Sri Lanka Broadcasting Corporation - 2013

The audit of financial statements of the Sri Lanka Broadcasting Corporation comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, 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 27 of the Sri Lanka Broadcasting Corporations Act, No. 37 of 1966. 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 or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810).

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position, statement of comprehensive income and statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements

2.2 Comments on Financial Statements

2.2.1 Liquidity of the Corporation

The following observations are made.

(a) The overdraft that existed as at 31 December of the year under review in the main Bank Account of the Corporation amounted to Rs.36,786,605 and that overdraft had increased up to Rs.44,971,780 by 31 March 2014. It had been an increase exceeding the limit of the overdraft facility of Rs.40,000,000 provided to the Corporation. A sum of Rs.40,000,000 remaining from the provisions made by the Treasury for the capital expenditure in the year 2011 had been deposited in the above account since year 2011 and it was observed that the money referred to above as well had been utilized for the revenue expenditure without informing the Treasury.

(b) The fixed deposits and other current assets as at 31 December 2012 amounted to Rs.100,373,055 and Rs.258,900,100 respectively and the fixed deposits and other current assets as at the end of the year under review amounted to Rs.59,969,349 and Rs.187,024,374 respectively. Accordingly, it was observed that the liquidity level of the Corporation was rapidly decreasing daily.

2.2.2 Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards

The non-compliances with the following Sri Lanka Accounting Standards and Sri Lanka Financial Reporting Standards were observed during the course of audit.

Reference to Accounting Standards	Non-compliance
(a) Sri Lanka Financial Reporting Standard 05	(i) Even though investments amounting to Rs. 1,000,000 from which benefits had not been received over a long period had been recognized as the assets held for sale and brought to accounts in the year 2012, action had not been taken to sell or compute the market value and bring to account.
	(ii) Even though the assets due for disposal should be separated from the non-current assets and shown in the financial statements as the assets held for sale, the value of the assests which had been disposed of at Rs. 314,086 and Rs.1,347,240 in the year 2012 and in the year under review respectively had not been eliminated from the non-current assets.
(b) Sri Lanka Financial Reporting Standard 8	(i) There are 06 Regional Services, 8 Channels and a Deutsche Welle Relay Station maintained as a separate project belonging to the Corporation. However, those services and the assets , liabilities

			and the sources of income relating to the segments due to be reported from those services had not been disclosed in the financial statements.
		(ii)	At the time of closure/ termination of any unit (Service Centre) its income, expenditure and pre-tax profit/ loss should be disclosed. Nevertheless, the Ekala Transmission which had been closed down from 01 June 2013 and the termination of 02 radio channels of the Corporation and the grant of that airtime to a private establishment at Rs.3.5 million on lease basis had not been disclosed in the financial statements.
(c)	Sri Lanka Accounting Standard 1		Even though liabilities shown under the current liabilities in the financial statements should be settled within a period of 12 months, the accrued expenditure which had been shown under the current liabilities had included the accrued expenditure of Rs.216,647,889 older than 10 years. Further, action had not been taken to analyze the expenditure of which the period of liability had expired or that did not have an actual liability and to write off them from the books.
(d)	Sri Lanka Accounting Standard 7		Since the working capital variance, foreign exchange variance, loss and aid received from the Government for capital expenditure had not been accurately adjusted in the cash flow statement furnished along with the financial statements, a difference amounting to Rs.47,545,501 relating to the operating, investment and financial activities in the cash flow statement was observed.
(e)	Sri Lanka Accounting Standard 12		According to the financial statements presented, instead of adjusting a sum of Rs.18,136,585, a sum of Rs. 19,999,055 had been adjusted to the statement of comprehensive income.
(f)	Sri Lanka Accounting Standard 16	(i)	Depreciation of the fixed assets should be commenced from the date they were brought to a condition fit for use. Nevertheless, it had not been disclosed in the financial statements that the fixed assets are depreciated in accordance with this Standard.
		(ii)	Instead of recognizing the profit or the loss relating

to the assets eliminated from use and sold during the year under review and the preceding year, only the sum of Rs.1,661,326 received from the sale had been brought to account as other income.

(g) Sri Lanka Accounting Standard 17		Although the fair value of the motor vehicles purchased on lease basis amounted to Rs.55,119,210, it had been shown as Rs.52,963,457 in the final accounts due to computation contrary to the Standard. Accordingly, fair value had been understated by Rs.2,155,753 while depreciation had also been understated.
(h) Sri Lanka Accounting Standard 18	(i)	Regardless of the following criteria pertaining to the recognition of income according to the Standard, income of the airtime sales had been brought to the financial statements. • Capability of recognizing the amount of income reliably. • Confirmation of the receipt of the economic benefits gained from the transaction to the entity. • Reliably recognizing the portion of the transaction of which the value is completed as at the relevant reporting period. • Reliably recognizing the expenditure due to be incurred for the transactions or for the completion of transactions.
	(ii)	Out of the agreements entered into by the Corporation for broadcasting long term commercial advertisements, the recognized income so as to indicate the number of commercial advertisements broadcast during the year under review and the number of commercial advertisements obliged to be broadcast in future separately and the broadcasting obligation to be fulfilled in future had not been disclosed in the financial statements.
(i) Sri Lanka Accounting Standard 21	(i)	The foreign debtors of the Corporation amounting to Rs.64,306,207 as at 31 December of the year under review had not been converted at the exchange rate that existed as at the balance sheet date. Accordingly, the foreign exchange fluctuation benefit of Rs.71,730,837 had not been shown in the financial statements.
	(ii)	Instead of accounting income in respect of two

advertisements broadcast through 2 foreign trade agencies at the exchange rate that existed as at the receivable date of the income, it had been accounted as airtime sale at the exchange rate that existed as at the date of commencement of the agreement and as such airtime sale and the debtors had been understated by Rs.297,533 for the year under review.

