Sri Lanka Rupavahini Corporation - 2014

The audit of financial statements of the Sri Lanka Rupavahini Corporation for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014, the income statement, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 16(3) of the Sri Lanka Rupavahini Corporation Act,No.06 of 1982. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud of error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit it accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The Procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments; the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of section 13 of the Finance Act,No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, expect for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Sri Lanka Rupavahini Corporation as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Instances of action taken without complying with the Standards are given below.

(a) According to the Sri Lanka Accounting Standard No.02 (LKAS-2) the stocks should be valued at the net realisable value or the cost whichever is lower and shown in the financial statements, Nevertheless, the Corporation had shown the stock at cost amounting to Rs.210,256,140 instead of estimating the net-realizable value of the stock. A non-moving stock older than 10 years valued at Rs.18,052,749 had been included in that stock.

(b) According to the Sri Lanka Accounting Standard No.08 (LKAS-8) the errors relating to prior periods, should be shown as revision to the comparative figures given for the period in which the error occurred in the first set of financial statements approved for issue after the detection of the errors. Nevertheless, an expenditure of Rs.14,455,280 incurred under the retreading agreements in the preceding year had been adjusted to the statement of changes in equity of the year under review.

(c) Even though the particulars of fully depreciated assets which are being used for operations at present should be disclosed in the financial statements in terms of the Sri Lanka Accounting Standard No.16 (LKAS-16), 369 items of fully depreciated assets costing Rs.2,530,748,888 which are being used for operations at present had not been disclosed in the financial statements.

(d) Even though a sum of Rs.46,566,500 received from the transactions executed under retrading agreements had been recognised as income of the year under review in the recognition of income from the supply of services in terms of the Sri Lanka Accounting Standard No.18 (LKAS-18), the expenditure incurred in completing those transaction had not been identified and adjusted in the financial statements.

(e) The Corporation had not taken action in terms of the Sri Lanka Accounting Standard No.39 (LKAS-39) to compute the investment of Rs.1,104,000 made by the Corporation in a News paper Company of the Government, at fair value,by identifying the decrease or the increase in value of investment and for the adjustment thereof in the financial statements.

2.2.2 Accounting Differences

The following observations are made.

(a) A sum of Rs.7,750,720 receivable from a Private Television Institution for the transmission facilities from the Kokavil Transmission Tower made available by the Corporation without entering into an agreement had not been included in the financial statements as income receivable.

(b) Even though the Corporation had not rendered the transmission work in connection with the sum of Rs.9,344,832 received by the Corporation from a State Institution for publicity work, that amount had been brought to account as income for the year under review and paid a sum of Rs.658,500 as agency commission thereon despite the existence of the liability for the refund of that amount.

2.2.3 Unexplained Differences

Even though the client debtor balances according to the financial statements for the year under review totaled Rs.563,449,868 the total of the balances of the corresponding Schedule of Client Debtors totaled Rs.563,266,849 and as such a difference of Rs.183,019 was observed between the financial statements and the Schedule of Debtors.

2.2.4 Lack of Evidence for Audit

The accuracy of the following transactions could not be established due to the non-submission of the audit evidence relating thereto.

(a) The detailed schedule for the work-in-progress amounting to Rs.132,125.

(b) Even though stocks of cassettes and tapes (Library) and the recorded cassettes had been shown in the ledger accounts at Rs.3,221,250 and Rs.278,113 respectively, the stock verification reports which contain their value had not been furnished to audit to establish the accuracy of the value thereof.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Client-Debtors - Sale of Airtime on credit

(i) Out of the client debtors amounting to Rs.563,449,868 the impairment adjustments as at 31 December of the year under review amounted to Rs.71,041,991 or 13 per cent. It was observed that such position had an adverse effect on the liquidity of the Corporation.

(ii) According to the credit policy on the grant of credit facilities to the client debtors, the debts should be recovered within a period of one month. Nevertheless, the debtors out of those older than one month represented 72 per cent of the total debtors or Rs.409,475,448 and the debtors older than three months represented 19 per cent or Rs.107,951,654 of the total debtors. In addition, the debtors older than three years and five years out of the total debtors amounted to Rs.10,554,683 and Rs.66,250,180 respectively.

