment. The Constitution of the club lacks a clear definition of the term "one new entire project." Consequently, the GC has interpreted that the majority of CAPEX projects undertaken in the year 2022 do not fall within the scope of "one new entire project." As a result, these projects were not placed before the membership for approval. It should be noted that under clause 39, where the constitution is ambiguous, the GC is empowered to interpret its provisions. Hence, determining that most projects' CAPEX expenditure in 2022 does not necessitate member approval. It must be noted that some of these projects involve new concepts, ideas, extensive refurbishments, and significant upgrades. They seem to represent new projects, especially considering that the existing facility was in working order. In such instances, it is our view that certain projects should have been placed before membership approval based on past practice. However, it is acknowledged that the GC is empowered to interpret the constitution due to its ambiguity. Therefore, the GC retains full authority to make such interpretations.

We reviewed the CAPEX incurred in the year 2022 and checked whether these projects obtained approval from the General Committee. In most instances, we observed that these projects had not obtained GC approval at the GC meetings. We also noted that the GC, being the main governing body, had not approved some of these projects at a GC meeting. Upon inquiry, it was asserted that GC approval was not necessary. However, in our opinion, since the GC is the main governing body, there should be a threshold established for any expenditure necessitating deliberation and approval from the GC. This includes the final selection of suppliers, which should be endorsed by the GC.

Past Practice

However, we reviewed past practices over the past 10 years on a sample basis. We conclude that, compared to past practices, there was a deviation in the year 2022 in obtaining AGM approval. We observed refurbishments and modifications that had been tabled for member approval in the past years. We have highlighted these instances in the relevant sections. There is a deviation in 2022 based on past practice.

While acknowledging the economic challenges faced by the country in 2022, including import restrictions and a shortage of suppliers, we noted during our audit review that only one quotation was obtained. There appears to be a lack of competitive bidding in the procurement process. We recommend the formulation of procurement guidelines and the establishment of a procurement committee to oversee the procurement process.

Other Findings

We observed delays in capitalizing certain capital expenditures in the year 2022. It is best practice [as per accounting standards] to capitalize the costs incurred for the entire project at the time it was launched and available to use. We recommend the establishment of proper guidelines aligned with the Sri Lankan Accounting Standards to ensure the timely capitalization of assets.

When attempting to physically locate the fixed assets purchased during the year, we encountered difficulties in properly identifying the assets due to the absence of proper fixed asset labels. Therefore, we recommend conducting a fixed asset verification process and ensuring that all assets are properly labeled. Additionally, we recommend preparing a comprehensive fixed asset register containing all essential details for effective asset management.

As best practice, competitive quotations should be called for projects above a specific value. We recommend retaining all the quotations obtained or attaching them to the payment vouchers, along with the justification provided for selecting the supplier.

E. Findings

The comments given by the former General Committee are given in italics.

Based on the 2022 CAPEX breakdown provided to us by the former Head of Finance the summary of the total capitalized expenditure is as follows:

Fixed Assets Category	Amount (in millions)
Building	76.8
Electronic Equipment	39.1
Sport Equipment	8.9
Computer Equipment	5.9
Furniture and Fittings	4.3
Total	135

[Refer to Annexure 01 for the project approval buckets shared by the former Head of Finance.]

1.0 Building - 76.8 million

Project 01 - Café and Loft [Rs.18.8 million]

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 18,844,594 is allocated for the Café and Loft project.

[Refer to Annexure 02 for the detailed breakdown.]

2. As per the former Head of Finance, an AGM approval of Rs. 10 million has been obtained for this project in the year 2022. Upon reviewing the minutes, it was observed that initially, the AGM approval was provided for "**upgrading and refurbishing the former library building at a cost not exceeding Rs. 10 million.**"

During our review of the AGM minutes, we observed that approval of Rs. 10 million was obtained for the structural changes to the former library building and upgrading the library. It was noted that this café and loft project was not directly related to the refurbishment or structural changes to the former library building, as indicated by the AGM approval, but the funds were utilized for a slightly varied project involving the roof extension, renovation of the coffee shop, and library relocation, which included a few shelves of library books in the main building.

The former coffee shop, which has now been converted into a coffee lounge and teenager's loft, originally stood as a single-story structure. Modifications were made to accommodate solar

panels by raising the roof. Further, the single-story building was converted into a two-story building. The addition of newly constructed stairs facilitates access to the coffee lounge on the ground floor and the loft on the first floor. Additionally, the coffee shop underwent extensive refurbishment and upgrades, including the construction of a new café counter in 2022.

[Refer to Annexure 03 for the extract of AGM minutes for 2022.]

3. During our review of the GC meeting minutes, we observed that Rs. 4.2 million approvals had been obtained from the General Committee. The breakdown of the GC approvals is listed below:

GC Meeting Date	Description	Amount (Rs.)
21-03-2022	Following construction expenses were approved. <ul style="list-style-type: none"> • Consultancy services for upstairs area of coffee shop 	500,000
10-10-2022	Following construction expenses were approved. <ul style="list-style-type: none"> • Coffee lounge replacements • Rewiring/replacing DB/fittings in café 	1,796,397 2,000,000
Approvals observed at the General Committee Meetings		4,296,397

Teenager's Loft

The plan was to relocate the library to the first floor of the new café building, with the additional space as a result of raising the roof. The library was relocated to the new café building, and the additional space was converted into a teenager's loft. Even though we observed a mention of it in the 2022 AGM minutes, no member approval with an estimation was obtained for this new concept of a "teenager's loft." This appears to be a new facility targeting teens. Based on the estimation and quotations that were made available to us, we observed that the estimation for the loft interior was above Rs. 1 million (approximately Rs. 4 million). This is excluding the construction of the first floor, which, as per the former GC, claimed to be a part of the Solar Panel Project, and elevating the roof.

We received the following comments from the former General Committee regarding the AGM and GC approvals of the Café and Loft Project:

"Rule 9(f) of the Constitution provides as follows:

"Capital expenditure in excess of Rs. 1,000,000 for any one new entire project has to be approved by Members at a General Meeting of the Membership. This excludes maintenance due to normal wear and tear of buildings, pool. Machinery and equipment." [emphasis added]

This is the only Rule in the Constitution which imposes or requires approval of the membership with regards to any expenditure to be incurred by the Club. There are no other clauses in the Constitution which imposes any restrictions on the expenditure or as to how a specific expenditure could be undertaken by a General Committee.

On an examination of the above Rule 9(f) it would be apparent that the approval of the membership is only required for a capital expenditure in excess of Rs. 1,000,000 in relation to:

- (a) One
- (b) New
- (c) Entire
- (d) Project

If all the above requirements are not satisfied then such a capital expenditure in excess of Rs. 1,000,000 does not come within Rule 9(f).

Therefore, clearly any upgrades or modifications to any existing facility does not constitute a one new entire project.

This is the manner in which the above clause has been interpreted and applied by General Committees in past without any objection or demur from the membership. This has been the culture of the club and its practice which had hardened into an unwritten rule.

However from time to time where considered necessary, although not obliged to, the General Committee(s) have brought to the attention of the members at an AGM or SGM certain material expenditure and obtained the approval of the membership with regards to upgrades. It should be noted that this practice has been followed not due to any constitutional requirement but at the discretion of certain Committees.

In the above context Rule 39 of the Constitution confers wide and general powers on the General Committee to make decisions on all matters relating to the interpretation or upon any matter affecting the club and not provided by the Rules and or the By Laws of the Club.

Rule 39

“The General Committee shall have the power to decide all questions relating to the interpretation of the Rules and By-Laws of the Club and their decision upon any question of interpretation or upon any matter affecting the Club and not provided for by these Rules or by the By-Laws and Regulations made thereunder shall be final and binding on the Members. Further, any power that the General Committee is bestowed with under these Rules and By-Laws maybe exercised by the General Committee from time to time.”

Further, the General Committee of 2022 similar to the General Committees in the past have followed and adopted a practice which is supported by judicial authority on interpreting legal documents, that rules and provisions are not to be interpreted on the basis that “everything that is not specifically permitted is prohibited.”

Therefore applying the “specialibus” maxim where there is a specific rule the General Committee has followed the said Rule. Where there is a lacuna or an absence of a specific rule

the General Committee has exercised its powers and discretions in terms of Rule 39 of the Constitution.

It is therefore important that any audit as to the propriety of any action/inaction of the General Committee is examined within this legal remit as the duty of the General Committee is to comply with and uphold the constitution.

