Sri Lanka Rupavahini Corporation - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 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 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

A sum of Rs. 648,000 had been included in operational income and a sum of Rs. 757,000 had been included in changes of equity as loan impairment gain with regard to staff loans contrary to Sri Lanka Accounting Standard 36.

1.2.2 Accounting Deficiencies

The following observations are made.

(a) Though the paid taxes for the year under review were Rs. 21,520,839, Rs. 40,751,000 had been shown in the cash flow statement thus resulting in an overstatement of Rs.19,230,161.

(b) Income from contra agreements of the year under review had been overstated by a sum of Rs. 19,632,842 by adjusting the creditors balances generated from contra agreements in previous years as income from contra agreements in the year under review.

1.2.3 Accounts Receivables and Payables

The following observations are made.

(a) Client Debtors

The following observations are made.

(i) The provision for doubtful debts as at 31 December 2012 amounted to Rs. 126,345,830 or 19 per cent of the client debtors amounting to Rs. 653,646,346.

(ii) The client debtors are generated at the time of supplying the air time on credit basis by the Corporation. Though the credit period is limited to one month according to the credit policy, the debtors older than one month amounted to 76 per cent or Rs.494,197,047. Out of that debtors older than 3 months amounted to 34 per cent or Rs. 224,558,218 and debtors older than 3 years amounted to Rs. 130,092,778 or 20 per cent.

(iii) Out of the clients debtor balances debts valued at Rs. 146,549,495 or 22 per cent were due from Government institutions. Out of these debtors a sum of Rs.9,229,054 is subject to prescription.

(iv) Out of the client debtor balances 6 per cent or Rs. 42,147,586 were due from political parties and the entire balance had been recognized as irrecoverable debts.

(v) The debtors balances relating to 2 agreements without the name of clients amounting to Rs.320,600 had been existing over periods ranging from 15 to 17 years.

(vi) The policy of the Corporation for collection of cash for general trade agreements is collection by issuing invoices after the supply of the agreed air time. It was observed that this policy had adversely affected the debt recovery of the Corporation.

(b) Sundry Debtors

Out of the total of sundry debtors of the Corporation amounting to Rs. 52,440,000 at the end of the year under review, the provision for doubtful debts amounted to Rs.18,578,707 or 35 per cent. This balance included a sum of Rs. 248,545 receivable from persons, a sum of Rs.542,554 receivable from foreign TV Institutions, a sum of Rs.17,858,971 recoverable from the Department of Inland Revenue, reimbursable electricity charges of Rs. 609,497 and a balance of Rs. 621,033 receivable from Insurance Companies in respect of reimbursement of medical bills existing over periods exceeding 02 years. In view of making 35 per cent provision for doubtful debtors out of the sundry debtors amounting to the 52,440,000 it was observed that the debt recovery control of the Corporation had been at a weak level.

(c) Grant and Settlement of Advances

The following observations are made.

(i) An advance of Rs. 250,000 granted in the year 2010 to an external individual for the production of programs had not been settled even by 31 December 2012.

(ii) Even though a sum of Rs. 450,000 had been paid to a contractor in the year 2008 for computer programs and related activities that work had not been completed even by the end of the current year.

1.2.4 Lack of Evidence for Audit

(a) The evidence indicated against the following items appearing in the financial statements had not been furnished to audit.

	Item	**Value**	**Documentary Evidence not made available**
		Rs.	
(i)	Debtors	653,646,346	Classification Schedules in terms of new Accounting Standards

(ii)	Cash flows generated from operating activities	23,798,000	Details of Calculations
(iii)	Impairment Gain	648,000	Schedules/ Details of Calculations
(iv)	Programs, Publicity and Purchase Expenses	162,733,993	Schedules/ Details of Calculations
(v)	Investments - Lanka Puwath	1,104,000	Ownership Certificates
(vi)	Work- in- Progress	132,125	Schedules
(vii)	Information on Frauds	Cannot be Calculated	Information requested for audit
(viii)	Land of the Corporation and Lands of Transmitting Stations (Rates value)	46,018,720	Legal Evidence (Title Deeds, Vesting Documents, Gazette Notifications)

	Total	888,081,184	

(b) The criteria adopted in deciding on the price per film purchased by the Corporation under the contra agreements had not been furnished to audit. As such those could not be satisfactorily vouched.