(iii) Out of the client debtors, a sum of Rs.53,886,160 represented irrecoverable debtors balances or those subject to prescription and legal action had been taken only in respect of a sum of Rs.24,405,255.

(iv) According to the Corporation policy on the recovery of money on normal trade agreements, action should be taken to issue invoices and affect recovery after the supply of the full airtime. It was observed in audit that such policy had an adverse effect on the recovery of debts receivable by the Corporation.

(b) Sundry Debtors

Even though action should have been taken to lodge a tax appeal for the recovery of a sum of Rs.17,858,971 recoverable from the Department of Inland Revenue, the Corporation had not taken action accordingly.

(c) Advances

According to the staff announcements of the Corporation, advances obtained should be settled within 14 days after the completion of the programme concerned. Nevertheless, advances amounting to Rs.6,000,313 obtained during the year under review had not been settled even by 05 June 2015.

2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Non-compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Sri Lanka Rupavahini Corporation Act, No.6 of 1982	Even though the provision for the appointment of a Working Director is not provided for in the Act, appointments had been made in two instances during the year under review and salaries and allowances amounting to Rs.545,402 had been paid.
(b) Establishments Code of the Democratic Socialist Republic of Sri Lanka	
Section 7.1 of Chapter II	A person whose services had been terminated after a disciplinary inquiry had been recruited on contract basis for a period of 06 months for the post of producer of the Corporation by the Director General without the approval of the Board of Directors and had paid a sum of Rs.246,665 as salary and allowances and bonus for the period from August 2014 to February 2015.

(c) Financial Regulation of the Democratic Socialist Republic of Sri Lanka
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(i) Financial Regulation 71(1)	Whatever the source of funds, the creation of new allowances or revision of existing allowances should have the prior approval of the Deputy Secretary to the Treasury. Nevertheless, a sum of Rs.21,532,320 had been paid to 188 officers during the year under review as fuel and transport allowances without taking action accordingly.
(i) Financial Regulations 105 to 110	Even though 15 motor vehicles had met with accidents in 16 instances during the year under review, action in terms of the Financial Regulations had not been taken.
(ii) Financial Regulation - 155	Replies to 12 audit queries issued had not been furnished.
(iii) Financial Regulations 156(3) and 446(2)	The signature of an authorized officer had not been written in connection with entering into 1,866 transactions amounting to Rs.194,002,129 in the cash book. This included 184 transactions totalling Rs.179,873,550. each valued over the Limit of Rs.100,000
(iv) Financial Regulation 156(6)	Even though all accounting documents, books, records, registers, etc., should be held in proper custody and in proper order and condition, until they are duly disposed, the portions of the payment Cash Book of the Corporation, relating to the entries of a day had been made by an officer in an unclear and distorted manner.

	(v) Financial Regulation 371 (2) (c) and the Staff Information No.964 (Supplement 04) of the Sri Lanka Rupavahini Corporation.	(i)	Even though the ad hoc sub-imprests should be settled immediately after the completion of the purpose for which it was given and within 14 days after the completion of the programme, the settlement of ad hoc sub-imprests totalling Rs.1,737,750 relating to 26 instances had been settled after delays ranging from 03 days to 75 days since the completion of the respective purposes.
		(ii)	The unsettled advances as at 31 December of the year under review totalled Rs.1,375,250 and out of that advances amounting to Rs.1,033,250 granted in 15 instances had not been settled even by 30 March 2015. Periods ranging from 62 days to 127 days had elapsed since granting those advances.
		(iii)	Advances amounting to Rs.158,250 granted in 09 instances had been settled without being issued for any purpose after retaining the money over periods ranging from 1 day to 60 days.
	(iv) Financial Regulation 757 (a) and (b)		The stock of spare parts costing Rs.194,837,074 of the Engineering Division had not been included in the Annual Stock Verification.
(d)	Letter No. MF/TR/1/2003 dated 28 March 2003 of the Secretary to the Ministry of Finance		Overpayment of hire charges amounting to Rs.915,000 exceeding the maximum monthly hire charge had been made for 04 hired motor vehicles.