It is pertinent to observe that there is no provision in the Constitution which requires specific General Committee “approval” to incur a specific expenditure. However, it has been the inveterate practice that all expenditure is carried out either with the knowledge of the General Committee members and if there is any objection such objection is raised then an opportunity is provided in terms of Rule 9(g)(x) to express such disagreement and such member(s) would request their disagreement to be recorded.

It should be noted that none of the members of the General Committee that served in the year 2022 has raised any objection to any of the expenditure or spending that has taken place. This clearly proves that all expenditure has been incurred with the knowledge of the General Committee where such approval has not been recorded in writing.

It could be observed from minutes of General Committee meetings that certain important expenditure is formally recorded as a minute at a meeting. This does not mean that all other expenditure has taken place without the “approval” of the General Committee. If any decision has been taken without the knowledge of a member that would have been raised and documented. However, it should be appreciated there is no such objection by any member. Further, where necessary approval process has been followed by the members of the General Committee being informed via a whatsapp group as to any such expenditure.

Therefore, rightly or wrongly the members have conferred on the General Committee in terms of Rule 39(f) the discretion to fill in the lacunas in the rules and take decisions. The basis of decisions may vary from one Committee to the other. However, that does not mean that there has been a violation of any provision of the Constitution. If so, it would be important that there is a finding as to which Rule in the constitution that has been violated by carrying out any expenditure which is excluded from the limit and process specified in Rule 9(f) of the Constitution.”

4. Based on the documents provided to us, we observed that tenders or competitive quotations have not been called for this project. We observed three instances within the past ten years for which tenders, or competitive quotations, have been called for new projects based on the documents made available to us. According to the Former Head of Finance, the fixed assets files related to buildings prior to 2017 are not available. We were provided with the swimming pool project (2019), for which tenders were called. In addition to that, we observed a comparison of quotations for the solar panel project, and according to the confirmation of the former finance

head, quotations were called for the ERP project. We were also informed that a procurement committee was formed and headed by a former president for the Solar Panel Project.

However, it must be noted that, based on the fixed assets files for the past 5 years provided to us by the Finance Division, we observed only the successful or finally approved quotation being attached to the payment vouchers. As per the former Finance Head, the quotations attached to the payment voucher are the quotations that were provided to the Finance Division, and there could be other quotations that may have been obtained. However, he also stated that it is not practical to trace the quotations that belong to the past 5 years and are not attached to the payment voucher. Therefore, in the absence of documents, we are unable to verify whether multiple quotations have been called in the past for the rest of the projects.

Furthermore, while reviewing past AGM minutes, we observed that in specific years, the minutes explicitly mention the intention to call tenders. For instance, in 2021, open tenders were to be called for solar projects, in 2018 for the ERP project, and in 2014 for the restoration of the Storm Lodge building.

Quoting from the 2021 AGM minutes: *“All procurement at the swimming club is done on a very transparent basis with call of multiple tenders/bids. No one is allowed to slip in anything under the table. No committee member is allowed to involve in himself in business with the club. No matter whatever the size, that is the procedure. Even from buying Chili Powder to Solar panels.”*

[Refer to Annexure 04 for the extract of 2021 AGM Minutes]

We received the following comments from the Former General Committee regarding the tendering quotation process for the Café and Loft Project:

“It cannot also be excluded from consideration the circumstances and times the GC was operating in - March to December 2022. It was a time of previously unknown economic upheaval and uncertainty with shortages and severe restrictions. Decisions had to be made promptly to safeguard the best interest of the club AT ALL TIMES. This enabled the club to function without disruption or closure unlike many other clubs or establishments of a similar nature. In these unprecedented times decisions had to be made without the benefit of hindsight; eg if we didn't purchase the AC at the time, we were unsure in how many months/years restrictions would be lifted where imports could be made. In these circumstances we had the benefit of applying past precedents in purchasing and procurement and awards to fast track.”

Contractor	GC Comments/Justifications
<p>Thushan Construction</p> <p>(main constructor - labour with material)</p>	<p><i>“Thushan Construction was the only contractor that was willing to provide labour during the disturbances that were ongoing. The work started off as a labour contract, however, certain items of work, owing to the difficulty in procuring material was given to him on a labour + material item of work.</i></p> <p><i>All rates, were approved by the consultants based on market rates and historical rates that were agreed upon, based quotes previously received from other labour contractors.</i></p> <p><i>All civil works were handled as a labour contract with material supplied by the Club.</i></p> <p><i>Sankalpa was primarily the design consultants, who offered certain fit outs on a design build basis. These items were directly manufactured by them. Any item that was to be procured from specialist suppliers, were directly purchased by the Club, based on their design and recommendation.”</i></p>
<p>Sankalpa Interior</p> <p>(Interior of café and loft)</p>	<p><i>“As explained architects/interior designers are not chosen on a tender basis and is more on recommendation/previous projects observed/favorability to their design ideas. We did in fact first approach another interior designer (Surrge Designs). After the initial meeting they declined to provide a design and stated that they could not meet the timelines for completion. Arch. Channa also submitted a design proposal that was not acceptable. Thereafter Sankalpa’s design was deemed most appropriate and was awarded the work.”</i></p>

As best practice, quotations should be called for projects of this nature above a specific value. Once the quotations are received, an evaluation should be done, and the recommendation and supplier tabled and approved by the General Committee and it should be minuted in the GC minutes. We recommend retaining all the quotations obtained or attaching them to the payment vouchers, along with the justification provided for selecting the supplier. Suppliers for these sorts of projects and for projects above a specific value could be evaluated and selected by a Procurement Committee for which provisions already exist in the constitution.

5. As per the process explained to us by the former Head of Finance, quotations related to construction are obtained by the Engineer or Assistant Engineer, and the quotations are presented to the H/W member and consultant (architect and structural consultant) at a project meeting. The consultant recommends the quotations, and the final approval is provided by the H/W member. If they are unable to attend the project meeting, email approval is obtained.

However, we observed the following in the procurement processes:

- a) The construction of the project was handled by Thushan Construction, and the interior was handled by Sankalpa Interior. The decision was made based on one quotation or BOQ provided by both contractors, and competitive quotations were not available based on documentation made available. There is also no laid-down SOP to call for quotations.
- b) As per the process explained to us, the H/W member should approve the quotation; however, we observed that the F&B member has approved the quotation in both instances.

As per the comments received from the former General committee, *“this was done in the absence of the relevant committee member as Mr.Sanjeev had the most domain knowledge in this area.”*

[Refer to Annexure 05 for the email approval for Sankalpa Interiors and Thushan Construction.]

6. According to the accounting standards, costs should be capitalized at the time the asset is ready for use, and depreciation should commence from that point onwards. The café and Loft project was completed in November 2022 and opened for use in the same month. However, we noted that approximately Rs. 12.4 million was capitalized in the year 2023, bringing the total cost of the project to Rs. 31.2 million.

[Refer to Annexure 06 for the breakdown of café capitalization.]

As per the former Head of Finance, the reason for the capitalization in the year 2023 is due to receiving invoices late. **However, the final bill of Rs. 17 million by the contractor (Thushan Construction) was sent on October 22, 2022, out of which 12.4 million has been capitalized in 2023.**

[Refer to Annexure 07 for the final bill sent by Thushan Construction]

It is best practice [as per the accounting standards] to capitalize the costs incurred for the entire project at the time it was launched and available to use. We recommend establishing proper guidelines in accordance with the Sri Lankan Accounting Standards to ensure timely capitalization of assets.

7. As per past practice, we observed instances in which AGM approval was obtained for refurbishments of existing facilities.

Based on the narration provided in the minutes, the following projects have gone through AGM can be quoted in reference to the Café and Loft Project:

Café Project	Past projects that have gone for AGM approval	
	Year	Narration
Expansion and Refurbishment of the café	2015	Refurbishment and modification to the gymnasium and sports complex at a cost not ex. Rs. 8,000,000
	2016	Refurbish Monsoon hall - Rs. 4,500,000
	2017	To extend, refurbish the kitchen - 18,500,000
Construction of a new floor and Loft	2015	To create 2 business meeting rooms at a cost not ex. Rs. 2,000,000
	2015	To build additional guest rooms and refurbish and renovate the residency rooms at a cost not exceeding Rs. 9,500,000
	2016	To refurbish and construct the air conditioning mezzanine floor area at Arthur's Space at a cost not exceeding Rs. 16,500,000
	2016	To construct store and workshop Rs. 8,500,000
	2016	To create Kids playing area including water sports area recreational facilities and upgrade the basketball court at a cost of not exceeding Rs. 4,000,000
Creating a staircase	2015	To install a lift and create a staircase lobby providing access to the residency rooms, Sundowner and the business meeting room at a cost not exceeding Rs. 5,500,000

As per the documents made available for audit on past building related CAPEX projects (2015, 2016, 2018, 2019 and 2021) we observed that most projects capitalized prior to 2021 have mostly gone to the AGM, and the exceeded amounts of those projects have not gone to the AGM for further approvals.

