

Sri Lanka Telecommunications Regulatory Commission - 2010

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 Telecommunications Regulatory Commission 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 Telecommunications Regulatory Commission 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 Sri Lanka Accounting Standards (SLAS)

The following observations are made.

- (a) In terms of Sri Lanka Accounting Standard No. 3 not only the Board of Directors should sign the financial statements, a statement by taking the responsibility to prepare and present the financial statements had not been included in the financial statements.
- (b) A statement of change of equity form an integral part of these financial statements had not been presented in terms of Sri Lanka Accounting Standard No. 3.

- (c) Even though the provision for gratuities amounting to Rs.21,533,040 and the investments made thereon amounting to Rs. 19,296,380 had been shown in the financial statements disclosures relating to the retirement benefit planning and the gratuity liability cost had not been made in terms of Sri Lanka Accounting Standard No. 16.
- (d) Due to delay in paying income tax penalties payable for the assessment years 2006/2007 and 2007/2008 by the Commission had been waived off by the Department of Inland Revenue, but it had not been disclosed in terms of Sri Lanka Accounting Standard No. 24. The Director General informed the Auditor General on 20 May 2010 that it would be disclosed in the financial statements for the year 2010.
- (e) According to the Sri Lanka Accounting Standard No. 18 when the items of property, plant and machinery are stated at revaluated value, the date of implementation of the revaluation, whether an independent valuer had been employed, the method of estimating the fair value of items and the important assumptions should be disclosed in the financial statements. Nevertheless, such disclosures had not been made in respect of revaluation of 28 motor vehicles for Rs.53,580,000 carried out by the Commission during the year under review.

1.2.2 Accounts Receivable

The following observations are made.

- (a) Out of the value of Current assets of the Commission, 90 per cent had represented debtors and the total debtors as at the end of the year under review amounted to Rs.3,154,106,357. Debtor balances are being continuously increased annually and debtor balances of Rs.254,714,539 had remained for the period ranging from 02 to 19 years. No effective

course of action had been taken to recover these long outstanding debtor balances.

- (b) According to the register presented for audit, the number of debtors relating to the broadcasting charges including trade debtors with zero balances amounted to 2204. Of them the debts receivable from 866 debtors amounted to Rs.2,159,744,355. Of them the confirmation letters had been sent to 298 debtors by the Commission but only 43 debtors had responded. The follow up action had not been taken to recover those debtor balances during the year under review.

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

Instances of the following laws, rules, regulations etc., observed in audit are given below.

Reference to Laws, Rules, Regulations and Management Decision

Non-compliance

- (a) Section 13(8) of the Finance Act, No. 38 of 1971

The report under section 13(7)(a) should be considered by the governing body of a public corporation and after such consideration that body shall inform the steps that they propose to take with regard to the matters pointed out in the audit report within three months of the submission of the reports to the corporation. It had not been done in respect of the report for the year 2009.

- (b) Treasury Circular No. IAI/2002/02 dated 28 November 2002

A register of fixed assets in respect of computers and accessories had not been maintained.

(c) Financial Regulations (F.R.)

(i) F.R. 371 (a)

The total amount of 82 sub-impressts given in excess of the specified limit of Rs.20,000 was Rs.5,604,529.

(ii) F.R. 371 (c)

Even though the sub-impressts should be settled immediately after the completion of the purpose for which it was given a sum of Rs.2,484,209 had not been settled for more than 01 to 03 months.

(iii) F.R. 110

A register of Losses and Damages had not been maintained.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the financial statements presented the operation of the Commission for the year under review had resulted in a surplus of Rs.5,577,306,273 as compared with surplus of Rs.5,633,977,707 for the preceding year, thus indicating a decrease in financial results by Rs.56,671,434. Increase in the provision for bad debts by Rs.137.097 million than the preceding year had been the reason for increase in surplus.

2.1.2 Financial Administration

The following observations are made.

- (a) A large amount of surplus money had been continuously kept in hand by the Commission. The minimum of Rs.216 million and a maximum of

Rs.2491 million had been regularly retained in the bank current accounts. Attention is drawn to interest these under utilised excess funds to make better contributions to the national economy.

- (b) A sum of US\$ 420,000 deposited in a savings account of the NSB in the year 2003 had increased to US\$ 497,186 or Rs.54,881,244 by the end of the year under review but this money had not been utilised for the last 7 ½ years. Of that, an exchange loss of Rs.1,643,315 had incurred during the year 2010.
- (c) In terms of the Gazette Notification (Extra Ordinary) No. 1386/24 of 31 March 2005, out of the Telecommunication Tax recovered from each Operator 2/3 can be refunded as determined by the Commission for the development of Telecommunication Network in the areas where available or areas where such facilities are not in a satisfactory level. Nevertheless, the Sri Lanka Telecom usually pays only 1/3 tax retaining 2/3 with it without ensuing that it engages in Telecommunication Network development projects. Accordingly the under paid tax by the Sri Lanka Telecom during the period 03 March 2003 to 31 December 2010 amounted to Rs.6,671,610,884. Effective steps had not been taken by the Commission to recover this money.