(iii) The value of the foreign airtime sales during the year under review amounted to Rs. 109,953,931. Nevertheless, adjustments had not been made for the exchange variation profit/ loss in respect of the duration between the sale of airtime and the receipt of the money for that purpose.

(j)	Sri Lanka Accounting Standard 38	Expenditure totalling Rs. 3,400,000 had been incurred in the years 2009,2010 and 2012 for the purpose of obtaining automation facilities to the radio services and instead of accounting for that under the intangible assets, it had been brought to accounts under the computer accessories and provision for the depreciation had also been made.

2.2.3 Accounting Policies

The Corporation had not introduced an accounting policy for accounting for airtime sales income. Instead of recognizing sales value based on the sales invoice, accounting had been done based on the broadcasting schedules. As observed in the audit, due to the internal control weaknesses in the preparation of airtime sales schedule, the accuracy of the air time sales income of Rs.506,159,668 of the year under review could not be confirmed at the audit.

2.2.4 Accounting Deficiencies

The following observations are made.

(a) At the time of change of the depreciation policy of the fixed assets from Straight Line Method to the Diminishing Balance Method in the year 2010, computation of depreciation had not been correctly done and as such opening accumulated loss of Rs.366,906,074 of the year under review had been understated in the financial statements and due to the failure to carry out computation of depreciation relating to the year under review correctly, the loss of the year had also been understated by Rs.23,084,581.

(b) Out of the total lease rent amount receivable in respect of Nuwara-eliya “Nivahana” Holiday Resort which had been leased out to an external party, a sum of Rs. 2,350,000 had not been included in the Receivable Lease Rent Account.

(c) The income receivable from lease of radio transmission towers had been overstated in this financial statements by Rs.495,000 due to erroneous computation.

(d) Charges receivable for leasing out a transmitter to the Uva Provincial Council and the electricity charges receivable had been understated in the financial statements by Rs.102,151 and Rs.1,186,870 respectively.

(e) Instead of capitalizing expenditure of Rs.1,621,820 of the Yatiyantota Trasmission Station Renovation Project under the fixed assets, a sum of Rs.1,070,505 out of that amount had been written off to the income as recurrent expenditure. Further, the lease income amounting to Rs.300,000 received for the year 2014 for leasing out the tower of this Transmission Station had been brought to account as an income of the year under review.

(f) A sum of Rs.23.5 million received in respect of lands and buildings relating to premises transferred by the Corporation had not been correctly adjusted in the accounts and it had not been rectified even in the year under review. Therefore, the value of the lands and buildings had been overstated by that amount in the financial statements.

(g) According to the ledger as at 31 December of the year under review the debtors balance amounted to Rs.193,065,904. Nevertheless, out of the value stated in the debtors schedule totalling Rs.184,201,372 prepared on incomplete information, a part of dishonoured cheques amounting to Rs.3,986,654 had been deducted and debtors value of Rs.180,214,718 had been shown in the financial statements. The difference of the debtors balance according to the ledger and the financial statements amounting to Rs.12,851,186 had been erroneously adjusted to the air time sales creditors balance of Rs.21,679,514 as at 31 December of the year under review and as such the airtime sales creditors balance had been shown as Rs.8,828,328 in the financial statements.

(h) Since a motor vehicle purchased on lease basis had been removed from the use after an accident, an indemnity of Rs.6,145,550 had been received as the full insurance claim in the year 2012. Instead of taking action to terminate the lease agreement by settling the lease loan, the balance lease installments payable amounting to Rs.3,749,026 had been under the liabilities in this financial statements despite the non existence of lease assets during the year under review.

(i) The transmission activities of the Ekala Transmission Station had been ceased from 01 June 2013 and the fixed assets thereof had also been eliminated from use. Nevertheless, the spare parts amounting to Rs.9,996,710 which had been retained for the maintenance of fixed assets had been shown as inventory items under the current assets.

(j) Value Added Tax Account and the Debtors Account had been understated by Rs.14,099,433 in the financial statements due to the omission of the Value Added Tax relating to the airtime sales from the Debtors Account.

(k) According to the audit test check, since the airtime sales income, production charges and agent commission relating to the years 2008,2010,2011 and 2012 had been brought to account as the income and the commission of the year under review, airtime sales and production charge income had been overstated by Rs.521,357 and Rs.307,000 respectively while the agent commission had been overstated by Rs.762,644.

(l) Even though sales had been included in the books of the Head Office through the current accounts maintained for the regional services in the Head Office, adjustments to be made to the accounts by reconciling the current accounts relating to the sales maintained in each regional service with the current accounts maintained in the Head Office in respect of the regional services had not been done. A credit balance totalled Rs.2,347,907 that existed in these current accounts as at the end of the year under review had been utilized for the adjustment of creditors balances as at the end of the year without basis

(m) It was revealed according to the report of the Board of Survey carried out by the Internal Audit that the Stock Book balance had been taken as the Compact Disk balance as at 31 December of the year under review and it was incorrect. As a result, stock value of Rs.1,510,498 had been understated in the financial statements.