Conclusions

1. Based on the AGM minutes and documents made available we observed instances in the past where refurbishment of existing facilities have been placed before membership for approval.
2.
 - a) Teenager's Loft is a completely new concept and facility, so it should be placed before the members for approval.
 - b) New ideas and concepts may not necessarily fall under the category of replacements or maintenance. Further, in the case of the café project, the old facility was functional, and there has been an extensive upgrade to the facility. Therefore, it should have been placed before membership approval as it does not fall under the category of maintenance, which is routine upkeep, and it is also considered a new concept or an idea. It must also be noted that it is a significant enhancement to an existing facility.
3. As per the Constitution clause Rule 9(f), "Capital expenditure in excess of Rs. 1,000,000 for **any "one" "new" "entire" "project"** has to be approved by Members at a General Meeting of the Membership. **This excludes** maintenance due to normal wear and tear of buildings, pool, Machinery and equipment."
 - a) We observed ambiguity in the Constitution related to the approval process for CAPEX. The constitution states that member approval is required for entirely new projects above Rs. 1 million. The term "**one new entire project**" is not clearly defined in the Constitution, and it leaves the term open to interpretation.

The Constitution has given wide discretionary powers to the general committee as per clause 39.
 - b) However, the Constitution explicitly excludes "**maintenance due to normal wear and tear of buildings...**" which refers to routine upkeep and repairs necessary to keep the buildings in good working condition. Refurbishment, on the other hand, often involves more extensive renovations or upgrades that go beyond regular maintenance and may significantly alter or improve the property. Refurbishment projects that involve significant capital expenditure, such as renovating or upgrading the entire place to a certain extent, would likely not fall under the category of maintenance due to normal wear and tear, which is explicitly excluded from AGM approval.
4. The General Committee, as the main governing body of the club, should deliberate such project-related costs with the full General Committee at a GC meeting, failing which it is unable to confirm whether the full GC was aware of the project and total cost prior to implementation.

Project 02 - Sundowner [23.9 million]

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 23,902,075 is allocated for the Sundowner project. The sundowner project occurred throughout the year.

[Refer to Annexure 08 for the detailed breakdown.]

2. As per the breakdown provided by the former Head of Finance and our review of the AGM minutes, this project was not placed before the membership for approval.

The reason provided by the Former Head of Finance is that the project mainly involves renovations and cannot be considered a new project. The following can be highlighted as part of the Sundowner project:

- Construction of a new staircase to replace the old spiral staircase (see Annexure 9, Image 01).
 - Addition of glass railing instead of the old railing. (see Annexure 9, Image 02).
 - Internal bar and construction of a bar counter (see Annexure 9, Image 03).
 - Addition of timber blind curtains
 - Partition of the kitchen
 - Electrical, plumbing, and civil repairs and rectification SD
 - Installation of a kitchen exhaust air ducting system
 - Replacement of SD glass walls
 - Roof extension
 - Show Kitchen
3. During our review of the GC meeting minutes, based on the narration, we observed that approval had been obtained from GC for approximately Rs. 14.3 million. The breakdown of the GC approvals is listed below:

GC Meeting Date	Description	Amount (Rs.)
29-01-22	Curtains	500,000
	Replacement of Sundowner glass walls	2,100,000
	Cleaning & repairing Sundowner kitchen equipment	500,000
02-02-22	Sundowner repairs civil work	900,000
	Sundowners show kitchen	1,000,000
	Architectural design for Sundowner bar	350,000
	Sundowner repairs interior civil work	1,000,000
	External staircase to Sundowner	1,000,000
	Sundowner internal bar	375,000

	F&B stores at Sundowner	850,000
	Polishing of Sundowner Terrace	350,000
	Electrical, plumbing, & civil repairs & rectification Sundowner	3,500,000
10-10-22	Sundowner balustrades replacement with glass railings	1,915,000
	Total Approval at the General Committee Meetings	14,340,000

We received the following comments from the former General Committee regarding the AGM and GC approvals of the Sundowner Project:

Note: Refer to the GC comments given related to the constitutional interpretation under the first project [Café and Loft] in the building category.

“The Sundowner renovations started because part of the roof got blown away due to heavy cyclonic winds and rainfall. It also damaged some of the glass doors / frames etc. Furthermore, the balustrades were corroded and falling off, the kitchen was in an extremely poor state etc. Therefore, with having to attend to the above repairs it was decided to upgrade and refurbish the Sundowner once and for all without having to disturb that area twice over. The AC had also packed up after months of on/off performance including CSC having to hire mobile AC units for functions at Sundowner. Since the Sundowner work was a renovation/refurbishment it did not require AGM approval. The approvals necessary at GC level have been given. Others did not require GC approval.”

- Based on the documents provided to us, we observed that tenders or competitive quotations have not been called for this project. We observed multiple suppliers involved in this project due to various types of job requirements, but multiple quotations have not been obtained, and every supplier was decided based on one quotation.

We received the following comments from the former General Committee regarding the tendering quotation process for the Sundowner Project:

Contractor c	GC Comments/Justifications
Sundowner Project - Thushan Construction (Labour with material)	<p>“All contractors have been historically retained on a labour contract basis. However, during the scarcity of materials certain items of work, were given on a labour + material basis, as an exception to this. These items of work within the contract were individually identified and given to the contractor.</p> <p>Virajini Contractors also were engaged to provide labour work at the Sundowner.”</p>

5. As per the procurement process explained to us, the H/W member should approve the quotation; however, we observed that the F&B member has approved the quotations.

As per the comments received from the former General committee, ***“this was done in the absence of the relevant committee member as Mr.Sanjeev had the most domain knowledge in this area.”***

6. According to accounting standards, costs should be capitalized at the time the asset is ready for use, and depreciation should commence from that point onwards. Based on the narrations in the CWIP ledger account, we noted that approximately Rs. 2.4 million was capitalized in the year 2023 instead of in 2022.

As per the former Head of Finance, the reason is due to the delay in receiving invoices from the supplier. We observed instances in which the invoices were received in 2022 but capitalized in 2023. Further, it is the responsibility of the finance division to follow up with the supplier and ensure timely receipt of the invoices.

Below are the entries recorded in the capital work in progress for the year 2023.

Posting Date	Document No.	G/L Account No.	Description	External Document No.	Source No.	Amount	Invoice Received Date
30-06-23	PPI-JUN-23-000527	114050	Invoice PURINV0003131	QUO/WP/MK/030522/350-R01	VT00036	207,840.00	PV cannot be traced
03-05-23	PPI-MAY-23-000003	114050	Invoice PURINV0002743	20224905	VT00236	1,133,517.74	14-11-22
04-04-23	PPI-OCT2020-012995	114050	Invoice PURINV0002623	14362	VT00259	161,000.00	20-01-23
01-04-23	PPI-OCT2020-012990	114050	Invoice PURINV0002618	GLASS RACK - SUN.BAR	VT01146	468,812.00	08-03-23
08-02-23	PPI-OCT2020-012077	114050	Invoice PURINV0002418	INV-2022-099	VT01081	10,000.00	09-01-23
22-01-23	PPI-OCT2020-011724	114050	Invoice PURINV0002325	15-JAN	VT00616	50,000.00	PV cannot be traced
01-01-23	PPI-OCT2020-011244	114050	Invoice PURINV0002236	SUN DOWN: ADDITIONAL	VT01146	62,432.19	PV cannot be traced
01-01-23	PPI-OCT2020-011241	114050	Invoice PURINV0002233	HAND RAIL	VT01146	307,486.00	02-11-22
	Total					2,401,087	

It is best practice [as per accounting standard] to capitalize the costs incurred for the entire project at the time it was launched and available to use. We recommend establishing proper guidelines in accordance with the Sri Lankan Accounting Standards to ensure timely capitalization of assets.