1.2.5 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)	Financial Regulations of the Democratic Socialist Republic of Sri Lanka and Public Enterprises Circular PED/ 12 of 02 June 2003	Even though the prior authority of the Deputy Secretary to the Treasury should be obtained for the creation of new allowances and revision irrespective of the source of funds, fuel and transport allowances amounting to Rs. 19,546,793 had been paid in the year 2012 without taking action accordingly.
(b)	Letter No. M/TR/1/2005 of Secretary to the Ministry of Finance dated 28 March 2003	Over payment of Rs. 4,020,000 exceeding the maximum monthly hire had been paid for hired vehicle and for fuel.
(c)	Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003	The draft annual report for the year 2012 had not been furnished to the Auditor General within 60 days after the close of the financial year.
(d)	Public Enterprises Circular No. PED/50 of 28 July 2008 and Public Administration Circular No. 22/99 of 08 October 1999	Transport allowance of Rs. 17,733,961 had been paid to 77 officers of MM salary scale and 96 officers of JM and MA salary scales contrary to the provisions by stating as the entitlement of senior officers.
(e)	Public Enterprises Circular No. 13/2008(ii) of 24 March 2009	Value of fuel provided exceeding the liters entitled per month to two officers amounted to Rs. 747,600.

2. Financial Review

2.1 Financial Results

According to the financial statements presented, the pre-tax profit for the year ended 31 December 2012 amounted to Rs. 47,478,000 as compared with the pre-tax profit of Rs. 172,079,000 for the preceding year. Thus a decrease of Rs. 124,601,000 was observed in the pre-tax profit of the year. Decrease of Channel Eye Income during the year by more than 75 per cent or Rs. 637,390,000 as compared with the preceding year had been the main reason for this decrease.

2.2 Analytical Financial Review

Although a sum of Rs. 47,478,000 was shown in accounts as pre-tax profit of the Corporation, it was observed that the profit would be converted to a loss of Rs. 8,309,895 after adjusting the effects of amortization value of Rs. 13,596,000 relating to foreign and local grants, loan impairment gain of Rs. 648,000, the credit balances in debtors accounts amounting to Rs. 21,911,053 and the value of Rs. 19,632,842 in the contra agreements of preceding years not used by external parties added to the profit.

2.3 Legal Action instituted against / by the Institute

Eleven cases had been filed against the Corporation by external parties and 05 cases had been filed by the employees of the Corporation as at 31 December 2012. Two cases had been finalized during the year under review. A sum of Rs.6,913,073 had been paid as lawyers fees to the outside Lawyers on these cases. The compensation claimed by the complainants relating to the 7 cases filed by the external parties amounted to Rs.1,012,400,000 and U.S. Dollars 250,000. Similarly the Rupavahini Corporation had filed 25 cases against the external parties and expected to recover a sum of Rs. 116,961,735 from those parties. Of those, 3 cases had been finalized during the year under review and a sum of Rs.375,000 had been recovered. Lawyers fees paid to external lawyers for those cases amounted to Rs. 1,449,340. The amount disclosed in the notes to the financial statements as contingent liability amounted to Rs. 2,052,000,000.

2.4 Unusual Increases in Expenses

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The following observations are made.

(a) The following items of expenditure for the year under review as compared with the expenditure for the preceding year had increased unusually.

(b)

Expenditure Item	Expenses		Increase over the previous year	Per centage of increase over the previous year
	2012	2011		
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	Rs.	Rs.	Rs.	%
Anniversary Celebration Expenses	9,898,686	665,000	9,233,686	1388
Deyata Kirula				
-Artiste's Fees	579,600	213,000	366,600	172
-Loading Charges	1,050,912	305,000	745,912	245
-Sundry Expenses	76,393	23,000	53,393	232

(c) The increase in the sundry expenses of the Ranawiru Real Star program in the year 2012 as compared with year 2011 ranged between 58 per cent to 183 per cent. The loss incurred by the Corporation from Ranawiru Real Star II program amounted to Rs. 34,612,395.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

(a) Although the Corporation had entered into contra agreements with Newspaper Institutions to obtain advertisements, a sum of Rs. 1,565,000 had been spent on Newspaper Institutions for advertisements on anniversary publicity without utilizing the said facilities. But facilities of Rs. 27,373,291 from contra agreements entered into had not been utilized as at 31 December 2012.

(b) **Contra Agreements**

The following observations are made.

(i) The value of air time given for contra agreements in the year 2012 amounted to Rs. 66,958,158 and the value of services obtained by the Corporation in this regard amounted to Rs. 36,223,000. Thus the loss incurred by the Corporation amounted to Rs. 30,735,158.