(n) The assets of the Deutsche Welle Relay Station at Trincomalee commenced in the year 1980 and transferred, free of charge to the Corporation since 01 January 2012 had to be revaluated and the revaluated amount had to be brought to account. Instead, converting the value of the expenditure (Euro) existed as at the days of purchase of the assets by the Government of Germany for that Relay Station to Rupees on the exchange rate that existed as at 31 December 2012 and taking the value of the assets of Rs.2,430,781,990 to the books, depreciations had been made since year 2012.

(o) Even though Sri Lanka State Plantations Corporation had informed that a lease rent amounting to Rs.5,121,333 should be paid to that Corporation by 31 January 2013 in respect of a portion of land 0.3194 hectares in extent belonging to that Corporation in which the Hunnasgiriya Transmission Station is situated and in respect of the access road of the land, the payable lease liability had not been shown in the financial statements of the year under review.

(p) According to the financial statements of the year under review, a loss amounting to Rs.10,369,767 of the Trincomalee Deutsche Welle Project had been shown under the other income. However, at the time of accounting, depreciation of Rs.178,044,930 of the fixed assets of the Trincomalee Project had been shown under an expenditure of the Corporation without being shown under an expenditure of the project. Accordingly, the loss of the Trincomalee Project amounted to Rs.188,414,697.

(q) Although the net income of the Trincomalee Deutsche Welle Project had been shown as Rs.58,000,063, the actual airtime income should be Rs.67,640,164. In this case, a sum of Rs.10,720,463 receivable for the year under review had also not been accounted as the debtors. Further, the income of Rs.5,751,587 received for the year 2012 and brought to accounts in the year under review had not been adjusted to the accounts.

(r) The parts of two antenna towers valued at Rs.25,687,683 which had not been installed had been brought to the account as fixed assets instead of accounting as work-in-progress.

2.2.5 Unreconciled Control Accounts

A difference of Rs.19,915,312 was observed between the balances in the schedules relating to three item of accounts presented for audit and the balances shown in the financial statements.

2.2.6 Unexplained Differences

The following observations are made.

(a) A difference of Rs.2,748,034 was observed between the amount shown in the financial statements and the amount shown in the Board of Survey reports pertaining to 06 stock balances.

(b) Even though a difference of Rs.111,799,389 was observed between the airtime sales value computed by the Marketing Division on the invoice and the airtime sales value for the period from March to December 2013 correspondingly brought to account by the Accounts Division relating to the year under review, that difference was not explained to the audit.

2.2.7 Suspense Accounts

A cash shortage of Rs.221,965 arisen due to a fraud identified over a period exceeding 21 years and a sum of Rs.281,110 relating to a cash fraud identified in the year 2007 had been shown as a Suspense Account balance in the financial statements of the year under review.

2.2.8 Lack of Evidence for Audit

The following assets and liabilities appearing in the accounts could not be satisfactorily vouched or accepted in audit due to the lack of evidence to ascertain the existence, ownership and value of each asset and liability.

	Item of Account	Value Rs.	Evidence not presented
(a)	Fixed Assets	871,694,474	Register of Fixed Assets prepared in accordance with Form General 287 and the Fixed Assets Ledger prepared in terms of Form General 288.
(b)	Staff Loans	4,054,605	Schedules including the balances recoverable from each officer
(c)	Dishonoured	2,468,535	Register of Dishonoured Cheques / Detailed

	Cheques		Schedules
(d)	Receivable Deposits	440,475	Detailed Schedules.
(e)	Obituary Notices Debtors	7,997,854	Detailed Schedules.
(f)	Deposits Payable	9,793,729	Detailed Schedules and Register of Deposit
(g)	Fixed Assets of the Trincomalee (Deutsche Welle) Relay Station	2,081,220,512	Board of Survey Reports as at 31 December 2013.
(h)	Furniture of the Trincomalee Relay Station	Amount had not been included in the accounts.	Board of Survey Reports as at 31 December 2013.
(i)	Spare Parts relating to Transmitters, antennas of the Trincomalee Relay Station	Amount had not been included in the accounts	Inventory Register or Transfer Register and value of the items taken over and a Schedule
(j)	Payments for the work-in- progress	10,000,000	Invoices, Bills, Expected Work Plan, Expenditure Estimates, Documents relating to the approval of Payments.
(k)	Staff Advances	7,722,033	Detailed Schedule and Reconciliation Statements.
(l)	Deposits Receivable(Debtors)	7,390,163	Deposit Slips and Supporting Documents
(m)	Adjustments journal entries of 32 accounts	188,340,318	Supporting Documents
(n)	Debtors	23,475,516	Files including Balance Confirmation Documents.
(o)	Foreign Airtime Sales	17,841,807	Invoices
(p)	Trade and other Receivable Balances brought forward over a period exceeding 10 years (Lakhanda Branch Account.)	12,807,802	A relevant file and a schedule depicting the breakdown of the amount.
(q)	Local Airtime Debtors Balance	71,427,287	Letters for confirmation of balances of local debtor balances amounting to Rs. 71, 427,287 as at 31 December of the year under review had been sent to 153 debtors. Out of that, the balances amounting to Rs.872,693 only had been confirmed by 5 debtors. Four

debtors had not acknowledged debtors balances amounting to Rs.186,100.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) Advances given to the suppliers had been retained with the supplier over periods ranging from 03 months to 02 years and the balance in the Advances to Suppliers Account as at the end of the year under review totalled Rs.2,402,254.