7. As per past practice, we observed instances in which AGM approval has been obtained for refurbishment projects.

Based on the narration provided in the minutes, the following projects can be quoted in reference to the Sundowner project:

Sundowner Renovation and Refurbishment	Past projects that have gone for AGM approval	
	Year	Narration
Construction of an external staircase and construction of an internal bar	2015	Create a staircase lobby providing access to the residency rooms, Sunowner and the business meeting room at a cost not exceeding Rs. 5,500,000
Refurbishment and Renovation of Sundowner and addition of glass railing	2015	Refurbish and renovate the residency rooms at a cost not exceeding Rs. 9,500,000
		Refurbishment and modification to the gymnasium and sports complex at a cost not ex. Rs. 8,000,000
		Refurbish Monsoon hall - Rs. 4,500,000 [Convert to Seminar Hall]
Kitchen Partition and show kitchen	2017	To extend, refurbish the kitchen - 18,500,000

As per the documents made available for audit on past building related CAPEX projects (2015, 2016, 2018, 2019 and 2021) we observed that most projects capitalized prior to 2021 have mostly gone to the AGM, and the exceeded amounts of those projects have not gone to the AGM for further approvals.

Conclusions

1. Based on the AGM minutes and documents made available to us we observed instances in the past where refurbishment and renovation of existing projects have been placed before membership for approval.
2. Further, in the case of the Sundowner project, the old facility was functional, and there has been an extensive upgrade to the facility including the construction of an internal bar and an external staircase. Therefore, it should have gone for member approval as it does not fall under the category of maintenance, which is routine upkeep, and it is also considered a new concept or an idea.

5. As per the Constitution clause Rule 9(f), “Capital expenditure in excess of Rs. 1,000,000 for any **“one” “new” “entire” “project”** has to be approved by Members at a General Meeting of the Membership. **This excludes** maintenance due to normal wear and tear of buildings, pool, Machinery and equipment.”

a) We observed ambiguity in the Constitution related to the approval process for CAPEX. The constitution states that member approval is required for entirely new projects above Rs. 1 million. The term **“one new entire project”** is not clearly defined in the Constitution, and it leaves the term open to interpretation.

The Constitution has given wide discretionary powers to the general committee as per clause 39.

b) However, the Constitution explicitly excludes **“maintenance due to normal wear and tear of buildings...”** which refers to routine upkeep and repairs necessary to keep the buildings in good working condition. Refurbishment, on the other hand, often involves more extensive renovations or upgrades that go beyond regular maintenance and may significantly alter or improve the property. Refurbishment projects that involve significant capital expenditure, such as renovating or upgrading the entire place to a certain extent, would likely not fall under the category of maintenance due to normal wear and tear, which is explicitly excluded from AGM approval.

4. The General Committee, as the main governing body of the club, should deliberate such project-related costs with the full General Committee at a GC meeting, failing which it is unable to confirm whether the full GC was aware of the project and total cost prior to implementation.

Project 03 - Kids Area [5.7 million]

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 5,703,140 is allocated for the refurbishment of the kids’ area.

[Refer to Annexure 10 for the detailed breakdown.]

2. As per the breakdown provided by the former Head of Finance and our review of the AGM minutes, this project was not placed before the membership for approval.

The reason provided by the Former Head of Finance is that the project mainly involves the refurbishment of Monsoon Hall, which was also an area allocated for kids in the past.

[Refer to Annexure 11 for the images of the old Monsoon Hall and the new Kids Area.]

The following are some of the refurbishments that can be highlighted as part of the Kids' Area refurbishment project:

- Partition of Monsoon Hall
 - Supply and installation of padded flooring.
 - Supply and installation of timber flooring.
 - Wall painting
 - Supply and installation of gypsum bulk ceiling.
3. During our review of the GC meeting minutes, based on the narration, we observed that approval had been obtained from GC for approximately Rs. 3.8 million. The breakdown of the GC approvals is listed below:

GC Meeting Date	Description	Amount (Rs.)
02-02-22	Kids area refurbishment	950,000
21-03-22	Monsoon Hall repairs	2,900,000
	Total Approval at the General Committee Meetings	3,850,000

We received the following comments from the former General Committee regarding the AGM and GC approvals of the Kid's Area Refurbishment Project:

Note: Refer to the GC comments given related to the constitutional interpretation under the first project [Café and Loft] in the building category.

“The kids area work was not an new project but rather the renovation of the existing monsoon hall which was used for kids activities and the relocation of the kids play area from the café area. Therefore, it did not require AGM approval.”

4. The construction of the project was handled by Thushan Construction, and the interior was handled by Sankalpa Interior. Based on the documents provided to us, we observed that tenders or competitive quotations have not been called for this project. Further, as per the project Engineer, BOQ were not provided by Thushan Construction. There is also no laid-down SOP to call for quotations.

We received the following comments from the former General Committee regarding the tendering quotation process for the Kid’s Area Refurbishment Project:

Contractor	GC Comments/Justifications
Kids Area - Thushan (Construction)	<i>“Thushan was requested to undertake the civil work, based on the design by Sankalpa. This was on a labour basis. Rates were based on initial assessment of rates submitted by labour contractors and as such all rates were compared to prevailing market rates. Further the choice of the contractor was based on competency and past delivery.”</i>
Kids Area - Sankalpa (Interior)	<i>“As explained architects/interior designers are not chosen on a tender basis and is more on recommendation/previous projects observed/favorability to their design ideas. We did in fact first approach another interior designer (Surrge Designs). After the initial meeting they declined to provide a design and stated that they could not meet the timelines for completion. Arch. Channa also submitted a design proposal that was not acceptable. Thereafter Sankalpa’s design was deemed most appropriate and was awarded the work.”</i>

5. We observed the following in the quotation and approval processes:

- a) As mentioned above, the construction of the project was handled by Thushan Construction, and the interior was handled by Sankalpa Interior. The decision was made based on one quotation or BOQ provided by both contractors, and competitive quotations have not been obtained.
- b) As per the process explained to us, the H/W member should approve the quotation; however, we observed that the F&B member has approved the quotation in both instances.

As per the comments received from the former General committee, ***“this was done in the absence of the relevant committee member as Mr.Sanjeev had the most domain knowledge in this area.”***

6. We observed an invoice related to kids’ play area of Rs. 514,000 by the contractor (Thushan Construction) was sent on December 21, 2021. It is unclear as to why the entry was posted in the 2023 CWIP.

Below is the entry recorded in the capital work in progress for the year 2023.

Posting Date	Document No.	G/L Account No.	Description	External Document No.	Source No.	Amount	Invoice Received Date
31-01-23	PPI-OCT2020-013455	114050	Invoice PURINV0002782	KIDS PLAY AREA	VT01146	514200	21.12.2022

[Refer to Annexure 12 for the breakdown of kids' area capitalization.]

[Refer to Annexure 13 for the invoice details]

7. As per past practice, we observed instances in which AGM approval has been obtained for refurbishment projects for existing facilities.

Based on the narration provided in the minutes, the following projects can be quoted in reference to the Kid's Area Refurbishment Project:

Kids' Area Refurbishment Project	Past projects that have gone for AGM approval	
	Year	Narration
Refurbishment, partition of the Monsoon Hall and creation of a kids' area with completely new interior.	2015	Refurbish and renovate the residency rooms at a cost not exceeding Rs. 9,500,000
		Refurbishment and modification to the gymnasium and sports complex at a cost not ex. Rs. 8,000,000
		To convert the snooker room and old F&B office to a coffee shop, teen activity room & toddlers play area at a cost not ex. Rs. 7,000,00
	2016	Refurbish Monsoon hall - Rs. 4,500,000 [Convert to Seminar Hall]
To create Kids playing area including water sports area recreational facilities and upgrade the basketball court at a cost of not exceeding Rs. 4,000,000		

Conclusions

1. Based on the AGM minutes and documents made available to us we observed instances in the past where refurbishment projects for existing facilities have been placed before membership for approval.
2. In the case of the Kids Area Refurbishment project, the partition of the Monsoon Hall and upgrading part of the hall into a kids play area is a new idea and an upgraded facility. Even though Monsoon Hall was previously used for kids' parties, making it into a play area can be treated as a new concept. Therefore, it should have gone for member approval as it does not fall under the category of maintenance, which is routine upkeep, and it is also considered a new concept or an idea.
3. As per the Constitution clause Rule 9(f), "Capital expenditure in excess of Rs. 1,000,000 for any one new entire project has to be approved by Members at a General Meeting of the Membership. This excludes maintenance due to normal wear and tear of buildings, pool, Machinery and equipment."
 - a) We observed ambiguity in the Constitution related to the approval process for CAPEX. The constitution states that member approval is required for entirely new projects above Rs. 1 million. The term "entirely new project" is not clearly defined in the Constitution, and it leaves the term open to interpretation.

