Sri Lanka Rupavahini Corporation - 2013

The audit of the financial statements of the Sri Lanka Rupavahini Corporation for the year ended 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 16(3) of the Sri Lanka Rupavahini Corporation Act, No. 6 of 1982. 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 Responsibility of the Management 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 misstatement whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.4 Basis for Qualified Audit Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion except for the effects of the matters described in paragraph 2.2 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 2013 and its financial performance and cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Non-compliance with standards are given below.

(a) Sri Lanka Accounting Standard -1(LKAS-1)
Even though the events and positions that affect the going concern of the entity should be disclosed in preparing financial statements, pledging of fixed deposits and Treasury Bills for obtaining the Bank overdraft amounting to Rs.72,000,000 had not been disclosed in the financial statements.

(b) Sri Lanka Accounting Standard 02(LKAS-2)
Even though stocks should be measured at the lower of cost or net realizable value and shown in the financial statements, the stocks had been shown in the financial statement at the cost of Rs.207,722,000 without ascertaining the net realizable value of the stocks by the Corporation.

(c) Sri Lanka Accounting Standard 07(LKAS-07)
Even though the cash flow statement could be prepared using either direct or indirect method, the Corporation had used a separate method that differ from the above two methods for the preparation of the cash flow statement.

(d) Sri Lanka Accounting Standard 08 (LKAS-8)
Even though the corrections that had been made relating to the prior year's estimates should be disclosed in the financial statements as changes made to the comparative information, the correction made relating to prior year amounting to Rs.57,000 had not been disclosed accordingly.

(e) Sri Lanka Accounting Standard 18 (LKAS 18)
When identifying income that is associated with the providing of services, such income should be identified reliably and economic benefits associated with the transactions should flow to the enterprise. Also, the costs incurred for the completion of the transaction as at the balance sheet date can be measured reliably and the cost incurred for the transaction can be measured reliably. Even though income received from the contra sales agreements had been identified as income during the year of which the transactions were made, the costs which had been incurred to complete the transactions had not been recognized. A sum of Rs.104, 000,000 had been recognized as the costs incurred for the transactions performed under the contra agreements during the year under review. The effects on the profits of the Corporation due to non- identification of the expenditure on contra agreements during the last 5 years had been as follows.

<u>Description</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	2012
	Rs.	Rs.	Rs.	Rs.
Operating Profit	4,733,000	12,052,000	131,328,000	18,433,000

Contra Sale Expenditure for the year	(1,868,600)	(7,498,800)	(29,546,525)	(36,587,995)
Profit for the year after adjusting the Contra Sale Expenditure	2,864,400	4,553,200	101,781,475	(18,154,995)
The above effect as a Percentage of the Operating Profit	39	62	22	(210)

(f) Sri Lanka Accounting Standard No 39 (LKAS-39)

Even though the investment made in Lanka Puwath Company should be shown in the financial statement at fair value, the value of the investment had been shown at its cost of Rs.1, 104,000 and action had not been taken to make relevant adjustments in the financial statements after identifying increasing or decreasing trend of the investment.

2.2.2 Accounts Receivable and Payable

The following observations are made.

(a) Credit Sale of Airtime – Client Debtors:

(i) The provision for doubtful debts, as at end of the year under review amounted to Rs. 64,162,205 or 11 per cent for the client debtors totaling Rs. 580, 630,658. Also, debtor balance amounting to Rs. 67, 043,324 had been written off from the books owing to irrecoverability. It was observed that this position had badly affected the main income source of the entity.

(ii) Although the credit period should be limited to one month according to the credit policy for the client debtors, the debtors older than one month amounted to Rs. 419, 091,188 or 72 per cent and the debtors older than three months amounted to Rs. 130, 380,816 or 22 per cent. Also, client debtors older than three years amounted to Rs. 74, 565,550 or 13 per cent. A sum of Rs. 52,804,172 had been written off with the approval obtained from the Treasury and receivables from public institutions amounting to Rs. 4,012,388, receivables from private institutions amounting to Rs. 6,364,839 and dues from political parties amounting to Rs. 42,426,945 had been included in the amount written off. When granting the approval for the write off of those debts, condition for taking disciplinary action against the officers responsible for the failure to maintain proper files on the debtor balances and to take continuous action to recover the debts by paying special attention had been imposed. However, attention had not been paid to fulfil the said conditions.

(iii) Out of the client debts, a sum of Rs. 62, 705,988 had been recognized as irrecoverable and time bar debts and legal action had been taken only for debtors amounting to Rs. 1,713,197.