(b) Even though a deposit of Rs. Rs.1,400,000 at the rate of Rs.100,000 had to be obtained from 14 lessees according to the agreement relating to the leasing out radio transmission towers, such deposits had not been obtained from the lessees concerned.

(c) According to the schedules presented to audit, the total local and foreign airtime sales debtors balance as at 31 December of the year under review amounted to Rs.184,201,372, out of which total foreign debtors amounted to Rs.64,306,207. Further, 90 per cent of that debtor balance had been older than 10 years.

(d) Even though charges should be recovered prior to broadcasting short term programmes, programmes had been broadcast contrary to this policy and a sum of Rs.10,666,667 had been shown as debtors as at 31 December of the year under review for broadcasting short term programmes. Although the normal credit period allowed by the Corporation had been 02 months , there were balances of Rs.295,075, Rs.5,827,281 and Rs.792,646 older than 10 years , between 05 to 10 and between 01 to 05 years respectively.

(e) Out of the balance amounting to Rs.9,554,563 existed as the receivable deposits as at 31 December of the year under review balances amounting to Rs.1,002,426, Rs.2,296,118 and Rs.3,336,574 had remained receivable over periods exceeding 30 years, between 20 to 30 years and over 10 years but less than 20 years respectively. Accordingly, it was observed that 69.4 per cent of the receivable deposits had been older than 10 years.

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

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Non-compliance with the following Laws, Rules, Regulations and Management Decisions were observed.

	Reference to Laws, Rules, Regulations and Management Decisions --------------------------------------	Non-compliance ---------------------
(a)	Finance Act, No. 38 of 1971	
	Section 13(2)	Action had not been taken to settle the audit fees amounting to Rs.3,593,520 (inclusive of tax) payable for the period from the year 2007 to 2012.

(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka

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(i)	Financial Regulation 155		Replies to 13 audit queries issued in respect of the year under review had not been furnished even by 11 February 2015.
(ii)	Financial Regulation 396 (d)		Action in terms of the Regulation had not been taken on 127 cheques amounting to Rs.979,461 which had not been presented for the payments for a period exceeding 06 months up to 31 December of the year under review. According to the Bank Reconciliation for August 2014, out of the above cheques 48 cheques amounting to Rs. 340,712 had further remained in the same position.
(iii)	Financial Regulation 371 (2) (b)		Advances amounting to Rs.4,625,682 ranging from Rs.21,000 up to Rs.504,000 which exceeded the limit of Rs.20,000 had been granted in 77 instances during the year under review.
(iv)	Financial Regulation 371 (2) (c)		It was observed that advances obtained amounting to Rs.1,588,831 had been settled after delays ranging from 03 to 09 months after the completion of the relevant purposes in 58 instances.
(v)	Financial Regulation 371 (5)		Even though advances should be settled before 31 December of the relevant financial year, out of the sum of Rs.2,187,768 which had not been settled as at 31 December of the year under review a sum of Rs.101,730 had not been settled even by 31 May 2014.
(vi)	Financial Regulations 754 and 757 (1)		Although the Inventory Book should be balanced at the end of each financial year and as at the date of survey, it had not been so done.

	(vii)	Financial Regulations 770 and 773	Action had been taken to sell assets contrary to the Financial Regulation and action in terms of the Regulation had not been taken on ferrous and non-ferrous articles.
	(viii)	Financial Regulation 1645 (b)	Even though the Daily Running Charts of Motor vehicles along with the original of the Monthly Performance Summary on Form General 268 (b) should be furnished to the Auditor General through the Head of the Department before 15 of the following month, action had not been taken accordingly.
	(ix)	Financial Regulation 1646	Log Books in the prescribed Form General 267 had not been maintained in an updated manner after the year 2006.
	(x)	Financial Regulation 1647(c)	No records had been maintained in respect of spare parts removed in repairing motor vehicles and no proper method had been followed with regard to handing over them to stores.
(c)	Section 4.2.2 of the Public Enterprises Circular No. PED 12 dated 02 June 2003.		Monthly cash flow statements, report on the liquidity position and borrowings had not been prepared and brought to the notice of the Board of Directors of the Corporation.
(d)	Paragraph (4) of the Public Finance Circular No.438 dated 13 November 2009.		Even though a report on the items amounting to Rs.1,661,326 disposed of in the years 2012 and 2013 should be furnished to the Auditor General, it had not been so presented.

2.5 Transactions not supported by an Adequate Authority

The following observations are made.

(a) Even though the approval of the Secretary to the Ministry should be obtained for the sale of usable and unusable items, such approval had not been obtained in the sale of transmitters and spare parts of air-conditioners containing iron and copper, motor bicycles, furniture and machinery, etc. for Rs.1,661,326 in the years 2012 and 2013.

(b) Sri Lanka Broadcasting Corporation had spent Rs.21,356,467 on 03 Capital Projects without obtaining the approval of the Secretary to the Ministry concerned and the concurrence of the Department of Public Enterprises in terms of the Section 5.2.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.