(e)	Public Enterprises Circular No. PED/12 of 02 June 2003	
	(i) Section 6.5.1	Even though the draft Annual Report for the year under review should have been presented to the Auditor General within 60 days, after the close of the financial year, it had not been so done.
	(ii) Section 8.3.5	Motor vehicles had been allocated to 02 officers not entitled to official motor vehicles and the value of fuel supplied amounted to Rs.514,880.
(f)	Public Enterprises Circular No. PED/50 of 28 July 2008 and the Public Administration Circulars No.14/2008 of 26 June 2008 and No.22/99 of 08 October 1999.	Contrary to the Circular instructions, a sum of Rs.7,222,800 had been paid as motor vehicle and fuel allowance during the year under review to 13 officers.
(g)	Public Administration Circular No.13/2008 (iv) of 09 February 2011	The value of fuel supplied to five officers exceeding the monthly limit on fuel amounted to Rs.1,194,390.

2.5 Transactions not supported by Adequate Authority

A sum of Rs.3,454,279 had been paid to a private firm for the transmission of the National Television to foreign countries though the satellite technology in December of the year under review considering as an urgent requirement deviating from Procurement Procedure and without obtaining the concurrence of the Ministry of Finance as prescribed by the Cabinet of Ministers and without entering into a written agreement.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the pre-tax loss of the Corporation for the year ended 31 December 2014 amounted to Rs.182,480,765 as against the pre-tax profit of the preceding year amounting to Rs.47,868,447, thus indicating a deterioration of Rs.230,349,212 or 481 per cent in the financial result. The decrease of the income for the year under review as compared with the preceding year by 8 per cent and the increase of expenditure by 3 per cent had been the main reasons for such deterioration.

3.2 Analytical Financial Review

Even though the pre-tax loss of the Corporation for the year under review amounted to Rs.182,480,765, it was observed that the loss would increase by 17 per cent to Rs.212,839,709 by the reversal of the adjustment of Rs.15,903,664 made to the income due to the adoption by the capital approach as specified in Sri Lanka Accounting Standard 20 and the adjustment of Rs. 14,455,280 made to the prior year contra agreement expenditure in the equity statement. Comparatively, the profit of Rs.47,868,448 for the preceding year had decreased to Rs.22,965,000 due to the adjustments made in the preceding year.

3.3 Legal Action instituted against/ by the Corporation

The following observations are made.

(a) External parties had filed 10 cases against the Corporation and the staff of the Corporation had filed 06 cases as at 31 December of the year under review. A sum of Rs.1,151,320 had been paid during the year under review as lawyers' fees in connection with those cases. The compensation claimed by the plaintiffs under 06 cases filed by the external parties amounted to Rs.1,270,000,000.

(b) The Corporation had filed 27 cases against external parties and a sum of Rs.1,340,735 had been received in connection with 05 of those cases. One case had been dismissed due to prescription of action. The Corporation expects to recover Rs.16,904,142 from the balance 21 cases. A sum of Rs.766,490 had been paid in the year under review as lawyers' fees relating to those cases.

3.4 Working Capital Management

The Corporation had to obtain Bank overdraft facilities due to the non-operation of a proper working capital management mechanism and the inefficient debt collection. The overdraft interest paid during the year under review amounted to Rs.8,385,155 and the overdraft balance as at 31 December of the year under review according to the cash book amounted to Rs.135,658,642.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

(a) The Corporation had entered into and implemented contra agreements with other media institutions with the objective of broadcasting of contra agreements mutually with such media institutions. The following matters relating to the implementations of these agreements were observed in audit.

(i) The value of airtime allocated during the year under review to the newspaper companies without entering into written agreements amounted to Rs.68,366,257 and newspaper advertisements amounting to Rs.44,128,126 had been published in lieu thereof. The Corporation had not paid attention for the publication of newspaper advertisement in a manner beneficial to the Corporation. As such it was observed that the procurement of services through contra agreements had not been managed in a more profitable and efficient manner.

(ii) The files relating to the publication of press advertisements published had not been maintained properly to enable the checking of the accuracy of the invoices furnished by the newspaper company for the advertisements published. As such the accuracy of the expenditure of Rs.46,566,500 relating to the contra agreements could not be examined.

(iii) Even though the monthly accounts relating to all contra agreements entered into by the Corporation should be issued by both parties, it had not been so done. The monthly accounts of 09 months of the year under review relating to 04 newspaper companies had not been obtained even by the end of April 2015.

(b) Even though a sum of Rs.1,104,000 had been invested in the Lanka News Institute in the years 1985 and 1992 no dividends had been received up to the year under review. Nevertheless the Corporation continued to hold that investment.