(iv) A sum of Rs.72,600 had been written off, out of the debtors balances related to two agreements which had not mentioned the names of the clients amounting to Rs.320,600 that had existed over 16 and 17 years.

(v) According to the debtor collection policy of the Corporation, from general trade agreements, action is taken to recover the debts after the supply of total airtime related to the agreement. It was observed in audit that this policy had adversely affected the debt recoveries of the Corporation.

(b) Sundry Debtors:

(i) Out of the total of sundry debtors of the Corporation amounting to Rs. 40,834,000 as at the end of the year under review, the provision for doubtful debts amounted to Rs. 18,578,482 or 46 per cent. This balance included a sum of Rs. 116,862 receivable, existing over two years, from individuals, a sum of Rs. 111,684 receivable from retired/resigned employees, a sum of Rs. 542,554 receivable from Foreign Television Institutions and a balance of Rs.441,038 receivable from Insurance Companies in respect of reimbursement of medical bills.

(ii) Even though a tax appeal should be made to recover the receivables amounting to Rs. 17,858,971 from the Department of Inland Revenue, the Corporation had not done so.

(c) Credit Control:

Even though the credit period is limited to one month according to the credit policy of the Corporation, the debtors older than one month had been 72 per cent. In view of the write off of debtors and erroneous set off of debts amounting to Rs. 71,410,636 during the year under review revealed at the audit check, it was observed that the Corporation had not exercised an effective and efficient debt collection process.

2.2.3 Lack of Evidence for audit

Due to unavailability of the audit evidence related to the following transactions, it was not possible to establish the accuracy of the transactions.

(a) Detailed schedules relating to the work-in-progress amounting to Rs. 132, 125.

(b) The information relating to the frauds committed in the corporation as stated by the Chief Executive Officer of the Corporation at the audit and management committee meeting held on 12 March 2013 and the information requested by audit relating to the other frauds had not been furnished to audit.

2.3 Non – compliance with Laws, Rules, Regulations and Management Decisions

Non – compliance with following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations And Management Decisions	**Non – compliance**
(a) Section 12 of Chapter III of the Sri Lanka Rupavahini Corporation Act, No. 6 of 1982 and Sub-section 15.9 of Chapter XLVIII of Volume II of the Establishments Code.	The authority to take disciplinary action relating to the staff of the Corporation is vested with the Board of Directors. It was observed at an audit test check that before expressing the directives of the Board, action relating to the 03 disciplinary

	inquiries had been taken by the Director General, ultra vires powers specified in the Act.
(b) Section 13.4 of Chapter 11 of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Even though an officer qualified in all aspects, should be appointed for acting in any vacant post. It was observed at an audit test check that acting appointments contrary to such provision had been made in two instances.
(c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 71(1)	Whatever the source of provisions of funds, when creating new allowances and revises thereof, the prior authority of the Deputy Secretary to the Treasury should be obtained. However, without following this requirement a sum of Rs. 16,145,121 had been paid as fuel and transport allowances during the year under review.
(ii) Financial Regulations from 105 to 110	Even though 09 vehicles had met with accidents in 11 instances during the year under review, action thereon had not been taken in terms of Financial Regulations.
(iii) Financial Regulation 155	Replies had not been furnished for 5 audit queries.
(iv) Financial Regulation 757(a) and (b)	Annual Board of Survey had not been conducted relating to spare parts of the Engineering Section costing Rs. 193,975,000.
(d) Public Administration Circular No. 06/97 of 03 February 1997.	Maximum period of acting should be limited to 03 months and if the vacancies were not filled, the need for keeping the posts should be inquired from the Secretary to the Ministry. However, it was observed at an audit test check that appointment for 2 acting posts had been made for periods exceeding one year without making such inquiries.
(e) Letter No. MF/TR/1/2003 of the Secretary to Ministry of Finance dated 28 March 2003	An over payment of Rs.15,325,121 which exceeding minimum monthly rent, had been made for hired motor vehicles and fuel.
(f) Public Enterprises Circular No. PED/12 02 June 2003.	
(i) Section 6.5.1	The draft Annual Report for the year under review had

	not been furnished to the Auditor General within 60 days after the close of the financial year.
(ii) Section 8.3.5	Official motor vehicle had been allocated for 4 officers who were not eligible for use of official motor vehicles and contrary to the circular provisions fuel allowances amounting to Rs. 1,116,892 had been paid to two officers.
(g) Public Enterprises Circular No. PED/50 of 28 July 2008 and Public Administration Circular No. 22/99 of 08 October 1999.	Fuel allowance of Rs. 16,966,748 had been paid to 172 officers contrary to the circular instructions during the year under review and sums totaling Rs. 48,099,428 had been paid as fuel allowances from the year 2010 to end of the year under review.
(h) Public Administration Circular No. 13/2008(iv) of 09 February 2011.	Value of fuel exceeding the monthly entitlement of liters supplied to two officers amounted to Rs. 655,263.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the pre-tax profit of the Corporation for the year ended 31 December 2013 amounted to Rs. 47, 869,000 as compared with the pre-tax profit of Rs.47, 478,000 for the preceding year. Thus an improvement of Rs. 391, 000 or 0.8 per cent was observed in the pre-tax profit of the year. Increase of income for the year under review by 5 per cent than that of the preceding year had been the main reason for this improvement.