(ii) The balances of contra agreements existing over 07 to 12 years for which air time of the Corporation had been given, without obtaining a service to the Corporation amounted to Rs. 6,403,762 and the value of air time of the Corporation supplied in the years 2003, 2004, and 2005 without signing agreements amounted to Rs. 6,680,112. Action had not been taken even by 30 June 2013 to recover this amount in cash or to get the service in lieu thereof.

(iii) The Corporation entered into contra agreements for a film in the year 2012. Though the said film should have been given to the Corporation on the date of entering into the agreement, it had not been so done. The delay up to 30 June 2013 had been 17 months. The value of the air time provided for this film by the Corporation amounted to Rs. 13,144,000.

(iv) The value of the services that could have been obtained but not obtained by the Corporation in relation to the contra agreements in the year 2012 amounted to Rs. 27,373,291.

(v) Even though 125 air tickets valued at Rs. 4,600,000 should have been given to the Corporation in connection will a contra agreement, the Corporation had not taken action to obtain them.

(c) **Purchase of Teledramas**

The following observations are made.

(i) The Corporation had incurred a loss of Rs. 1,569,545 from telecasting a teledrama purchased at a cost of Rs. 4,375,000 without following the internal control methodology for the purchase of teledramas introduced by the Corporation.

(ii) Although 50 or more evaluation marks of the Teledrama Preview Panel should be obtained to qualify a teledrama for telecasting, contrary to that two teledramas valued at Rs. 27,775,000 had been purchased.

(iii) Even though the evaluation marks of the Teledrama Preview Panel are a primary factor considered in determining the amount payable for a teledrama, out of 10 teledramas subjected to a test check that factor had not been considered in the purchase of 04 teledramas valued at Rs. 54,290,000.

(iv) The income generated before deducting agency commission from advertising a program purchased for Rs. 22,518,080 by supplying free air time valued at Rs. 10,000,000 amounted to Rs. 24,093,647. As such the Corporation had incurred a loss of Rs. 8,424,433 from telecasting that program.

(d) **Investments**

The following observations are made.

(i) Even though a sum of Rs. 1,104,000 had been invested in Lanka Puwath Institution in the years 1985 and 1992, any dividend income had not been received and that investment had been maintained as it is.

(ii) The fixed deposits of Rs. 22,000,000 in the Bank of Ceylon placed as security to obtain a Bank overdraft had not been disclosed in the notes to the accounts. The Bank overdraft interest incurred in year 2012 amounted to Rs. 1,260,957.

3.2 Operating Inefficiencies

The expenditure incurred from 2009 to 2012 on the NTV Channel which commenced transmissions in 2009 without a feasibility study amounted to Rs. 18,186,000, while no income had been generated. Though payments had been made for the use of transmission tower of a private company for expanding the transmission, the attention of the Corporation had not been paid to gather information and follow-up action to examine whether the quality and progress had been achieved in the area covered.

3.3 Transactions of Contentious Nature

The following observations are made.

(a) A sum of Rs. 3,743,720 had been paid as salaries, overtime and bonus for the year 2012 by the Corporation for 05 officers recruited on contract basis and released from Corporation service. The overtime paid to those 05 officers included in the above sum amounted to Rs. 1,458,892.

(b) A Consultant had been selected to prepare the Corporate Plan without the prior approval of the Board of Directors and without following the procedures in the Government Procurement Guidelines and a sum of Rs. 600,000 had been spent in that connection. In addition, a sum of Rs. 129,811 had been spent on the final session held in that connection and that represented 22 per cent of the consultancy fee.

(c) The receivables of the Corporation as at 30 June 2013 from a film for which nearly 50 per cent trade discount of the specified air time and credit period of one month had been allowed without formal authority amounted to Rs. 743,633 and the delay in the payment of money had been 14 months. Agency commission amounting to Rs. 154,780 had been paid to a publicity agency owned by the client.

(d) A special discount of 50 per cent of the value of the specified air time and free air time valued at Rs. 6,982,000 had been given for a publicity advertisement of a film.

Contrary to the agreement 3 additional programs had been televised. The Corporation had incurred a loss of Rs. 9,982,000 from the publicity advertisement while agency commission amounting to Rs. 792,900 had been paid to an Agency owned by the co-producer of the film.

(e) An additional cost of Rs. 900,000 had been incurred on two motor vehicles procured on hire basis for allocation to officers entitled to the allocation of motor vehicle for official travelling, without an evaluation of the number of entitled kilometers in terms of the Public Administration Circular No. 22/99.