The Constitution has given wide discretionary powers to the general committee as per clause 39.

- b) However, the Constitution explicitly excludes "maintenance due to normal wear and tear of buildings..." which refers to routine upkeep and repairs necessary to keep the buildings in good working condition. Refurbishment, on the other hand, often involves more extensive renovations or upgrades that go beyond regular maintenance and may significantly alter or improve the property. Refurbishment projects that involve significant capital expenditure, such as renovating or upgrading the entire place to a certain extent, would likely not fall under the category of maintenance due to normal wear and tear, which is explicitly excluded from the AGM approval.
4. The General Committee, as the main governing body of the club, should deliberate such project-related costs with the full General Committee at a GC meeting, failing which it is unable to confirm whether the full GC was aware of the project and total cost prior to implementation.

Projects 04 and 05: Executive Quarter [Rs. 2.2 million] and Executive Chef's Room [Rs. 1 million]

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 2,223,945 and Rs. 1,057,396 is allocated for the executive Quarters' and Executive Chef's Room respectively.

[Refer to Annexure 14 for the detailed breakdown of Executive Quarter.]

[Refer to Annexure 15 for the detailed breakdown of Executive Chef's Room.]

2. As per the breakdown provided by the former Head of Finance and our review of the AGM minutes, these projects were not placed before the membership for approval.

The reason provided by the Former Head of Finance is that the Executive Quarters' and Executive Chef's Room mainly involves repairs to the existing storeroom and yoga room respectively.

The background of the executive quarter's repair project can be explained as follows:

The space previously used as a storeroom has been converted into two rooms to be occupied by the pastry chef, sous chef, executive F&B manager, and housekeeper superintendent. The Former Head of Finance commented that the partitions were already available, but the place was refurbished to make it suitable for accommodation, including additions such as bathrooms, lighting, wiring, etc.

The background of the executive's Chef room project also known as HOD rooms project can be explained as follows:

The space previously used as a yoga room has been converted into three rooms as the F&B manager's room, executive chef's room and chief Engineer's room. The place was refurbished to make it suitable for accommodation, including additions such as tiles, bathrooms, in house furniture, electrical etc.

As per the Engineer and the former Head of Finance, only executive chef's room was completed in the year 2022 and was capitalized the remaining was concluded in the year 2023.

3. During our review of the GC meeting minutes, based on the narration, we observed that approval had been obtained from GC for approximately Rs. 1.3 and Rs. 3.3 million in the year 2022 and 2021 respectively for the Executive Quarter's Repair.

During our review of the GC meeting minutes, based on the narration, we observed that approval had been obtained from GC for approximately Rs. 1 million for Executive Chef's Room.

We received the following comments from the former General Committee regarding the AGM and GC approvals of the Executive Quarters Project:

Note: Refer to the GC comments given related to the constitutional interpretation under the first project [Café and Loft] in the building category.

4. The labor contract for the project was given to Thushan Construction, and the materials were provided by the club. Based on the documents provided to us, we observed that neither tenders nor competitive quotations have been called for this project. Furthermore, Bill of Quantities (BOQ) related to the project Executive Quarter's repair was not made available to us as of 19th February 2024.

We received the following comments from the former General Committee regarding the tendering and quotation process for the Executive Quarters Project:

Contractor	GC Comments/Justifications
Thushan Construction (Labour with material)	<i>"Thushan was requested to undertake the civil work, based on the design by Sankalpa. This was on a labour basis. Rates were based on initial assessment of rates submitted by labour contractors and as such all rates were compared to prevailing market rates. Further the choice of the contractor was based on competency and past delivery."</i>
Vajira Contractors and enterprises [Interior and some other repairs for Executive Quarters repair]	<i>Virajini is a labour contractor who done many civil jobs at the club. His rates were compared to Thushan and based on his competency and reliability, certain items of work were given to him.</i>

5. As per past practice, we observed instances in which AGM approval has been obtained for refurbishment projects for existing facilities.

Executive Quarters' Repair Refurbishment Project	Past projects that have gone for AGM approval	
	Year	Narration
Conversion of storerooms/Yoga room into dormitories, addition	2015	Build Washroom for Monsoon Hall at a cost not ex. 1,500,000

of bathrooms, and modification of the place.	Build washroom for the sundowner at a cost not ex. Rs. 1,500,000
	To convert the snooker room and old F&B office to a coffee shop, teen activity room & toddlers play area at a cost not ex. Rs. 7,000,000

Conclusions

1. Based on the AGM minutes and documents made available to us, we observed instances in the past where conversion or modification projects have been placed before membership for approval.
2. As per the Constitution clause Rule 9(f), “Capital expenditure in excess of Rs. 1,000,000 for any one new entire project has to be approved by Members at a General Meeting of the Membership. This excludes maintenance due to normal wear and tear of buildings, pool, Machinery and equipment.”
 - a) We observed ambiguity in the Constitution related to the approval process for CAPEX. The constitution states that member approval is required for entirely new projects above Rs. 1 million. The term “entirely new project” is not clearly defined in the Constitution, and it leaves the term open to interpretation.

The Constitution has given wide discretionary powers to the general committee as per clause 39.

- b) However, the Constitution explicitly excludes “maintenance due to normal wear and tear of buildings...” which refers to routine upkeep and repairs necessary to keep the buildings in good working condition. Conversion of storerooms into dormitories, addition of bathrooms, and modification of the place would likely not fall under the category of maintenance due to normal wear and tear, which is explicitly excluded from the AGM approval.

Project 06 - Walkway to Arthurs Space & Terrace - Rs. 0.99 million

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 995,450 is allocated for the Walkway to Arthurs Space & Terrace. Within this allocation, Rs. 35,000 is attributed to architectural consultancy fees, including various site visits related to Arthur's Restaurant.

[Refer to Annexure 16 for the detailed breakdown.]

[Refer to Annexure 17 for the Consultancy Fee.]

It was noted that the Former Head of Finance's breakdown included capex related to pebble wash laying and wash concrete for the external pathway. However, during our review of the quotation, an additional expense of Rs. 71,638 was incurred for this project. The quotation from Nimco Terrazzo specified that the **"existing ceramic tiles removing and re-laying the rough bed should be done by the client."** Subsequently, it was revealed through discussions with the former Assistant Engineer, that this task was completed by "Thushan Construction."

However, this cost was not included in the capitalized amounts in 2022, indicating a discrepancy in the accounting treatment of expenses related to the project. While reviewing some payments made in the year 2023, we observed that an invoice was raised by the club for the contractor (Thushan Construction VT01146) on January 1, 2023, with a corresponding debit entry to the repair and replacement expenses account. The invoice date from the contractor was August 31, 2022.

[Refer to annexure 18 for the invoice details and journal entries]

3. As per the breakdown provided by the former Head of Finance, and our review of the AGM minutes, this project was not placed before the membership for approval. The consultancy fee of Rs. 35,000 has been included under the category "amount exceeding approved amount at AGM."

[Note: The breakdown provided by the Former Head of Finance excludes Rs. 71,638 mentioned in point 01 of this project.]

2. During our review of the GC meeting minutes, based on the narrations, we observed that Rs. 1 million approval had been obtained from the General Committee in the year 2022. The GC approval obtained is mentioned below:

GC Meeting Date	Description	Amount (Rs.)
06-04-22	Walkway to Arthurs Space & Terrace – Rs.1,000,000	1,000,000
	Total Approval at the General Committee Meetings	1,000,000

3. During our verification process, it was observed that the contractor for the project was Nimco Terrazzo. Based on the documents provided to us, we noted that neither tenders nor quotations were called for this project. Instead, a quotation was obtained solely from the aforementioned contractor.

[Note: This excludes Rs. 71,638 mentioned in point 01 of this project.]

We received the following comments from the former General Committee regarding the tendering quotation process for the Sundowner Project:

Contractor	GC Comments/Justifications
Nimco Terrazzo [Labour with material)	<i>“Nimco is a specialized flooring contractor. This walkway was created with a rough granulated finish to prevent any accident occurring owing to water collection of the existing smooth finish floor. Nimco has been doing work for the club for some time, with matters relating to specialized floor finishes.”</i>
Thushan Construction [Labour with material)	<i>“Thushan, based on previously submitted rates, was asked to the civil component prior to Nimco undertaking the finishes.”</i>

4. As per the process, the H/W member should approve the quotation; however, we observed that the F&B member, has approved the quotation.