3.2 Analytical Financial Review

Although pretax profit of the Corporation for the year under review amounted to Rs.47, 869,000, it was observed that the profit would be decreased to Rs. 22, 965,000 or 52 per cent of the adjustments made for the income amounting to Rs. 24,904,000 due to application of the capitalization approach in terms of Sri Lanka Accounting Standard No.20 is excluded. It was further observed that corresponding profit for the preceding year which amounted to Rs. 47, 478,000 due to the adjustments made in the preceding year would be converted to a loss of Rs. 8,309,895.

3.3 Legal Action instituted against / by the Corporation

The following observations are made.

(a) Eleven cases had been filed against the Corporation by external parties and 03 cases had been filed by the employees of the Corporation as at end of the year under review. A sum of Rs. 2, 128,310 had been paid as lawyers' fees on these cases. The compensation claimed by the plaintiffs relating to the 06 cases filed by the external parties amounted to Rs.1,012,440,000.

(b) The Corporation had filed 22 cases against the external parties. Of those, 9 cases had been finalized during the year under review. A sum of Rs.3,984,818 had been recovered from 08 cases and in order to make settlement of case amounting to Rs.1, 330,000, the Corporation had obtained 30 cassettes containing cookery programmes which would not yield any return to the Corporation.

(c) The Corporation had filed cases against external parties under the Intellectual Property Act and in connection with violation of broadcasting rights and a sum of Rs.1,405,450 had been paid as lawyers' fees in that connection.

3.4 Working Capital Management

The Corporation had to obtain Bank overdraft facilities due to the non- implementation of proper working capital management mechanism and inefficiencies in debt collections, and a sum of Rs.1, 669,908 had been paid as overdraft interest during the year under review. It was further observed that the Bank overdraft by 31 May 2014 amounted to Rs. 74, 258,317 and a sum of Rs. 3, 403,091 had been paid as Bank overdraft interest.

4. Operating Review

4.1 Management Inefficiencies

The following observations are made.

(a) The Corporation had entered into and implemented contra agreements with other media institutions with a view to conducting the advertisements activities on mutual basis with other media institutions. The following observations were made in audit with regard to the implementing of those agreements.

(i) The value of airtime for contra agreements in the year 2013 amounted to Rs.80, 022,000. Although the value of services obtained by the Corporation in this regard, as shown in the financial statements, amounted Rs. 104, 336,000, a sum of Rs.59, 268,067 represented the sale of airtime in preceding years. Also, adjustment of expenditure in respect of preceding year made during the past 04 years amounted to Rs.42,375,800.

(ii) Even though monthly accounting statements should be issued by both parties with regard every contra agreement entered into by the Corporation, it had not been done so.

(iii) The balances of contra agreements existing over 8 to 13 years for which airtime of the Corporation had been given, without obtaining a service to the Corporation amounted to Rs. 6, 403,762 and out of this amount a sum of Rs. 1, 195,000 had been written off during the year under review. The value of airtime of the Corporation supplied in the years 2003, 2004 and 2005 without signing agreement amounted to Rs.6, 680,112 and a sum of Rs.827,362 had been written off during the year under review.

(iv) The Corporation entered in to contra agreements with 04 private newspaper institutions valued at Rs. 50, 000,000. The value of the airtime provided for these contracts amounted to Rs. 92, 887,598, thus the excess airtime provided in excess of the value of agreements amounted to Rs. 42, 887,598. Also, the return services obtained by the Corporation only a sum of Rs. 53,811,716 and as a result the Corporation had incurred a loss of Rs. 39,075,882 from these agreements.

(b) According to the audit test check carried out relating to the Memorandums of Understanding, a sum of Rs.405,202 had not been recovered up to 31 July 2014 out of a Memorandum of understanding of Rs. 5,000,000 and action had not been taken to recover that amount as specified. In addition, the Corporation had obtained air tickets under a Memorandum of Understanding entered into for the periderm of air tickets at prices exceeding the prevailing market prices. The overall loss occurred to the Corporation from that Memorandum of Understanding amounted to Rs. 2, 160,320.

