

## Sri Lanka Broadcasting Corporation - 2010

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### 1. Financial Statements

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#### 1:1 Opinion

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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 Broadcasting 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 Broadcasting Corporation as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

#### 1:2 Comments on Financial Statements

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##### 1:2:1 Presentation of Financial Statements

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The financial statements had been presented to the Auditor General on 01 March 2011 and the revised financial statements had been presented for audit on 23 September 2011.

##### 1:2:2 Accounting Deficiencies

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The following deficiencies were observed.

- (a) Interest of Rs.181,203 receivable on the investment of Rs.5,722,200 made in the Bank of Ceylon on 6 August 2010 had not been accounted for.
- (b) A sum of Rs.130,500 had been understated in the accounts while accounting the interest receivable on investments amounting to Rs.14,500,000.
- (c) Electricity charges for the year under review had been understated in the accounts by Rs.91,672.

- (d) The sum of Rs.2,343,665 received on sale of land during the year under review had been accounted as income. The profit or loss on sale of land had not been identified and adjusted in the accounts.

#### 1:2:3 Unreconciled Control Accounts

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Balance exceeding a total sum of Rs.15,075,113 existed in two accounts while reconciling the balances as per accounts with the balances as per schedule. Meanwhile, the balance as per schedule had exceeded the balance as per Value Added Tax Control Account by Rs.1,723,668 and the value of the stock as per physical verification reports of the Ekala stores had exceeded the value of the stocks at the Ekala Stores as per financial statements by Rs.4,683,185.

#### 1:2:4 Suspense Accounts

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The following matters were observed.

- (a) Unidentified balances of Rs.211,965 remaining unsettled for over 21 years had been shown as a balance of suspense accounts.
- (b) Cash fraud of Rs.111,809 identified in 2007 had been included in the Unsettled Suspense Account balance.
- (c) The unsettled sum of Rs.5,713,250 of a Marketing Executive during the year 2009 had been shown in the accounts as a balance of Suspense Account.

#### 1:2:5 Accounts Receivable and Payable

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The following matters were observed.

- (a) A sum of Rs.116,247,849 was receivable as at 31 December 2010 on behalf of local advertisements of the Corporation. Of these, a sum of Rs.14,126,933 referred to advertisements pertaining to a period prior to 10 years. The recovery these amounts were in suspense.
- (b) The amount receivable on behalf of foreign advertisements as at 31 December 2010 amounted to Rs.79,955,611. Of these, a sum of Rs.1,400,280 referred to advertisement pertaining to a period prior to 1974 and a sum of Rs.46,269,590 referred to advertisements pertaining to 1974 – 1999. No action had been taken to recover these amounts.

- (c) The current account maintained with the Lakhanda Broadcast had a debit balance of Rs.12,807,862 since 2004. So far, action had not been taken to recover this amount.
- (d) A sum of Rs.350,000 had been deposited in 2005 with regard to a verdict given by a court of law in 2007. Action had not been taken to get this money refunded upto 10 June 2011.
- (e) There were debit balances of Rs.109,575 and Rs.195,700 respectively in the Goods and Services Tax Control Account and the current account maintained on behalf of the Post Master General. These had not been recovered and continued to be carried forward since 2001.
- (f) The sum of Rs.15,007,806 payable to the National Security Trust Fund continued to be brought forward from 2006 without being settled.

1:2:6 Lack of Evidence for Audit

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Documentary evidence in respect of the following matters had not been furnished.

- (a) Fifty Seven paid vouchers totally valued at Rs.2,207,844.
- (b) Performance reports relating to 27 retired officers had who had been recruited on the basis of paying an allowance of Rs.25,000 per month.
- (c) The value of stock at the Head Office amounted to Rs.16,760,407. Proper physical verification of these had not been carried out. As a result, the value of stocks had not been physically confirmed.

## 1:2:7 Non compliance with Laws, Rules, Regulations and Management Decision

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 The following non compliances with laws, rules, regulations etc., were observed.