As per the comments received from the former General committee, *“this was done in the absence of the relevant committee member as Mr.Sanjeev had the most domain knowledge in this area.”*

5. Based on the past AGM minutes and provided narrations, we did not explicitly find any AGM approvals in the past related to the demolition of existing floor tiles, new laying of cement sand beds, or pebble washing.

Project 07 - Overall Roofing - Rs. 12.9 million

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 12,999,493 is allocated for the Roof repair.

[Refer to Annexure 19 for the detailed breakdown.]

2. As per the breakdown provided by the former Head of Finance, AGM approval has been obtained for the sports complex roof repair, totaling Rs. 1,140,125. However, there is no indication of AGM approval for the remaining roof repairs. According to the Former Head of Finance, the approval for the sports complex repair is associated with the approval for the solar panel project, which amounts to Rs. 35 million.

[Refer to Annexure 20 for the extract of 2021 solar panel approval minutes.]

3. During our review of the GC meeting minutes, based on the narrations, we observed that approval had been obtained from GC for approximately Rs. 10 million.

The GC approval obtained is mentioned below:

GC Meeting Date	Description	Amount (Rs.)
06-04-22	Storm Lodge roof replacement – Rs.5,600,000	5,600,000
29-01-22	Labour & material cost adv 100 series repairs – Rs.2,800,000	2,800,000
21-03-22	Sports complex roof repair – Rs.1,800,000	1,800,000
	Total Approval at the General Committee Meetings	10,200,000

We received the following comments from the Former General Committee regarding the AGM and GC approvals of the Roofing Expenses:

Note: Refer to the GC comments given related to the constitutional interpretation under the first project [Café and Loft] in the building category.

4. During our review of the CAPEX breakdown, supporting documents for the amount totaling Rs. 544,000 were not provided to us as of February 20, 2024. Ideally, the payment vouchers should be filed along with supporting documents should be maintained and retained by the Club.

[Refer to Annexure 21 (a) for the expenses for which supporting was not provided.]

Based on the capitalized amounts provided to us by the former Head of Finance, a total of 12.9 million has been invoiced related to the roof repair and replacement.

During our review of payment vouchers, we observed that approximately Rs. 2.2 million has been duplicated and capitalized in the year 2022. When we inquired about this from the Former Head of Finance, we were informed that the duplicated amounts were identified and reconciled in the year 2023.

[Refer to Annexure 21 B for the breakdown along with auditor's comment on duplicated capitalization]

5. Based on the past AGM minutes and provided narrations, we did not find any AGM approvals obtained in the past ten years for roof replacements or roof-related repairs.

Project 09 - Sports Complex renovation - Rs. 1.9 million

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 1,936,493 is allocated for the Sport's Complex renovations.

[Refer to Annexure 22 for the detailed breakdown.]

2. As per the breakdown provided by the former Head of Finance, and our review of the AGM minutes, this project was not placed before the membership for approval.

The total cost incurred includes the installation of a mirror (Rs. 1.3 million), LED high bay light fitting, addition of a runner corner guard, gym, and badminton court modification.

3. Based on the documents provided to us, we observed that competitive quotations have not been obtained for the above-mentioned renovations and modifications. We observed only the successful or finally approved quotation being attached to the payment vouchers. As per the former finance head, the quotations attached to the payment voucher are the quotations that were provided to the finance division, and there could be other quotations that may have been obtained. Further, there is also no laid-down SOP to call for quotations.

As best practice, quotations should be called for projects of this nature above a specific value. Once the quotations are received, an evaluation should be done and the recommendation and supplier tabled and approved by the General Committee and it should be minuted in the GC minutes. We recommend retaining all the quotations obtained or attaching them to the payment

vouchers, along with the justification provided for selecting the supplier. Suppliers for these sorts of projects and for projects above a specific value could be evaluated and selected by a procurement committee for which provisions already exist in the constitution.

4. During our review of the GC meeting minutes, based on the narrations, we observed that approval had been obtained from GC for approximately Rs. 571,115.

GC Meeting Date	Description	Amount (Rs.)
10-10-22	Gym work hardware – Rs. 571,115	571,115
	Total Approval at the General Committee Meetings	571,115

During our review of GC meeting minutes for the past 10 years, based on the narration, we observed that approval has been obtained from GC for renovation and modification.

GC Meeting Date	Description	Amount (Rs.)
27-04-21	Badminton Court Flooring	900,000
29-06-19	Basketball court flooring Rs. 700,00	700,000
30-07-16	Modification to gym cardio section	1,000,000
	Modification to gym weight section	1,000,000
	Modification to squash courts	900,000
	Modification to badminton court	1,000,000

We received the following comments from the former General Committee regarding the AGM and GC approvals of the Sport Complex Renovation:

Note: Refer to the GC comments given related to the constitutional interpretation under the first project [Café and Loft] in the building category.

Conclusion

The General Committee, as the main governing body of the club, should deliberate such project-related costs with the full General Committee at a GC meeting, failing which it is unable to confirm whether the full GC was aware of the project and total cost prior to implementation.

Project 10 - Admin area ceiling work and Lobby related (retention) - Rs. 1.2 million

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 1,210,997 is allocated for the admin area ceiling work and Lobby related (retention).

[Refer to Annexure 23 for the detailed breakdown.]

2. As per the breakdown provided by the former Head of Finance, and our review of the AGM minutes, this project was not placed before the membership for approval.
3. During our review of the GC meeting minutes, based on the narrations, we observed that approval had been obtained from GC for approximately Rs. 2 million. The GC approval obtained is mentioned below:

GC Meeting Date	Description	Amount (Rs.)
21-03-22	Ceiling replacement admin building – Rs.1,100,000	1,100,000
	Generator area ceiling replacement – Rs.900,000	900,000
	Total Approval at the General Committee Meetings	2,000,000

4. Based on the past AGM minutes and provided narrations, we did not find any AGM approvals obtained in the past ten years for ceiling replacements or ceiling-related repairs.

Project 11 - 200 series room repair - Rs. 0.6 million

1. As per the CAPEX breakdown provided by the former Head of Finance, out of the total capitalization of Rs. 76,801,618 for the year 2022, Rs. 669,760 is allocated for the 200 series room repair.

[Refer to Annexure 24 for the detailed breakdown.]

It must be noted that we were not provided with the payment vouchers related to the Rs. 669,760.34 capitalized amount. Further, during our discussion with the former Assistant Engineer, it was revealed that the 200 series repairs occurred in the year 2021.

2. During our review of the GC meeting minutes, based on the narrations, we observed that approval had been obtained from GC for approximately Rs. 500,000. The GC approval obtained is mentioned below:

GC Meeting Date	Description	Amount (Rs.)
27-04-21	Renovation of 200 Series Rooms	500,000
	Total Approval at the General Committee Meetings	500,000

In order to verify whether AGM approval has been obtained in the past for similar projects, we will need details of the complete project, including the cost capitalized in 2021. Even though we requested such details, we were not provided with the relevant documents.

Conclusion

It is best practice [as per accounting standard] to capitalize the costs incurred for the entire project at the time it was launched and available to use. We recommend establishing proper guidelines in accordance with the Sri Lankan Accounting Standards to ensure timely capitalization of assets.

Other Expenses that cannot be segregated based on projects: Refer to Annexure 25

2.0 Electronic Equipment - Rs. 39.1 million

2.1 Air-Conditioners - 23 million

Based on the FAR, the breakdown of the new additions of Rs. 23 million worth of air conditioners is as follows:

Department/Location	Description/Capacity [As per FAR]	Supplier	Quantity	Cost (in millions)
Restaurant	HITACHI floor standing ducted air conditioner	K TEC ENGINEERING (PVT) LTD	1 unit	13.75
Coffee lounge/Loft	CASSETTE TYPE AIR CONDITIONER 24000 BTU	K TEC ENGINEERING (PVT) LTD	06	5.14
BAR	AIR CONDITIONER - 60000 BTU	BROWNS & COMPANY PLC	02	1.72
	AIR CONDITIONER 24000BTU	TELESONIC LANKA (PVT) LTD	01	
Pastry	AIR CONDITIONER 18000 BTU	K TEC ENGINEERING (PVT) LTD	02	0.74
Sport Complex	CEILING MOUNTED AIR CONDITIONER-48000BTU	FROSTAIRE ENGINEERING (PVT) LTD	01	0.36
Admin	DAIKEN NON INVERTER AIR CONDITION-12000BTU	ELITE RADIO & ENGINEERING CO (PVT) LTD	01	0.9
	CEILING MOUNTED AIR CONDITIONER-36000BTU	FROSTAIRE ENGINEERING (PVT) LTD	01	
	DAIKEN NON INVERTER AIR CONDITION-18000BTU	ELITE RADIO & ENGINEERING CO (PVT) LTD	01	
	MIDEA AIR CONDITIONER 18000BTU	TELESONIC LANKA (PVT) LTD	01	
	DAIKIN WALL MOUNT AIR CONDITIONER 18000BTU	ELITE RADIO & ENGINEERING CO (PVT) LTD	01	
Catering	WALL MOUNTED SPLIT TYPE AIRCONDITION-24000BTU	K D AIRCON INDUSTRIES (PVT) LTD	02	0.39
Total				23

2.1.1. HITACHI floor standing ducted air conditioner - Rs. 13.7 million

Based on the documentation available, it appears that only one quotation was obtained for this purchase. In the absence of other quotations in the file, we cannot confirm that competitive bids were obtained for this purchase.

