

Sri Lanka Rupavahini Corporation.

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Sri Lanka Rupavahini Corporation had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1:2 of this report the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Sri Lanka Rupavahini Corporation as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

New cheques had not been issued in respect of 130 cheques valued at Rs.469,815 cancelled as at 31 December 2010 and it had been brought to account as cancelled cheques under sundry creditors without being created creditors. Of this, 28 per cent or Rs.132,811 had been relevant to the period 2006 to 2009.

1.2.2 Accounts Receivable and Payable

The following observations are made.

(a) Accounts Receivable

- (i) The client's debtors balance of the Corporation amounted to Rs.596,893,398. According to the Credit Policy of the Corporation, the credit period is limited to one month but the debtors for more than one month, more than 3 months and more than 3 years amounted to Rs. 438,302,752 or 73%, Rs.188,422,097 or 32% and Rs.114,102,031 or 19% respectively.
- (ii) Out of the clients debtor balances of the Corporation as at 31 December 2010 debts valued at Rs.14,079,658 or 2.4% were due from Government institutions and remaining for the period ranging from 1 to 11 years. Of this, the debts lapsed for more than 5 years amounted to Rs. 6,777,583.
- (iii) The value of Debtor balances relating to 7 agreements without stating the client's name amounted to Rs.22,171,350 or 4 per cent of the total debtors.
- (iv) The clients debtors of the Corporation as at 31 December 2010 included a sum of Rs.17,724,931 due from 4 institutions relating to the period from 2003 to 2007, representing 3 per cent of the total debtors.
- (v) Even though there is a system of internal control to obtain the confirmation of the credit control division to ensure the credibility of debtors before the advertisement is published relating to the ordinary clients agreement, services had been provided repeatedly to clients who had not settled dues. The unrecovered debts relating to

the years 2007, 2008 and 2009 amounted to Rs.49,228,657 as at 31 December 2010.

- (vi) Out of the total sundry debtors amounting to Rs. 55,480,000 as at 31 December 2010, the provision for doubtful debts amounted to Rs.21,717,482 or 39 percent . This balancee included a sum of Rs.219,215 receivable from persons remaining for the period over 2 years, a sum of Rs.6,482,135 receivable from foreign TV Institutions, a sum of Rs.17,858,971 recoverable from the Department of Inland Revenue and a balance of Rs.1,111,780 receivable from Insurance Companies in respect of reimbursement of medical bills.
- (vii) A provision for doubtful debts amounting to Rs.154,079 had to be made due to not taking action to recover the outstanding loan balances from employees who retired or resigned from service without being settled the distress loans, transport loans and special loans obtained by them.
- (viii) Granting and Settlement of Advances

 Even though a sum of Rs.858,000 had been given to contractors in the year 2008 for 2 purposes relating to computer programmes such purposes had not been completed even as at the end of the year under review.

(b) Accounts Payable

 The following observations are made.

- (i) Debtors payable remaining for more than 5 years amounted to Rs.12,468,340 out of which a sum of Rs.83,572 had remained for more than 10 years.

- (ii) Even though the retention money should be refunded to the relevant contractors after 6 months of the completion of the agreed works after ensuring that the works had been satisfactorily completed a balance of retention money amounting to Rs.265,481 relating to the period from 2006 to August 2009 had existed.

1.2.3 Lack of Evidence for Audit

Due to non-availability of schedules and age analysis in respect of clients transfers in 4 instances, security deposits, salaries and wages payable, work in progress totalling Rs.3,441,755 and title deeds of lands where transmission stations are located, transfer deeds, gazette notifications totaling Rs. 40,024,000 , those items could not be satisfactorily vouched.

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

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decision	Non-compliance
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(a) Section 11(b) of the Finance Act, No. 38 of 1971 and the Public Finance Circular No. PF/PE/09 dated 27 June 2000	The approval of the Treasury had not been obtained for the fixed deposit of Rs. 22,000,000 made in the Bank of Ceylon during the year 2010.
(b) Declaration of assets and Liabilities Act, No. 01 of 1975 of the National State Assembly as amended by the Act, No. 24	Even though the staff grade and executive officers of the Corporation should forward the annual declaration of assets and liabilities the annual

of 1988

declaration of assets and liabilities had been forwarded only by 34 officers out of 91 officers.

- (c) Public Enterprises Circular No. PED/12 of 02 June 2003

(i) Section 5.1.3

Even though the updated Corporate Plan for the year 2010 should have been submitted to the Auditor General at least before 15 days at the beginning of the year, an updated Corporate Plan had not been presented to audit even by 30 April 2011.

(ii) Section 6.5.1

Even though the draft annual report, along with the financial statements of the year 2010, should be submitted to the Auditor General within 60 days after the close of the financial year, it had not been submitted even by 02 May 2011.

- (d) Public Enterprises Circular No. PED/31 of 01 July 2005

Only 01 audit committee meeting had been held during the year 2010.

- (e) Financial Regulations (F.R.) of the Democratic Socialist Republic of Sri Lanka
F.R. 880

Security deposits had not been obtained from officers who should keep securities while securities had

been obtained only from Cashiers of the Corporation.