Reference to Laws, Rules and Regulations etc. -----	Non compliance -----
(a) Finance Act No. 38 of 1971 ----- Section 13(2)	Audit fees of Rs.4,240,047 (including tax) for the period 2004 to 2010 had not been paid.
(b) Financial Regulations -----	
(i) F.R. 135	Financial authority had not been delegated among the related officers with regard to collection of income and incurring of expenditure.
(ii) F.R. 373(1)	The imprest balance as at 31 December of the year under review should have been reimbursed to the head office. But, imprest account balances aggregating Rs.607,055 had not been reimbursed as at that date.
(iii) F.R. 880	Officers in charge of cash and stock should furnish security. But, there were instances where it had not been done so.
(iv) F.R. 1646	Running Charts should be furnished to the Auditor General. However, this had not been done.
(c) Chapter XIX of the . Establishments Code -----	
(i) Paragraph 5.2.1	When government quarters are given on rent 12 ½% of the salaries of government officers should be recovered as rent. However, the two storied house at Aruppola, Kandy had been given on monthly rent at Rs.100 and Rs.125 respectively.

- (ii) Paragraphs 6.14 and 7      Action should be taken to remove the retired officer from government quarters. However, action had not been taken to remove retired officers occupying in the government quarters at Aruppola.
- (d)      Public Administration  
Circulars  
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- (i)      No. 41/90 dated 10      Consumption of fuel of each vehicle should be tested  
            October 1990                      once in 6 months. However, this had not been done.
- (ii)      Sections 1.1.6 and 2.2.6      Three vehicles had been allocated to 3 officers without  
            of No.22/99 dated 8              the approval of the Secretary to the Ministry.  
            October 1999.
- (e)      Treasury Circular No.      A register of fixed assets had not been maintained for  
            IAI/2002/02 dated 28              computer accessories and software.  
            November 2002
- (f)      Public Enterprises Circular  
            No. PED 12 dated 2 June  
            2003  
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- (i)      Section 5.1.3 and the      An updated copies of the Corporate plan approved by  
            Public Enterprises              the Board of Directors and a copies of the budget  
            Circular No.PED 47              should be forwarded to the respective Division 15 days  
            dated 18 December              before the commencement of the financial years.  
            2007                                      However, those had not been furnished during the  
  period specified.
- (ii)      Section 6.5.3                      The annual report of the year 2009 had not been tabled  
  in Parliament.
- (iii)      Section 8:3:2                      A sum of Rs.10,000 had been paid to the Chairman of  
  the Corporation contravening the instructions that he  
  was not entitled for incentive allowances and bonus.

- (g) Paragraph 2 of Circular No.42 of the Management Services dated 14 December 2010 The number of employees at the Corporation was 839. Incentive allowances had been paid based on monthly attendance and the amount so paid in 2010 amounted to Rs.7,376,982. In addition to the above incentive allowances, bonus amounting to Rs.7, 500 only can be paid according to the circular. However, a sum of Rs. 8,011,500 had been paid limited to maximum of Rs.10,000. In this connection, the approval of the Treasury had not been obtained even as at 6 June 2011.

## 2. Financial and operating Review

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### 2:1 Financial Review

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#### 2:1:1 Financial Results

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The following matters were observed.

- (a) According to the financial statements presented the financial results of the Corporation for the year under review was a pre tax profit of Rs.38,020,869 as compared with the pre tax profit of the previous year amounting to Rs.108,579,655 showing a decrease in the pre tax profit amounting Rs.70,558,786. The following matters mainly attributed to the financial result of the year under review.
- (i) The Treasury grant given for recurrent expenditure under the personal emoluments amounted to Rs.150,000,000. It was 18.21% of the total income.
- (ii) The credit balance depicting the value of the assets grant received from the Government of Japan had been written off and had been accounted as annual income and the amount so credited was Rs.7,276,869. Meanwhile, a sum of Rs.86,175,572 out of the value of the capital grant received from the Government of Sri Lanka from 1999 to 2010, had been identified as income for 2010 (as per Sri Lanka Accounting Standards 24) thus making a credit balance total of Rs.93,452,441 which had been included in the non operating income of the year under review.

- (b) The income of Rs.38, 283,331 for the year 2009 had increased to Rs. 108,579,655 as a result of re preparation of financial results.

## 2:2 Operating Review

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### 2:2:1 Management Inefficiencies

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The following matters were observed.