(c) Even though 02 motor vehicles which had been removed from the use over 09 and 07 years ago had been brought to the condition fit for running by spending Rs.4,480,200, the approval of the Secretary to the Ministry had not been taken in terms of the Section 9.3.1 (b) of the Government Procurement Guidelines dated 06 September 2010. Further, according to the Motor Traffic Act, when a new body is fitted to a motor vehicle the approval of the Commissioner General of Motor Traffic should be obtained for that purpose, whereas such approval had also not been obtained.

(d) The maximum advance that can be granted for carrying out repairs to 02 motor vehicles for a cost of Rs.4,480,200 is 20 per cent. Nevertheless, an advance of 50 per cent amounting to Rs.2,240,100 which exceeded the 20 per cent limit had been paid even without obtaining an advance payment guarantee.

3. Financial Review

3.1 Financial Results

The financial result of the Corporation for the year under review amounted to a pre-tax loss of Rs.140,508,406 as compared with the corresponding pre-tax loss of Rs.67,407,984 for the preceding year thus indicating a deterioration of the financial result by a sum of Rs.73,100,422 The loss for the year under review had been limited to this amount due to the recognition of the amortization of the assets acquired from Government grants amounting to Rs. 253,393,366 and the Government contribution for revenue expenditure amounting to Rs.121,017,535 totalling Rs.374,410,901 as income.

3.2 Analytical Review

The value of Rs. 442,622,916 shown in the accounts as other operating income in the year under review included the amortization of Rs. 253,393,366 relevant to Capital Grants and that represented 74 per cent of the other operating income. Further, Government Grants of Rs. 121,017,535 received as license fees and recurrent expenditure had also been included in the operating income.

3.3 Working Capital Management.

The following observations are made

(a) The gross profit ratio had decreased by 06 per cent from 37 per cent to 31 per cent as compared with the preceding year and the net profit had increased by 20 per cent as compared with the preceding year.

(b) Since the overdraft that existed in the main Bank Account had continually increased from April of the year under review up to March 2014, the Corporation had to pay a sum of Rs.2,825,348 as the Bank overdraft interest during the year under review. It was observed that, that represented an increase of 5719 per cent as compared with the year 2012.

4. Operating Review

4.1 Performance

(a) The Performance Report had not been prepared according to the Action Plan and it was pointed out even in the preceding year that the Performance Report should be prepare so as to enable the performance to be evaluated according to the Action Plan. It had not been rectified even in the year under review.

(b) The power of the transmitters of the Yatiyantota Transmission Station had been increased from 5Kw to 10Kw at a cost of Rs.125,272,915 with the intention of enhancing the quality of transmission of the channels. However, a technical and engineering study on the reasons that contributed for weakening the quality of transmission and a study on the cost and benefits of the investment had not been conducted to carry out an investment of this nature. Therefore, the electricity cost for the first 07 months of the year under review (after installation of new equipment) had increased by Rs.7,281,545 or 682 per cent than the electricity cost for the first 07 months of the preceding year (before installation of new equipment).

4.2 Management Inefficiencies

The following observations are made.

(a) The Nivahana Holiday Resort had been leased out for a period of 5 years from October 2005 and the lessee had maintained it up to February 2014 without paying any lease rent. Nevertheless, action had not been taken to recover the lease of Rs.7,210,000 receivable as at 31 December of the year under review according to the lease agreement even as at the end of July 2014. Further, the right of the property had been transferred to the Corporation on 01 March 2014 by the decision of the case filed against the lessee for his failure to pay the lease on the prescribed date and not transferring the ownership , but action had not been taken even up to 30 July 2014 to recover a sum of Rs.2,151,206 spent on this case since year 2010.

(b) Automation activities of the radio channels of the Corporation had been commenced in the year 2008 and a sum of Rs. 3,400,000 had been spent for this work as at 14 May 2012. Since this process had not been completed even by July 2014 the Corporation could not achieve the benefits planned to be obtained through this process.

(c) Contrary to the Procurement Guidelines, purchases valued at Rs.15,402,724 and Rs.7,748,046 had been made in the years 2012 and 2013 respectively through the online purchasing system as urgent purchases . However, a period from 02 months to 18 months had been taken to receive the items. Out of this, 9 purchases amounting to

Rs.13,786,248 represented purchases each exceeding Rs.950,000. However, the payment had been made without a certification that the goods received by the Corporation conformed to the relevant specifications or an agreement on the course of action to be taken in the event of non-conformity.

(d) Allocation of official quarters of the Corporation to the officers in the staff had not been carried out according to a formal methodology. The supporting documents or reports on the officers occupying those official quarters at present and the manner in which those quarters were allocated to the relevant officers had not been maintained. When allocating those quarters to the staff and the external parties, charges had not been recovered. There was no confirmation whatsoever to the effect that monthly charges for electricity and water of those quarters had been paid by the occupants and the monthly charges for that purpose had also not been recovered from the occupants.

4.3 Operating Inefficiencies

The following observations are made.

Purchase of Antenna Towers.