(f) A sum of Rs 33,700 had been overpaid as payment had been made at the specified number of kilometers per month instead of paying for the number of kilometers run. This had resulted from parking the motor vehicle not used for running in the premises of the Corporation without being released for use.

(g) Action had not been taken to obtain reimbursement of expenditure of Rs. 188,140 incurred on hired motor vehicle released for official purposes of the Chairman of the Television Training Institute.

3.4 Idle and Underutilized Assets

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The following observations are made.

(a) Several parts of the Automated Barcode Solution System and the EAS System purchased in the year 2005 at a cost of Rs.1,734,000 with the objective of computerizing and improving the activities of the Telivision Audio Visual Library for its proper and efficient operation had not been made use of and lying idle even by the end of June 2013.The existence of the antennas had not been disclosed in the annual stocks verification.

(b) Spare parts of the Engineering Division valued at Rs. 18,053,000 remained as non-moving stocks.

3.5 Identified Losses

The following observations are made.

(a) Adequate steps had not be taken for the recovery of a sum of Rs.187,500 paid to a contractor in the year 2010 for services not procured from the party concerned or the parties responsible for the payment.

(b) Action had not been taken to settle the advances amounting to Rs. 78,050 obtained by officers in the years 2006 and 2007 for production of programs. Instead of recovering the money from the officers responsible, the advances had been written off from the books in the year under review.

3.6 Delayed Projects

Even though a sum of Rs. 183,051 had been spent in the years 2005 and 2006 as consultancy fees and testing of soil samples in connection with construction works of the News Division, construction work had not been commenced. In addition, an unidentified balance of Rs. 132,125 had been included in the Work- in- progress Account.

3.7 Staff Administration

The approved staff of the Corporation as at 30 June 2012 had been 985 whereas the actual staff had been 1,007, thus indicating an excess staff of 22.

3.8 Motor Vehicles Utilization

The motor vehicles fleet of the Corporation consisted of 53 motor vehicles and that included 10 motor vehicles procured on hire basis and 06 assigned motor vehicles. The total number of kilometers run in the year 2012 had been 1,579,976 comprising 1,178,120 kilometers run by the Corporation motor vehicles and 401,856 kilometers run by motor vehicles procured on hire basis. The expenditure incurred on maintenance and fuel amounted to the Rs. 8,531,196 and Rs. 15,805,019 respectively. As such the expenditure on maintenance and fuel per kilometer amounted to Rs. 7.24 and Rs. 13.74 respectively.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Even though financial statements should be presented to the Auditor General within 60 days after the close of the financial year in terms of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements for the year under review had been presented by the Corporation only on 15 May 2013, that is, after a delay of 76 days.

4.2 Action Plan

The following observations are made.

(a) Bids had been invited in the year 2012 for an activity valued at Rs. 50 million not included in the Action Plan and the budget.

(b) The total value of 05 projects included in the Action Plan of the year 2012 and provision made in the annual budget estimates but not implemented amounted to Rs. 77.5 million.

(c) The value of 6 projects implemented without making provisions in the budget for the year 2012 amounted to Rs. 150.6 million.

4.3 Internal Audit

The cadre of the Internal Audit Unit of the Corporation comprised a permanent Internal Auditor and 06 other staff. Twenty two internal audit queries in the first half of the year and 24 internal audit queries in the second half of the year had been issued.

4.4 Strategic Marketing Plan

A Strategic Marketing Plan designed for marketing promotion profitable for the Corporation though the identification of its strengths, weaknesses, opportunities and threats had not been prepared for the year 2012.

4.5 Audit Committee

Even though the Audit Committee should meet at least once in three months in terms of the Public Enterprises Circular No . PED/31 of 01 July 2005, only two meetings had been held in the year 2012.

4.6 Budgetary Control

Income had not been estimated properly and as such increase of income of certain items against the budget ranging from 25 per cent to 44 per cent as well as decrease in the income ranging from 33 per cent to 1062 per cent were observed. Similarly, increase in expenditure by 117 per cent as well as decrease in expenditure ranging from 14 per cent to 65 per cent due to the failure to prepare expenditure estimates properly were observed. As such the budget for the year 2012 had not been made use of as an effective instrument of management control.

5. 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) Staff Loans Control
(d) Advances Settlement Control
(e) Contra Agreements
(f) Collection of Air Time Income
(g) Accounting