

REPORT ON CONDUCTED FINANCIAL AUDIT OF SPORTS ASSOCIATIONS FOR 2018

(March 2020)

SUMMARY

The State Audit Office conducted a financial audit of 24 sports associations, covering financial statements and business operations for 2018.

The objectives of the audit were to check the accuracy and credibility of financial statements, to check the application of acts, regulations and administrative provisions related to the organisation and financial accounting operations, to check the regularity of the acquisition of revenue, to check the regularity of the realisation of expenditures, to check whether the funds were used exclusively to achieve the objectives set out in the programme or work plan and to check and evaluate regularity (intended use) and the purpose of using the funds received from the state and local budgets.

Revenues of sports associations covered by the audit amounted to HRK 287.490.494,00, expenditures amounted to HRK 283.849.568,00 and surplus revenues amounted to HRK 3.640.926,00 (12 sports associations expressed a surplus of revenue over expenditures in the amount of HRK 5.241.502,00 and a 12 deficit in the amount of HRK 1.600.576,00).

Eight unqualified and 16 qualified opinions were expressed on the financial statements and compliance of activities of sports associations for 2018.

The criteria for expressing opinions were Acts, regulations and internal acts regulating the framework of financial reporting and business activities of sports associations.

Audit of irregularities and omissions that influenced the expression of opinions relate to the scope and internal organisation, internal control system, work planning and programme, financial statements, accounting operations, revenue, expenditures, borrowing and lending, and public procurement.

The audit found, inter alia, that:

- In the part relating to the scope and internal organisation, it has been established that a sports association has not published on its website the financial plan and its amendments, the realisation of plans, acts and strategies related to the field of activity of the said sports association, as well as the plan and implementation of a detailed plan for the allocation of financial resources within the framework of the programme of public needs in sports. Another sports association has published a list (names) of its members (non-profit sports associations (clubs) and other non-profit associations whose activity is of importance and interest for sport in the city, but does not keep a list of members in electronic form with information on the name of the member, personal identification number, date of accession and category of membership, which is not in accordance with the statute of the mentioned sports association.

- Some sports associations did not self-evaluate the efficiency and effectiveness of the functioning of the financial management and control system, i.e. did not fill in the questionnaire on the functioning of the financial management and control system, or filled in the questionnaire

outside the deadline. The questionnaire does not mention irregularities and omissions identified in several areas (planning, accounting operations, borrowing and lending, implementation of public procurement programs and procedures), it did not inform the assembly about the conducted assessment of the sports association, and some sports associations did not establish an efficient internal control system in order to ensure business regularity, prevent and eliminate mistakes and ensure the quality of accounting financial operations.

- Some sports associations did not adopt the financial plan and annual work programme prior to the start of the financial year to which they relate, financial plans did not realistically plan individual revenues and expenditures, and no changes to the financial plan were adopted when significant deviations were achieved. Furthermore, certain explanations of the financial plan of sporting associations do not contain an explanation of the programmes, activities and projects planned to be implemented in the year for which the financial plan is adopted, the financial plan does not contain the financial result of the business, the borrowing and repayment plan and has no link to the work programme and the necessary funds for their implementation. Revenues and expenditures in individual financial plans are not planned at least at the level of the group of accounts from the Invoice Plan for non-profit organisations and it is not possible to monitor the realisation of income and expenditures by type.

In the part relating to the programme of public needs in sport, shortcomings were identified in the call for tenders for activities within the framework of the programme (inter alia, the deadline for submission of applications from the date of public disclosure was wrongly determined, the procedure for approval of funds was not published and the procedure for submission of complaints was not specified, nor was the activity expenditure of regular operation of sports facilities defined and the criteria for allocation of funds were not defined), as well as the monitoring of dedicated spending of funds received from local self-government units.

- Data reported in the financial statements are not complete (inter alia, they do not contain off-balance sheet records, individual claims, expenditures related to financing related non-profit organisations) and are not identical to data recorded in the accounts nor are they shown by types of income and expenditures determined in the Chart for non-profit organisations. Due to the above, individual revenues, expenditures and assets in the financial statements are more or less expressed in relation to income, expenditures and assets recorded in the accounts. Also, the Notes to the Report on revenues and expenditures contain no reasons that led to higher deviations of certain revenues and expenditures compared to the previous year.

- In the part of the accounting business relating to the keeping of business books, it has been established that sports associations keep prescribed business records, but some (five) do not keep auxiliary books (among other things, a book of short-term non-financial assets (stocks of goods) by type, quantity and value, a book of long-term non-financial assets, a book of liabilities and receivables, a book of exit accounts, a cash register and a book of receivables from workers for given advances).