(a) Without carrying out a feasibility study and evaluating the qualifications of the contractor, the contract for installation of antenna towers at Puttur had been awarded to Sri Lanka Handicrafts Board on 16 June 2011. Although a sum of Rs.9,692,614 had been paid up to the end of the year under review for those towers, installation had been abandoned due to the unsuitability of the land. Further, action had not been taken even as at 13 January 2015 to recover a sum of Rs.2,601,934 out of the advance paid. The audit had pointed out that the Sri Lanka Handicrafts Board was not capable of carrying out an engineering work of this nature and it had been accepted on 27 November 2013.

(b) In terms of the Operating Rules Procedure of the Corporation, the amount to be charged for the advertisements and programmes scheduled under temporary agreements signed to be effective only for a limited period should be totally paid at least 04 working days prior to the proposed date of broadcasting the advertisement. It was observed at the inspection of 439 invoices amounting to Rs.35,704,605 prepared in December of the year under review that 316 invoices valued at Rs.31,986,444 had been the invoices which had been prepared in respect of the advertisements broadcast 01 to 05 months prior to December.

(c) A police radio antenna had been installed on the transmission tower of the Corporation and it had been operated throughout the 24 hours. Further, the required electricity had been supplied through the electrical circuit of the Corporation. So far, no action had been taken to calculate the number of electricity units consumed for this antenna and to recover the charges.

4.4 Transactions of Contentious Nature

The following observations are made

(a) As the capacity of two Feeder cables purchased at a cost of Rs.588,968 for the Haputale and Kandurata Transmission Stations exceeded the required capacity those could not be made use of for the purpose. As such those had been kept unprotected in the premises of the Corporation over a period exceeding 8 months.

(b) Two antenna systems purchased for the installation in the Haputhale and Hunnasgiriya Transmission Stations (Kandurata Service) had to be installed on the antenna tower of a private institution as those had been purchased without carrying out a feasibility study. Accordingly, the Corporation had to incur an additional expenditure of Rs.761,976 per year at Rs.63,498 per month.

(c) Purchase of spare parts for the transmitter of the Trincomalee Relay Station had been done as an urgent purchase at a cost of Rs.2,427,348 deviating from the bid procedure. However, the relevant items had not been received by the Corporation even up to 30 April 2014 that is 1 ½ years and that expenditure had been shown under stocks in transits in the financial statements of the year under review.

4.5 Apparent Irregularities

Even though the transmitters and antennas supplied by a local agency for a sum of Rs.9,600,754 did not conform to the specifications and had been confirmed as not conforming to the prescribed frequency, the full payment had been made and the Performance Bond had also been released.

4.6 Idle and Underutilized Assets.

Since the Director's bungalow situated in the Anuradhapura town area was in insecure condition, it had to be removed completely and other 08 houses owned by the Corporation had remained insecure without being utilized. The books and registers had not been maintained in a manner to identify the value and the utilization of those houses.

4.7 Uneconomic Transactions

Since the gratuity for two retired employees had been underpaid, a surcharge of Rs.572,245 had to be paid in the year under review on the directives of the Department of Labour.

4.8 Identified Losses

The following observations are made

(a) A case had been filed by the Criminal Investigations Department for the recovery of Rs.5.65 million out of a fraud of Rs.13.21 million committed by a Marketing Executive. It had not been possible to take legal action for the recovery of remaining amount of Rs.7.56 million as the books of account and registers had not been properly maintained.

(b) Actions in terms of the Financial Regulations 101 and 113 had not been taken even up to the date of this report on 77 items of goods of 21 categories either damaged or misplaced according to the report of the Board of Survey of the External Publicity Division carried out in the year 2011.

(c) Even though liquidated damages of Rs.7,590,506 should have been recovered from the contractor awarded with the contract for the purchase of 07 transmitters of 10 Kw capacity for the Yatiyantota Transmission Station for the failure to complete the contract on the due date, it had been decided to obtain the approval of the Ministry Procurement Committee to purchase other equipment valued at Rs.2,722,404 of which there was no need, in lieu of recovery the liquidated damages . Subsequently goods valued at Rs.104,660 only had been obtained thus incurring a loss of Rs.7,485,846.

(d) Even though a land of 30 acres of the Weeraketiya Transmission Station and 68 acres of the Mahawa Transmission Station with buildings constructed by the Corporation owned by the Corporation had been transferred to the Government, action had not been taken for the recovery of compensation at the present market value of those lands. Further, since these assets do not exist at present, action had not been taken to eliminate their values from the accounts.

4.9 Deficiencies in the Contract Administration

The following observations are made.

(a) Although the contract for the purchase of equipment for Yatiyantota Transmission Station had been awarded to 2 foreign institutions for Rs.92,310,965 (€551,707) on 08 December 2011 through an Agency, the agreement had been signed after 05 months, that is, on 10 May 2012. Before the agreement was signed equipment valued at 31 per cent or Rs.28,399,669 (€173,522) of the contract value had been received in the year 2012 and the remaining equipment had been received in the year under review. Nevertheless, the Technical Evaluation Committee had not certified in terms of the Section 8.12.3 of the Procurement Guidelines that the goods had been manufactured according to the agreed specifications. But the total amount of Rs.92,307,132 payable for the equipment to the institution had been paid without relating a certain amount as required by Section 5.4.10 (d) of the Procurement Guidelines . Further, it could not be ascertained in audit whether the warranty and manufacture certificates and the manuals had been received.