(c) Even though the number of telecasting of the teledramas / programmes purchased from outside parties had been further remaining, a sum of Rs.50,531,902 relating to 19 teledramas/ programmes had been written off as expenditure during the year under review due to the failure to telecast the number of times within the agreement periods.

(d) Out of the sundry debtors of the Corporation amounting to Rs.33,200,909 provision amounting to Rs.18,622,566 or 56 per cent thereof had been made for its impairment value and as such it was observed that the debt recovery control of the Corporation is at a weak level. That balance included recoverable debts existing between 01 to 09 years amounting to Rs.146,863, a sum of Rs.111,684 recoverable from retired 08 resigned employees of the Corporation existing between 5 to 7 years, a sum of Rs.542,554 receivable from a foreign television institution, a sum of Rs.17,858,971 receivable from the Department of Inland Revenue and a sum of Rs.558,602 receivable from insurance companies in connection with reimbursement of medical bills.

4.2 Operating Inefficiencies

The following observations are made.

(a) Even though a sum of Rs.5,743,015 had been spent in the year under review on the National Television (NTV) which commenced transmissions in the year 2009 without carrying out a feasibility study, it had not earned any income.

(b) Eighteen officers who had borrowed 723 cassettes from the library up to the end of the year under review had not returned the cassettes. Out of those, 412 cassettes had been issued by the library prior to the year 2013.

4.3 Transactions of Contentious Nature

The following observations are made.

(a) (I) During the course of a Presidential Election, the Corporation had supplied free airtime valued at Rs.34,719,750 to a certain Presidential Candidate and that value represented 60 per cent of the paid airtime obtained by the Candidate. Similarly, that candidate had been given airtime amounting to Rs.3,286,750 under the sponsorship of a State Institution. In addition, the particular candidate concerned only had been allowed 50 per cent discount for publicity done on paid airtime and it's value was Rs. 9,088,600

(II) Similarly, the Corporation had failed to transmit advertisements valued at Rs.5,202,750 relating to the Presidential Election. Even though a sum of Rs.1,000,000 had been received for advertisements, the money had to be refunded due to non-allocation of airtime.

(b) According to a test check of transmission of programs, airtime of 2,602 minutes valued at Rs.2,146,650 had been scheduled as Corporation programmes without entering into agreements, for the promotional work of a Presidential Candidate.

4.4 Apparent Irregularities

The following observations are made.

(a) A sum of Rs.990,000 had been spent on a nominal marketing promotion program not approved by the Corporation without following the Procurement Process. The goods relating to that expenditure had not been received even by 30 April 2015.

(b) Two used transmitters which would not match with the future technology changes had been purchased for Rs.16,928,653 on an agreement with conditions disadvantageous to the Corporation.

(c) The contract for the renovation of internal roads for which money had not been allocated in the budget had been awarded for Rs.5,617,377 without inviting competitive quotations. Even though action had been taken for the recovery from the contractor a sum of Rs.116,171 paid for work not executed pointed out by audit, the contract had been awarded at prices more than 60 percent the standard prices for road construction works of the Western Provincial Council or an excess of Rs.1,882,440. Action had not been taken for the recovery of that loss from the parties responsible.

4.5 Resources given to other Government Institutions

The following observations are made.

(a) Six officers recruited by the Corporation on contract basis and released for service in the Ministry had been paid salaries and allowances and overtime amounting to Rs.3,073,361 an Rs.1,406,360 respectively during the year under review without obtaining reimbursement of such expenditure.

(b) Even though it had been decided to obtain reimbursement of the sum of Rs.188,140 spent on the hired motor vehicle for the duties of the Chairman of the Television Training Institute, it had not been brought to account.

(c) Two vans of the Corporation had been released to the Ministry of Mass Media during November and December of the year under review while a van and a jeep of the Presidential Secretariat had been obtained by the Corporation during the last quarter of the year under review.

(d) The Corporation had given 06 media equipments to the Presidential Media Unit and the value of 03 of those equipment amounted to Rs.1,823,079.

4.6 Idle and Underutilized Assets

The following observations are made.