Certain sports associations have not registered income, expenditures and assets in the statutory accounts and/or in the business records within the framework of neither off-balance sheet records, nor have they registered in the financial statements other persons' material assets obtained for use. Data on individual incomes, expenditures and liabilities recorded in the accounts are not identical to data reported in the financial statements. The accounts recorded a lack of revenue and the surplus/deficit carried over from previous years was not recorded. Individual expenditure in the accounts has not been recorded on the basis of credible, true, orderly and

previously controlled documentation, and in some cases the accounting principle of occurrence has not been respected.

Sports associations have made a list of assets and liabilities (except for two). Certain sports associations have found that the list is not complete (among other things, it does not include funds, liabilities, claims, individual non-financial assets, investments in other persons' assets); the decision to perform the list is not made or is not complete (there are no deadlines for performing lists and submitting reports with enclosed lists to the legal representative); the census lists contain natural but not value indicators (monetary terms), and the report on the completed list has not been prepared or submitted to the legal representative. For the aforementioned reasons, these sports associations did not harmonise the bookkeeping with the actual situation.

- In the area of revenue, in one sports association, irregularities relate to the realisation of revenue from the lease of the sports hall (newly constructed sports hall was given to the sports association for management and maintenance on the basis of the contract from January 2018, without conducting the public tendering procedure for renting the sports hall; associations of the members of the mentioned sports association used the sports hall without charge) and revenues from the rental of business premises for the performance of catering activities (according to the public tender carried out, on the basis of the August 2017 contract, which did not determine the area of business premises rented out, no catering equipment and furniture leased or the monthly rent for the lease of business premises was determined). For another sports association, revenues from the provision of bookkeeping and accounting services are recognised at the time of collection, irrespective of the reporting period to which they relate.

- In the area of expenditures, irregularities relate to depreciation expenditures (the value of non-financial assets for which depreciation was calculated is not equal to the value recorded in the accounts and expressed in the financial statements, the business books do not show the type or individual value of assets for which depreciation should have been calculated) and expenditures on accounting, lawyer services and promotion and information services (they were realised on the basis of concluded contracts and annexes to contracts for which flat-rate fees were contracted and monthly invoices, without the obligation to deliver services). Also, it has been established that a sports association did not obtain adequate documentation from the beneficiaries of funds on expenditures for the implemented programmes and projects (no contracts were concluded with individual beneficiaries of funds, the funds were received on the basis of a request in the amount of planned funds and the beneficiaries did not submit financial reports on the consumption of received funds).

In the part relating to the financing of projects and programmes, among other things, for a public tender for the submission of projects or programmes of public needs in sports in the area of local self-government units, the Executive Board of the Sports Association appointed members of the executive committee for the evaluation of submitted projects and members of the executive committee, which is why impartiality and objectivity in the evaluation of projects and programmes is not fully ensured. Since no General act was adopted prior to the announcement of the tender that would systematically regulate the manner and procedures of programming, financing and allocation of funds for sports purposes, a sports association has carried out the evaluation of sports associations' projects and programmes according to the proposal for drafting the Rulebook on criteria and measures for programming and financing public needs of sports in the area of local self-government units, which was not adopted by the end of 2019, while the Committee of another sports association did not fully act in accordance with the adopted Rulebook on criteria for the evaluation and financing of sports associations. It has also been established that a decision has been made to allocate additional financial resources for co-financing programmes of member

associations in the amount of 10.0% of the earlier appropriations, without a public tender from other resources of the sports association (from fees for the use of the sports hall) and without concluding agreements with associations of members of the aforementioned sports association.

- In the field of public procurement, among other things, irregularities and omissions found relate to the adoption of a procurement plan, the keeping of a contract register (in some cases the said register has not been kept or has not been published in a standardised form in an electronic public procurement advertisement; it does not contain data on a procurement subject whose value without value added tax is equal to or greater than HRK 20.000,00 and the implementation of concluded contracts is not monitored), the drawing up of an annual statistical report on public procurement and the publication of a list of economic operators with which the representative of the contracting entity or persons associated with it is in conflict of interest or notification that such entities do not exist.

Certain services and goods were procured without carrying out prescribed procurement procedures, i.e. the procurement was carried out by direct contracting or was procured from a legal entity/supplier without sending a call for tenders to the addresses of at least three economic operators, which is not in accordance with the internal act.

For all irregularities and omissions found in the operations of sports associations, the State Audit Office issued orders and recommendations, the implementation of which would contribute to the true, reliable and accurate expression of funds, sources of funds and revenues and expenditures in financial statements, as well as to the increase of compliance of business with acts, regulations and the efficiency of the use of funds.

The State Audit Office also assessed that sports associations (20) carried out planned activities and tasks and achieved planned objectives according to public needs programmes in sports (state and local levels). For a smaller number of sports associations (four) State Audit Office assessed that they partially achieved the planned goals (among other things, due to less remittances from the local self-government unit budget).