(b) The Micro Link system installed in the year 2000 at a cost of Rs.45,175,730 had not functioned properly as it had not been properly installed. As such a sum of Rs.26,974,319 had been spent from the year 2010 up to December of the year under review to obtain the services of 03 private institutions for linking the programmes to the Relay Stations. A monthly fee of Rs.400,000 is paid at present per institution for obtaining this service. The linkage provided is subject to frequent breakdowns. Nevertheless, no action had been taken up to date for the acquisition of a suitable system or for repair and use the existing system.

4.10 Delayed Project

An agreement had been entered into in May 2011 for the purchase a Computerized Accounting Software for Rs.5,837,775 which could be made operative within 16 days from the date of purchase and a sum of Rs.1,307,661 had been paid on 24 September 2012 as an advance. The Accounting System had not been installed even by July 2014 while the licenses for the completed software as well had not been given and it was observed that only 05 computers can be operated simultaneously. It was further observed that the institution concerned was not functioning by 30 July 2014.

4.11 Commencing projects on lands/properties not properly transferred.

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The Corporation had purchased only the building of the Nivahana Holiday Resort situated on a land of 01 rood 20 Perches in extent situated in the Havaeliya Gramaniladhari Division, Nuwara-Eliya in the year 1979 for a sum of Rs.250,000. According to the letter dated 08 January 1987 of the Additional Government Agent and the Deputy Commissioner of Lands, Nuwara Eliya, the Corporation had been informed to pay Rs.6,000 per year for the years 1985,1986 and 1987and obtain the leasehold right to the land .The leasehold right had not been obtained by paying the lease rent up to 30 July 2014.

4.12 Resources of the Corporation given to Other Government Institutions

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The following observations are made.

(a) A large number of machinery and equipment not belonging to the Corporation had been parked in an area covering 12 acres of the land on which the Ekala Transmission Station was situated. In addition, water and electricity from the supply lines to the Corporation had been consumed by outsiders. Actions had not been taken even up to 31 December of the year under review to identify the persons utilizing the assets of the Corporation, compute the value of water and electricity consumed by them and recover from the persons concerned.

(b) Even though the Corporation had provided buildings for the maintenance of Selacine Institution, an agreement had not been entered into in this connection. Rent for buildings had not been recovered while no recoveries whatsoever had been made for the water supplied from the year 2004 to October 2013.

4.13 Staff Administration

The following observations are made.

(a) Even though the Department of Management Services had informed the Corporation to prepare the Schemes of Recruitments and Schemes of Promotions in accordance with the Management Services Circular No.30 of 22 September 2006 and forward for approval , the Schemes of Recruitment and Promotions had not been forwarded to the Secretary to the Ministry even by 30 August 2014.

(b) The approved cadre of 528 as at 13 December 2010 had been increased to 655 by 25 October 2013. Even though the Corporation had been informed that no recruitments should be made without obtaining the approval for the Scheme of Recruitment, the Corporation had, contrary to the directions of the Department of Management Services, recruited 11 permanent employees, 79 contract basis employees in the years 2012 and 2013 respectively.

(c) Out of the cadre approved by the Department of Management Services 68 posts should have been maintained as personal to the current holder of the post and any vacancies resulting from the resignation or retirement of the those officers should not be filled. Nevertheless, appointment on the basis of covering up duties had been made to 27 such posts. Contrary to the directives of the Department of Management Services those officers had been confirmed in accordance with the decisions of the Board of Directors of the Corporation dated 18 February 2013 and 13 March 2013.

(d) The officer recruited as the Director (Music) on 01 July 2004 by calling for application according to the Scheme of Recruitment had been assigned the Cassettes Sales Division which did not have a post of Director and an officer who did not submit applications for the post of Director (Music) and not possessing qualifications for that post had been appointed to act in that post of Director.

(e) According to Section 13.1.2 and 13.4 of Chapter II of the Establishments Code, any person appointed on acting or covering up duties basis should possess qualifications in accordance with the Scheme of Recruitment. Deviating from that procedure, 12 officers who did not have even the minimum qualifications had been appointed to act. Those officers had been subsequently made permanent due to exigencies of service.

(f) Out of 59 officers appointed for covering up duties without inviting applications in terms of Sections 13.1.2 and 13.4 of Chapter II of the Establishments Code and examining qualifications, 58 officers had been confirmed. Out of those 59 officers, 21 officers had been appointed on acting basis for 01 year to 09 years beyond the maximum period of 3 months for acting appointments in terms of Section 9.3.1. vii of the of the Public Enterprises Circular No PED/ 12 of 02 June 2003.

(g) According to the information furnished, the Corporation had paid Rs.336,576,904 as salaries and wages of 788 permanent staff and 92 on contract basis and Rs.34,126,399 as the salaries and wages of the Relief Staff during the year under review. Deployment of Relief Staff ,despite the existence of excess staff in the permanent staff is a problematic situation.

(h) Three major staff posts of the Corporation, namely the Deputy Director General (Finance), Deputy Director General (Engineering), and the Deputy Director General (Administration) had been vacant over a long period. An officer recruited on contract basis on 06 July 2012 had been assigned to the post of Deputy Director General (Administration).

(i) The period of service of 15 Instructors recruited on assignment basis had been extended during the year under review solely on the approval of the Board of Directors. They had been paid allowances amounting to Rs. 3,887,500 without examining their performances. The approval of the Cabinet of Ministers had not been obtained for extending the service period of the Instructors.