2.2 Operating Review

2.2.1 Operating Inefficiencies

- (a) In terms of Section 22(g) of Sri Lanka Telecommunication (Amendment) Act, No. 27 of 1996 every telecommunicator should pay cess for his licence and the operating license fees in respect of the year specified for him before the 31st of January next year. However, the cess amounting to Rs.190,801,708 payable by entities and the operating charge of Rs.236,776,650 payable by 4 entities had been after a delay of 1 to 9

months and 3 to 9 months respectively. Even though it was stated in the licence that an additional charge can be imposed on the delays, action had not been taken to determine and recover such a charge. However, the Director General of the Commission had stated in the reply letter to the 14(2)(c) draft sent to the Auditor General on 28 June 2011 that there is no such provision in the existing Act to recover an additional fine on account of delays or non-payment of operating licence fees and cess and action will be taken in future to include a methodology in the Telecommunication Act to ascertain the legal powers.

- (b) A person who manufactures any telecommunication equipment for sale imports, sales, produces for sale, transfers, hires, leases, displays by operating, maintenance or repairs / should obtain a licence issued by the Commission under Section 21 of the Telecommunication Act, No. 25 of the 1991 as amended by Act, No. 27 of 1996. Nevertheless, it was observed that businesses are operated in various places within the country without obtaining such a licence. At a test check carried out in audit it was observed that there were 37 institutions who carry out businesses without such licences. It was observed that the Commission has no such procedure to find the institution carry on business without a licence and to recover the relevant charges.

- (c) A Mitsubishi Jeep valued at Rs.7,304,348 belonging to the Commission had been released to the Ministry of Posts and Telecommunication in the year 2005. This vehicle released contrary to Section 8.3.9 of the Guidelines on Good Governance No. PED/12 of 02 June 2003 could not be taken bank by the Commission up to now.

2.2.2 Corporate Plan and the Action Plan

- (a) In terms of Circular No. PED 47 of 18 December 2007 of the Department of Public Enterprises and Chapter 5 of the Guidelines on Good

Governance a Detailed Corporate Plan should be prepared and submitted its copies to the Auditor General, Secretary to the Committee on Public Enterprises and the Secretary to the Director General of the Public Enterprises 15 days before the commencement of each financial year. This had not been complied with. Further, attention had not been drawn to prepare the Corporate Plan to identify the management responsibility clearly by indicating the significant features such as human resources administration, financial and supplies Divisions according to the existing Corporate Plan.

- (b) An action Plan showing the targets to be achieved during the planned period had also not been prepared. Further, the existing action plan had not been updated. Thus, it could not be evaluated whether the targets to be achieved during the year under review had been achieved and however its financial and physical progress had been achieved.

2.2.3 Transactions of Contentious Nature

The following matters were observed.

- (a) The allowance of unvalued leave amounting to Rs.3,395,212 and the reimbursement of 2/3rd of housing loan interests amounting to Rs.3,669,585 had been paid during the year under review without the approval of the Treasury.
- (b) As stated in the letter No. NSCC/3/ABC/24 dated 13 June 2007 of the National Salaries and Cadre Commission, the relevant institutions should not pay 10% of the house rent to their employees. However, a sum of Rs.5,290,865 had been paid by the Commission to its employees as house rent, contrary to that provision.

2.2.4 Idle Assets

Computers and Technical instruments costing Rs.30,484,695 and fully depreciated had not been utilised. Action had not been taken to re-use or to dispose after being tested.

2.2.5 Budgetary Control

According to the financial statements presented, in comparing with the budgeted figures, significant variances were observed and as such the Budget had not been made use of as an effective instrument of management control few expenses are given below.

Item	Budgeted figures	Actual Figures	Difference
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	Rs.	Rs.	Rs.
- Establishment and Administration expenses	141,532,930	287,338,563	(145,805,633)
- Provision for doubtful debts	104,500	158,553,234	(153,613,234)
- Payment to Consolidated Fund	3,200,000,000	3,800,000,000	(600,000,000)
- Investments	21,104,615,099	7,749,665,953	(13,354,949,146)
- Telecommunication charges payable	-	118,458,551	(118,458,551)
- International Telecommunication operators levy payable	20,742,422,424	-	20,742,422,424

3. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Commission from time to time.

Special attention is needed in respect of the following areas of control.

- (a) Budget
- (b) Corporate Plan
- (c) Action Plan
- (d) Investments of Surplus Funds
- (e) Debtors