(f) Treasury Circular No. 842 of 19 December 1978

A Register of Fixed Assets had not been maintained as per Circular instructions.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

The operation of the Corporation for the year under review had resulted in a pre-tax net profit of Rs.42,120,000 as compared with the pre-tax net profit of Rs.12,360,000 for the preceding year thus indicating an increase of Rs.29,760,000 in the Pre-tax net profit.

2.1.2 Analytical Financial Review

Additions to revenue amounting to Rs.13,596,000 as a result of following the capital approach in the Sri Lanka Accounting Standard 24 and making adjustment for the surplus of Rs.48,065,000 arisen by following the Defind benefit plan in the Sri Lanka Accounting Standard 16 had been the reasons for the increase of profit for the year. If the effect thereon is eliminated, the Corporation had incurred an operating loss of Rs.19.541.000.

2.2 Operating Review

2.2.1 Court Cases Filed Against / vs the Corporation

19 cases had been filed against the Corporation out of which 8 cases by external parties and 11 cases by the employees of the Corporation as at 31 December 2010. Of them 6 cases had been finalised during the year under review. A sum of Rs.3,268,844 had been paid during the year under review as lawyers fees to the outside Lawyers on these cases. The compensation claimed by the complainants relating to the 8 cases filed by the external parties amounted to Rs.1,072,500,000. Similarly, the Rupavahini Corporation had filed 18 cases against the external parties and expected to be recovered a sum of Rs. 21,175,516 from those cases. Of them, 4 cases had been finalised during the year under review and a sum of Rs.1,256,562 had been recovered. Lawyers fees paid to external lawyers for these cases during the year under review amounted to Rs. 414,000.

2.2.2 Contra Agreements

Income on Contra agreements during the year under review amounted to Rs.44,969,989 and the expenditure amounted to Rs.71,932,107. Accordingly, the loss incurred by the Corporation there from amounted to Rs.26,962,118 representing 60 percent of the Contra agreement income. The similar loss in the year 2007 amounted to Rs. 33,000,000 or 97 percent as compared with the Contra agreement income of that year. The loss in the year 2008 amounted to Rs.21,453,000, representing 221 percent of the income earned. Accordingly, it was observed that the Corporation is continuously incurring losses on Contra agreements. The financial statements for the year 2009 had not been presented to identify the income and expenditure of the Contra agreements separately.

- (b) Agreements in respects of 8 Contra activities valued at Rs.7,755,112 included in the debtor balance had not been signed and these institutions had not provided any services again to the Corporation.

- (c) According to the information made available for audit except the Contra agreements entered into for the procurement of films, the following clause had been included in all other Contra agreements. "If a sufficient service relevant to the value is not obtained within the agreement period, that loss should be born by that institute". Accordingly, it was observed in audit that the Rupavahini Corporation had to be incurred a loss of Rs.8,294,384 from 12 Contra agreements. It was further observed that this value had been remained as normal debtors even up to the end of the year under review. The Chairman informed me that losses had to be incurred when the relevant institution being inoperative.
- (d) Air time valued at Rs.10,505,900 had been provided to 8 films obtained under Contra agreements during the period from 2006 to 2010 and the income earned there from amounted to Rs.1,465,975. Accordingly, the loss incurred by the Corporation amounted to Rs.9,039,925.
- (e) Even though agreements had been entered in to in a manner that, the debit or credit balances existed in those Contra agreements would be cancelled after a lapse of certain period, accounts balances valued at Rs.361,100 had been still shown further in the financial statements as at 31 December 2010 though the relevant period was elapsed.
- (f) Telecasting two films obtained in the year 2007 by providing an air time valued at Rs.1,730,900 under Contra agreements had been cancelled subsequently, deciding that they were contrary to the policies of the Corporation. It was observed that as action had been taken by purchasing committee to purchase films under Contra agreements which could not be telecast in the TV media, the Corporation had incurred a loss.
- (g) Even though agreements had been prepared to televise a film 3 times within the period from 28 July 2006 to 27 July 2008 by providing an air time valued at Rs.750,000 and obtained the ownership by the Corporation,

it was observed that this film had not been televised even once during that period and it was not televised even during the year 2010. The Chairman informed that it had not been televised as it was decided that it was unsuitable for telecast.

2.2.3 Investments

Even though a contributory investment of Rs.1,104,000 had been made in the Lanka Puwath Institute in the years 1992 and 1994 no any dividend income was received up to the year under review but this investment has still been held.

2.2.4 Uneconomic Transactions

Repair and other expenses of Rs.604,998 and lease rent of Rs.29,585 had been incurred by the Corporation for a house obtained on lease rental for a period of 01 year since September 2009 to establish a Praja Rupawahini Centre. However, it had not been utilised for any purpose.

2.2.5 Idle and Underutilised Assets

Certain parts of the automated barcode solution system purchased in the year 2005 by incurring an expenditure of Rs.2,055,502 with the objective of carrying out, the activities of the Rupawahini Audio Visual Library properly and efficiently to improve its activities being computerised and the EAS system had been idle without being utilised even by July 2010.

3. **Systems and Controls**

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

- (a) Fixed Assets
- (b) Debtors / Creditors Control
- (c) Income on Air Time
- (d) Advances
- (e) Budget
- (f) Cancellation of Cheques
- (g) Contra Agreements
- (h) Rented Houses