(j) According to the Public Administration Circular dated 20 January 2012, the period of the Trainees should be limited to 06 months and they are entitled to a daily allowance of

Rs.500. Nevertheless, 4 Trainee Audit Officers had been deployed in the service for more than 1 ½ years at a daily allowance of Rs.375.

(k) Copies of letters on the assignment of duties of the officers in the Head Office and the Regional Offices had not been furnished to audit. Personal files examined revealed that duties had not been properly assigned.

5. Accounting and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of Public Enterprises Circular No. PED 12 of 02 June 2003, the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year 2013 had been presented to the Auditor General only on 08 December 2014.

5.2 Corporate Plan

The following observations are made.

(a) The following matters which should have been included in the Corporate Plan for the years 2012 to 2016 in terms of Section 5.1.2 of the Public Enterprises Circular No. PED 12 of 02 June 2003, had not been included . Details appear below.

(i) The current resources of the Corporation had not been included .

(ii) According to the circular, the Organization Structure of the Corporation should be included in the Corporate Plan. Even though the new staff had been approved in October 2013, the particulars of the staff for the Corporate Plan for the years 2012-2016 submitted for approval to the Board of Directors in July 2014 had not been included.

(iii) Even though a review of the three preceding years operating results should be included, such information had not been included.

(b) Even though the updated Corporate Plan and the updated budget approved by the Board of Directors should be forwarded to Department of Public Enterprises and the Treasury 15 days prior to the commencement of each financial year in terms of Section 5.1.3 of the above Circular and the Public Enterprises Circular No.PED/47 of 18 December 2007, the approval of the Board of Directors for the Corporate Plan for the years 2012 to 2016 had not been received even by 06 August 2014, while a Corporate Plan Commencing from the year 2013 had not been prepared.

(c) Even though Section 4.2.2 of the above circular requires that the Board of Directors should periodically review the Corporate Plan Budget and the performance and examine whether the actual performance is in line with the plan and revise the Corporate Plan and the Budget accordingly, it had not been so done.

5.3 Action Plan

The following observations are made.

(a) The Action Plan prepared for the year 2013 had not been prepared in conformity with the Corporate Plan for the years 2012 to 2016.

(b) Even though the Corporate Plan had been prepared under 10 categories of Divisions, the Action Plan and the performance had been prepared only for 05 Divisions.

5.4 Internal Audit

The following observations are made.

(a) Even though the Internal Audit Divisions had issued 75 internal audit queries comprising 20, 25 and 30 internal audit queries for the years 2011, 2012 and 2013 respectively, the management had not furnished replies to those internal audit queries even by the August 2014.

(b) Even though there were 04 permanent posts of Internal Audit Assistants according to the approved staff, 04 officers comprising 02 on contract basis and 02 Trainee Officers had been deployed therein by 31 December 2013. As such it had not been possible to delegate any responsibilities to these officers in terms of the Circular No.12/200 dated 19 July 2000. Nevertheless, it was observed that these officers were engaged in works such as checking the cashier's cash and collecting money on revenue licences.

5.5 Audit Committees

In terms of Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the Committee should comprise at least three Non-Executive Board Members. Contrary to that, a Director deployed on contract basis had also participated.

5.6 Tabling of Annual Report

The annual Reports for the years 2011 and 2012 had not been tabled in parliament even by 31 July 2014.

5.7 Unresolved Audit Paragraph

The following observations are made.

(a) The failure to take legal action in connection with the erroneous payment of Rs.5,024,998 made to the Sri Lanka Handicrafts Board for the construction of the Antenna Towers at Puttur, non-recovery of that amount and a fraud committed by an external party who had appeared on behalf of the Handicrafts Board, the Corporation had incurred a loss of Rs.9.2 million being the expenditure incurred on the project which was abandoned.

(b) A sum of Rs.23,119,683 had been spent in the 1996 for the import of two antenna towers which were 60 meters and 100 meters in height and an advance of Rs.2,568,000 had been paid to a private institution for the installation of the towers. The towers had not been installed even by the end of the year under review as the sites for installation had not been decided. The total amount, which had been brought to account as work-in-progress up to the year 2010, had been erroneously brought to account under the Audio Frequently Account by the end of the year 2010 and that as well had not been rectified.

(c) Even though a fraud of Rs.6,356,853 had been committed by sales Execution who handled 32 contract had been identified, the police had filed a case for the recovery of a sum of Rs.945,000. Legal action had not been taken even up to 24 July 2014 for the recovery of the balance sum and sums totaling Rs.1,435,997 recoverable as at 31 December of the year under review in respect of 46 contracts handled by these Sales Executives already suspended by the Corporation.

5.8 Discharge of Environmental and Social Responsibilities

The Corporation had not established a unit to which complaints on the quality of transmissions could be made. None of the Divisions in the corporation had registered in complaints received from the listeners. Even though complaints should be directed to the Transmitters Research Division for taking necessary action, the Corporation could not take timely action due to the prevailing situation.

6. Systems and Control

Weaknesses in systems and control 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) Payment of Advances
(b) Assets Control
(c) Control of Airtime Income
(d) Debtors
(e) Staff Administration
(f) Management Information
(g) Accounting
(h) Control of Income from Advising Agencies
(i) Procurement
(j) Budget
(k) Implementation of Projects