In our review of past air-condition purchases for the period 2017-2020, we observed that 85% of the air-condition purchases had either two or more than two quotations attached to the payment vouchers.

The following comment was provided by the GC regarding the calling of quotations:

“This was during the time of the economic crisis where AC imports were banned. There were no units of similar capacity and specs available in market despite the engineering team making inquiries from our usual suppliers. The only company at the time we found with a unit was this one. It was purchased after negotiation of price.”

“It cannot also be excluded from consideration the circumstances and times the GC was operating in - March to December 2022. It was a time of previously unknown economic upheaval and uncertainty with shortages and severe restrictions. Decisions had to be made promptly to safeguard the best interest of the club AT ALL TIMES. This enabled the club to function without disruption or closure unlike many other clubs or establishments of a similar nature. In these unprecedented times decisions had to be made without the benefit of hindsight; eg. if we didn't purchase the AC at the time, we were unsure in how many months/years restrictions would be lifted where imports could be made. In these circumstances we had the benefit of applying past precedents in purchasing and procurement and awards to fast track. For instance, the solar project which was evaluated and granted by a special procurement committee headed by a former president Mr. Huzaiifa Abdulhusien comprising of Mr. Ana Punchihewa, Mr. Chandima Gunawardene and Mr. Dilshan Hettiarachi also did not call for open tenders/quotations or bids or evaluate multiple vendors but chose to call for proposal from one specific vendor due to the past experience Mr. HA had with the vendor. We as a committee felt that was a practical recommendation. This is the same principle we applied when faced with the AC issue where we were forced to go with one vendor as there was no equipment available in the market. Further, without the AC we could not meaningfully operate the Sundowner.”

This purchase is worth Rs. 13.7 million was not placed before members for approval, but it must be noted that we were unable to find any minutes from the past 10 years related to obtaining approval from the AGM regarding the purchase of an AC unit.

We observed a few instances where GC approval has been obtained in the past.

GC Meeting Date	Description	Amount (Rs.)
06.02.2018	Air conditioning	650, 000
27.05.2017	AC & solar units relocation and replacement	450,000

However, in the year 2022, GC approval was not obtained for this significantly large purchase of an AC unit.

The following comments were provided by the former GC committee: *“As per our interpretation this does not require AGM approval”* and *“this does not require GC approval.”*

[Refer to Annexure 26 for the payment voucher and quotation details]

As per the process explained to us, generally, the payment vouchers are required to be approved by the House and Work (H/W) member, yet there was no evidence of such approval, either through a signature or email confirmation. Additionally, payment vouchers should bear the approval of two authorized signatories from a specified list, including the President, Vice President, General Secretary, or Immediate Past President. However, the payment voucher lacked the necessary dual authorization.

Conclusions

1. It is preferable if procurements of such high value are approved through the GC.
2. While acknowledging the economic challenges faced by the country in 2022, including import restrictions and a shortage of suppliers, we noted during our audit review that only one quotation was obtained. There appears to be a lack of competitive bidding in the procurement process. We recommend the formulation of procurement guidelines and the establishment of a procurement committee to oversee the procurement process.

2.1.1. CASSETE TYPE AIR CONDITIONER 24000 BTU [Coffee Lounge & Loft - Rs. 5.1 million]

Six cassette-type air conditioners with a 24000 BTU capacity have been purchased for the newly constructed loft and refurbished café area from the supplier, K-Tec Engineering.

We observed that only one quotation was obtained for this purchase, raising concerns about the lack of competitive bidding.

The following comment was provided by the GC regarding the calling of quotations for ACs:

“This was during the time of the economic crisis where AC imports were banned. There were no units of similar capacity and specs available in market despite the engineering team making inquiries from our usual suppliers. The only company at the time we found with a unit was this one. It was purchased after negotiation of price.”

Conclusions

1. It is preferable if procurements of such high value are approved through the GC.
2. While acknowledging the economic challenges faced by the country in 2022, including import restrictions and a shortage of suppliers, we noted during our audit review that only one quotation was obtained. There appears to be a lack of competitive bidding in the procurement process. We recommend the formulation of procurement guidelines and the establishment of a procurement committee to oversee the procurement process.

2.2. Other Electronic Equipment - Rs. 16.1 million

As mentioned above, out of the Rs. 39 million spent on electronic equipment, a major cost was allocated for air conditioners (Rs. 23 million). Rs. 16.1 million was spent on various items purchased for cafés, restaurants, catering, rooms, admin, and bars.

[Refer to annexure 27 for the complete breakdown of the expenses on other electronic equipment]

Out of the 141 items listed in FAR as purchases in the year 2022, the finance division was unable to trace four payment vouchers amounting to Rs. 786,000.00.

During our physical verification on February 20th and February 22nd, 2024, we came across a few discrepancies.

- a) Two items listed in the Fixed Assets Register (FAR) as purchased items in 2022 were not available for physical verification. According to the Assistant Steward Manager, Mr. Ajith, the available items that would match the names on the FAR were not purchased in the year 2022.

Asset Code	Asset Name	Supplier	Purchased Date	No. of Quotation	Quotation Approval	Amount
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EE0000131	BREAD MOULD	SHERRY BAKERY EQUIPMENT	03-03-2022	01	No	7,250.00
EE0000132	CAKE RING	SUPPLERS (PVT) LTD	03-03-2022			5,000.00

- b) The below item was confirmed by the Assistant Steward Manager, Mr. Ajith, as an item that was neither purchased nor available.

Asset Code	Asset Name	Supplier	Purchased Date	No. of Quotation	Quotation Approval	Amount
EE0000117	SOUND PROOF BLENDER	SPERRYS COMMERCIAL EQUIPMENT (PVT) LTD	18-02-22	02	GM approved obtained. Approval not obtained from F&B Member	269,680.00

- c) We found two similar items mentioned in the FAR as mixers; however, the Assistant Steward Manager, Mr. Ajith, was only able to show us one item. We are unable to verify whether the second item is available or was purchased in 2022.

Further, the invoice and GRN were not available for the FAR item EE001489 (Dough Mixer).

Asset Code	Asset Name	Supplier	Purchased Date	No. of Quotation	Quotation Approval	Amount
EE0000118	PLANETARY MIXER	SHERRY BAKERY EQUIPMENT SUPPLERS (PVT) LTD	03-03-22	01	No	197,000.00
EE001489	DOUGH MIXTURE 40L	ELEGANT KITCHEN EQUIPMENTS (PVT) LTD	26-09-22	04	Yes - Sanjeev (F&B member)	382,800.00

- d) As per the System Administrator, Mr. Lahiru Eranga, the mobile phone provided to the catering chef (EE001523, Samsung A03, Rs. 62,500), which was purchased in the year 2022, has gone missing. Additionally, the IT department does not maintain any acknowledgment forms when

providing or returning items to or from any individuals. Therefore, we are unable to verify whether these items were actually purchased and given to the chef.

We observed that the fixed asset items are not labeled. Therefore, we are unable to verify whether these items are available or have been purchased. We recommend fixed asset verification to verify the authenticity of the Fixed Assets Register (FAR) and labelling of the fixed assets.

Quotations

The majority of items were purchased based on one quotation or no quotation. We were informed by the former Head of Finance that only the successful or finally approved quotation being attached to the payment vouchers. As per the former finance head, the quotations attached to the payment voucher are the quotations that were provided to the finance division, and there could be other quotations that were received.

Review of GC and AGM minutes

AGM approvals were not obtained for any of the electronic item purchases made during the year. However, we did not find any past AGM minutes that indicated that approvals were obtained in the past either.