(a) An Automatic Barcode System costing Rs.1,734,000 had been purchased in the year 2005 for the computerization of the activities of the Rupavahini Audio Visual Library to ensure proper and efficient performance of its activities. Several parts and the Electronic Cassettes Protection System of that system had been idling and action in being taken at present for their disposal.

(b) Spare parts of the Engineering Division valued at Rs.18,052,749 remained as non-moving stocks over periods exceeding 10 years. Those had not been subjected to an annual stock verification.

4.7 Delayed Projects

Even though a sum of Rs.183,051 had been spent in the years 2005 and 2006 as consultancy fees and soil tests in connection with the construction works of the News Division, the relevant construction works had not been commenced.

4.8 Personnel Administration

Even though the approved cadre of the Corporation had been 985, the actual staff as at the end of the year under review had been 996. An excess of 32 officers in the

Groups HM and MM were observed. Sixty three persons had been deployed in service on casual/temporary bases which are not included in the approved cadre.

4.9 Motor Vehicles Utilization

The following observations are made.

(a) Even though a sum of Rs.695,604 had been spent on carrying out repairs to 05 motor vehicles out of 16 which had met with accidents in the year under review, a sum of Rs.669,620 only had been received as insurance indemnity. Further, Action had not been taken to carry out repairs and obtain insurance indemnity in 11 instances or for the recovery from the parties responsible.

(b) The transport fleet of the Corporation comprised of 47 corporation motor vehicles and 17 motor vehicles procured on hire basis. Ten motor vehicles had been allocated to officers. The total running kilometres during the year had been 1,581,023 comprising 1,004,908 kilometres run by the motor vehicles of the Corporation and 576,115 kilometres run by motor vehicles procured on hire basis. The expenditure on fuel and maintenance during the year under review amounted to Rs.22,158,873 or and Rs.8,521,794 respectively and as such expenditure on fuel and maintenance per kilometre amounted to Rs.19.41. A sum of Rs.23,135,387 had been paid during the year under review for the motor vehicles procured on hire basis.

(c) Five motor vehicles had not been run during the year. A motor cycle issued without fuel to a Driver had not been returned to the Corporation even by the date of audit.

5. Accountability and Good Governance

5.1 Action Plan

The following observations are made.

(a) The Action Plan had not been prepared in accordance with the Public Finance Circular No.01/2014 of 17 February 2014.

(b) A sum of Rs.206 million had been allocated from the capital budget for the year under review for the rehabilitation and modernization of the sound studios and the external transmission facilities. Nevertheless, according to the Progress Report prepared for the year ended 31 December under review, none of the projects of this section had been completed. Out of the 12 projects scheduled for completion during the year, 07 projects had not even been commenced.

(c) A sum of Rs.89 million had been allocated from the budget for the year under review for 07 capital projects of the Main Control Room scheduled for completion during the year. Out of that, 04 projects valued at Rs.55 million had been commenced during the year. Out of the projects commenced the physical progress of 02 projects had been at 50 per cent level and the physical progress of the other 02 projects had been 10 per cent. Action had not been taken for the commencement of 03 projects valued at Rs.34 million.

(d) A sum of Rs.54 million had been allocated from the capital budget for the year under review for 4 Projects for the development of the existing transmission network. Out of those, one project had been completed while two other projects had not even been commenced. The physical progress of a project costing Rs.29 million as at 31 December of the year under review had been only 20 per cent.

(e) Even though two projects costing Rs.60 million had been planned under the capital budget of the year under review for the construction of the New Studio and Server Room under the Rupavahini Building Development Projects, action had not been taken during the year at least for the commencement of the project.

(f) A sum of Rs.8 million had been allocated from the capital budget for the year under review for 02 projects for effecting improvements of the Information Technology of the Corporation. Action had not been taken for the commencement of one of those projects while the physical progress of the other project had been 20 per cent.

5.2 Internal Audit

An Internal Audit Unit has been established in the Corporation and it had issued 18 Internal Audit Queries and Reports in the first half year and 18 Internal Audit Queries and Reports in the second half year. But action had not been taken to rectify the matters pointed out in those queries and reports.

5.3 Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

(a) Debtors/ Creditors Control
(b) Budgetary Control
(c) Accounting
(d) Staff Loans
(e) Grant of Advances
(f) Contract Agreements
(g) Sale of Airtime and revenue collection
(h) Personnel Management
(i) Debt Collection