- (a) During the year overdraft facilities aggregating Rs.23,659,461 ranging from Rs.337,966 to Rs.558,106 had been obtained from time to time during 7 months exceeding the approved bank overdraft limits of Rs.30 million. This had become a common occurrence and the management had not prepared a suitable solution to avoid such a situation.
- (b) The sum of Rs.154,469,646 provided for payment of gratuity upto 31 December 2010 had not been invested.
- (c) A favourable balance of Rs.14,309,597 existed in the current accounts of the Head Office of the Corporation and 8 Divisional Offices as at 31 December 2010. Meanwhile, an adverse balance of Rs.4,171,827 was in the current account as at that date, from which bank overdraft facilities had been obtained. If proper financial management had been adopted, the overdraft interest of Rs.5,847,394 recovered by the bank during the year under review could have been minimized.

### 2:2:2 Identified Losses

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The following matters were observed.

- (a) A sum of Rs.433,672 had been paid as surcharge to the Electricity Board during the first half of 2010 as a result of not paying the electricity bills before the due date.
- (b) Tenders had been called for the canteen at the Head Office of the Sri Lanka Broadcasting Corporation for the year 2010. But, a suitable tenderer had not been selected and the manager who had maintained the canteen during 2009 had been verbally requested to carry on with the activities. Building, water and

electricity had been given free of charge for maintaining this canteen. In addition, the Corporation had spent Rs.35, 000 per month for supply of gas too. As there were no separate meters for the water and electricity supplied by the Corporation, it was unable to compute in audit the bills relating to those expenditure. Further, an agreement had not been entered into with the canteen lessee and no lease income had been recovered on behalf of 2009 and 2010.

- (c) The Corporation had not remitted the Employees Provident Fund contributions of June 2008 amounting to Rs.4,848,276 on the due date. As a result, a sum of Rs.1,939,310 had been paid as surcharge.

#### 2:2:3 Uneconomic Transitions

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A sum of Rs.10 lakhs had been invested in Lanka Newspapers Limited according to the Board Paper of the Corporation dated 23 April 1993. This value had been shown in the final accounts as investments from 1993. However, no investment income had been received so far. Meanwhile, action had not been taken to get the investment refunded.

#### 2:2:4 Idle and Under Utilized Assets

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The following assets belonging to the District Transmission Stations and Divisional Services remained idle and under utilized.

District transmission Stations / Services	Category of assets remaining idle and under utilized
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(i) Ruhunu Service	Exceeding 5000 sq.ft of the building allocated for office activities 2000 sq. ft only had been made use of.
(ii) Deniyaya Transmission Station	A fuel tank which could store 5,000 to 6,000 litres of fuel remained idle for 10 years.
(iii) Kandurata Service	Two storied house built in a land of 19 perches at Aniwatta remained idle from 2007.



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| (iv) Kotmale Community<br>Broadcasting Service | The land together with a 4,000 sq.ft house situated at Doragala remained idle for 8 years. |
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#### 2:2:5 Cost of Personnel

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The approved cadre of this Corporation was 528, according to the Management Services circular No.30. (The Corporation had rejected this and had proposed to revise it). But, the actual permanent cadre as at 31 December 2010 was 839 and the employees on piece rate basis, temporary and contract basis were 53. In addition, services had been obtained from 21 employees as Sales Executives on contract basis and about 77 employees as Relief Announcers. (Payments made on number of hours and days calculated as per decision made on the sample of the month of June)

#### 2:2:6 Corporate Plan and Action Plan

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##### (a) Corporate Plan

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The requirements expected to be included in the Corporate Plan as per Public Enterprises Circular No. PED 12, that is, a note pertaining to the present resources of the Corporation, Organization Chart, the energy and weaknesses of the Corporation, an analysis relating to operating results of the past 3 years and details of staff have not been covered up in the Corporate Plan prepared for 2010 – 2014.

##### (b) Action Plan

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The officers responsible for functions referred to in the Corporate Plan had not been clearly identified as required by Section 5.1.2 of that Circular. Further, the financial provision required for the functions expected to be carried out for certain functions had not been clearly stated.

### 3. Systems and Controls

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The 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) Annual survey of goods and stocks
- (b) Assignment of duties
- (c) Recovery of air time sales income
- (d) Budget
- (e) Methods of evaluation for payment of incentives
- (f) Vehicles