During our review of GC minutes for the year 2022, we did not find any approvals obtained for the purchase of any of this electronic equipment. Some major classifications can be given as fans, mobile phones, televisions (Rs. 1.8 million), gas cylinders (Rs. 1.4 million), convention ovens (Rs. 1.2 million), kitchen equipment, café and bar equipment, etc.

However, during our review of past GC minutes, based on the narrations, we found few instances in which GC approval has been obtained for similar items.

GC Meeting Date	Description	Amount (Rs.)
06-02-18	Exhaust system – Rs. 1 mn	1,000,000
	Freezer kitchen – 500K	500,000
	Freezer stores – Rs. 500k	500,000

However, GC approvals were not obtained in the year 2022 for any purchases related to electronic equipment.

Conclusions

1. It is preferable if procurements of such high value are approved through the GC.
2. While acknowledging the economic challenges faced by the country in 2022, including import restrictions and a shortage of suppliers, we noted during our audit review that only one quotation was obtained. There appears to be a lack of competitive bidding in the procurement process. We recommend the formulation of procurement guidelines and the establishment of a procurement committee to oversee the procurement process.

3.0 Sports Equipment - Rs. 8.9 million

Based on the FAR, there have been new additions of Rs. 8.9 million worth of sports equipment that have been purchased in the year 2022.

We were unable to segregate based on the information available whether the acquired items were bought as a replacement or as a new equipment.

During our physical verification of sports equipment on February 16, 2024, we found the following lapses:

- Even though two TRXs were purchased in 2022 as per the FAR, only one TRX was available at the gym, and it was confirmed by the workers at the gym that only one TRX was bought. (The price of one TRX is Rs. 30,809.23 as per the FAR.)
- As per the FAR, 15 strength bands have been purchased in 2022. However, we found only nine strength bands during our physical verification. Further, the strength bands were in different sizes, but as per FAR, the price for all has been the same. (The price of a strength band is Rs. 1895.95 as per FAR.)

Review of GC and AGM minutes

As per our review of the AGM minutes, this project was not placed before the membership for approval. However, we noted an instance in the past where AGM approval was obtained for the procurement of new gym equipment.

AGM Meeting	Description	Amount (Rs.)
2015	To procure new equipment for the gym at a cost not ex. 6,900,000	6,900,000

We observed that GC approval to procure gym equipment was obtained in the year 2022. Below is the list of approvals obtained at the GC meeting for the procurement of gym equipment.

GC Meeting Date	Description	Amount (Rs.)
10-10-22	Gym equipment replacements – Rs.8,292,000	8,292,000
	Gym Equipment (new) – Rs.685,000	685,000
	Total	8,977,000

The following comment was provided by the Former GC, regarding the purchase of sports equipment.

“The same was also applicable with regards to upgrades carried out to the Sports Complex. At the AGM held in 2022 the membership requested that the gym be upgraded as most of the equipment were over 20 years old and also unsafe to use. The GC had been deferring this upgrade due to the import restrictions that were in place until then. However as it was uncertain as to how much longer such restrictions would continue, it was decided to proceed with the upgrade without deferring it further. However, there was no equipment available to carry out the entire upgrade from one vendor such as GS Sports, Eser etc. Therefore, quotations were received from a vendor who was in a position to source equipment from various parties in order to upgrade the Sports Complex. Thereafter the prices were compared with the previous prices at which vendors such as Eser and GS Sports were selling. Further, the prices were also cross checked with the prices on Amazon and Ebay etc, which were without duties and transport/handling charges. Based on these the prices the quotation submitted by the vendor was negotiated and reduced substantially. In doing the upgrades whilst some equipment such as Treadmills were replaced with more advanced products certain products such as exercise bikes were replaced with air bikes etc which were more current and have been identified as a more practical and effective replacement.”

4.0 Computer Equipment - Rs. 5.9 million

Based on the FAR, there have been new additions of Rs. 5.9 million worth of computer equipment that have been purchased in the year 2022.

[Refer to annexure 28 for the breakdown of computer equipment purchased during the year 2022]

Out of the 86 items listed in FAR as purchases in the year 2022, we were not provided with 3 payment vouchers amounting to Rs. 114,600. 2. Ideally, the payment vouchers should be filed along with supporting documents should be maintained and retained by the Club.

We observed that the fixed asset items are not labeled. Therefore, we are unable to verify whether these items are available or have been purchased. We recommend fixed asset verification to verify the authenticity of the Fixed Assets Register (FAR).

Review of GC and AGM minutes

As per our review of the AGM minutes, this project was not placed before the membership for approval. However, we did not find any past AGM minutes that indicated that approvals were obtained in the past either.

During our review of GC minutes for the year 2022, we did not find any approvals obtained for the purchase of any of this computer equipment. However, we did not find any past GC minutes that indicated that approvals were obtained in the past either.

Therefore, it can be concluded that the former GC has not deviated from past practice in the purchase of computer equipment.

5.0 Furniture and Fitting - Rs. 4.3 million

Based on the FAR, there have been new additions of Rs. 4.3 million worth of furniture & fittings have been purchased in the year 2022.

[Refer to annexure 29 for the breakdown of Furniture and fittings purchased during the year 2022]

Out of the 169 items listed in FAR as purchases in the year 2022, we were not provided with 40 payment vouchers amounting to Rs. 1,486,450.00.

During our physical verification on 22nd February 2024 we observed that an item listed in FAR was not available for verification.

Asset Code	Asset Name	Supplier	Purchased Date	No. of Quotation	Quotation Approval	Amount
FF002224	AIR CURTAIN	K TEC ENGINEERING (PVT) LTD	30-08-22	01	Approval Obtained from GM and F&B member	60,000.00

Review of GC and AGM minutes

AGM approvals were not obtained for any of the furniture items purchases made during the year. However, we did not find any past AGM minutes which indicated that approvals were obtained in the past either.

Therefore, it can be concluded that the former GC has not deviated from past practice in the purchase of furniture and fitting in terms of AGM approval.

During our review of GC minutes for the year 2022, we did not find any approvals obtained for the purchase of any of these furniture items. However, reviewing the past GC minutes, we observed instances in which GC approval was obtained.

GC Meeting Date	Description	Amount (Rs.)
27-03-21	Lobby Lounge - Furniture	1,000,000
	Renovation of 100 Series Rooms - Furniture	1,000,000
	Renovation of 100 Series Rooms - Curtains	1,000,000
27-04-21	Renovation of Main Bar - Furniture & Floor	1,000,000

Conclusion

The General Committee, as the main governing body of the club, should deliberate such project-related costs with the full General Committee at a GC meeting, failing which it is unable to confirm whether the full GC was aware of the project and total cost prior to implementation.

Common findings on the practice followed by the Colombo Swimming Club

1. We observed that most entries related to capex are initially parked in a general ledger called repairs and replacement, from which journal entries are passed to transfer to capital work in progress. Due to the unclear narrations, we are unable to verify whether all costs related to the projects that occurred in 2022 have been transferred to the capital work in progress account.
2. Our audit uncovered a critical issue concerning the capitalization of buildings within the organization. It was noted that capitalization does not occur on a project-by-project basis as required, but rather the total amount is consolidated and capitalized at the end of the fiscal year as a single project. This practice not only results in inaccurate depreciation calculations but also constitutes a violation of accounting standards.

Furthermore, the lack of supporting documentation for the breakdown of capitalization further compounds the issue. Without proper documentation, auditors are unable to verify the accuracy

and completeness of the capitalization process, raising concerns about the reliability and integrity of financial reporting.

Ambiguity in the Constitution

The below clause related to CAPEX purchases was found during our review of the Colombo Swimming Club Constitution:

“Capital expenditure in excess of Rs. 1,000,000 for any one new entire project has to be approved by Members at a General Meeting of the Membership. This excludes maintenance due to normal wear and tear of buildings, pool, machinery and equipment.”

Our comments on the above clause are as follows:

1. The constitution provided does not explicitly define or elaborate on what constitutes a " one new entire project." It leaves the term open to interpretation.
2. The constitution lacks clarity on the refurbishment, modification and extensive renovation.
3. The constitution does not explicitly mention the approval process for the purchase of new items that do not fall under the category of replacements or new entire projects.
4. Even though the constitution explicitly states that maintenance due to normal wear and tear of buildings, pool, machinery, and equipment is excluded from the requirement for approval at AGM, it does not specify an alternative approval process or threshold for these maintenance expenses. Without a clear threshold or an alternative approval process outlined for maintenance expenses exceeding Rs. 1,000,000, it may be unclear who has the authority to approve such expenditures.
5. The requirement of the General Committee for CAPEX above a specific threshold is not properly defined in the constitution.