(c) 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 held as it is.

4.2 Operating Inefficiencies

The expenditure incurred from 2009 to 2013 on the National Television (NTV) channel which commenced transmissions in 2009 without a feasibility study amounted to Rs. 23, 812,000 and no income had been generated.

4.3 Transactions of Contentions Nature

The receivables and payables related to the service customers for sale of airtime through Advertisement Agents had been set off against each other by considering the respective receivables and payables belonged to Advertisement Agents and without the approval of the service customers. The amount set off during the year under review was amounted to Rs. 4, 052, 312.

4.4 Uneconomic Transactions

The decision made by the Corporation to recover from the driver the loss of Rs. 432, 500 resulting from an accident to a Motor vehicle had been disallowed by the Court. Actions had not so far been taken to recover the loss from the officers who had failed to insured the Motor vehicle on the due dates.

4.5 Resource given to other Public Institutions

The following observations are made.

(a) Five officers recruited by the Corporation on contract basis had been released to the Ministry and a sum of Rs. 2, 446, 559 had been paid to them as salaries and allowances during the year under review without obtaining reimbursement and a sum Rs. 1,440,700 had also been paid as overtime.

(b) Action had not been taken to obtain reimbursement of hire charges amounting to Rs. 188, 140 spend on the hired Motor vehicles released for the duties of the Chairman of the Rupavahini Training Institute.

4.6 Idle and Underutilized Assets

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 Television Audio Visual Library for its proper and efficient operation had not been made use of and lying idle even by the end of March 2014. The existence of the antennas of the system had not been disclosed in the annual stock verification report.

(b) Spare parts of the Engineering Division valued at Rs. 18, 053, 000 remained as non-moving stocks for over period exceeding 10 years.

4.7 Deficiencies in Contract Administration

The following observations are made.

(a) The contract for the modernization of internal roads of the Corporation premises amounting to Rs. 5, 617, 377 had been awarded without entering into an agreement and subsequent to submission of payment bills, an agreement had been signed. Despite the rejection of the quotation by the procurement committee and the rates did not agree with the standard rates for road construction works of the Western Provincial Council, the contract had been awarded without following the correct methodology and approval awarded without following proper procedure and without having the approval. A sum of Rs. 3, 287, 335 was lost by the Corporation due to making of payment deviating from the standard prices.

(b) The decision made by the Corporation's Procurement Committee to procure 8 Cameras in Sony brand, had been rejected by the Ministry Procurement Committee and advised to procure other type of cameras of non-generic specification for Rs. 42, 664, 456. However, contrary to the Ministry advices, 4 Sony Cameras had been purchased for Rs. 21, 993, 039. Although the Board of Directors had instructed to obtain specialist consultation from the University of Moratuwa for all these purchases, it had not been done so.

4.8 Delayed Projects

Even though a sum of Rs. 183, 051 had been spent in the year 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.

4.9 Staff Administration

The following observations are made.

(a) According to the approval given by the Department of Management Services for the cadre, salaries of 09 officers, who belong to MM-1 salary category, had been paid based on higher salary category of HM 1-2, without approval. The difference between the basic salaries of the two scales amounted to Rs. 13, 615. Transport and fuel allowances had also been paid to 8 of those officers contrary to the provision in the circular and the allowances so paid during the year under review amounted to Rs. 3,038,785.

(b) Higher salary scale had been granted to 06 officers creating designations which were not included in the approved cadre and salaries had been paid to the Internal Auditor based on higher salary scale which was not related to the post.

(c) According to the internal control procedure introduced by the Corporation, the amendments to the information in personal files cannot be made without having the signature of a responsible officer and memorandum. However, according to an audit test check, papers and information included in a personal file of an officer had been amended without having the approval of a responsible officer and without preparing a memorandum and base on that amendment a promotion had also been given.

(d) An officer had been recruited in April 2010 to an executive post which had neither been specified in the Rupavahini Corporation Act nor belong to the approved cadre and a sum of Rs. 2, 200, 000 had been paid as salaries and allowances to the officer up to 31 December 2013. In making such payments, the confirmations had not been obtained on the posts held by the officer in other institutions and the allowances obtained for such posts. Further, telephone and transport facilities had also been provided in addition to the payments made.

4.10 Motor Vehicle Utilization

The following observations are made.

(a) Out of 11 accidents to Motor vehicles insurance claim had been received for only one accident amounting to Rs. 177, 350 and a loss amounting to Rs. 26, 238 recoverable in addition had not been recovered from the responsible parties. It had been failed to obtain insurance claim for one accident and in 09 instances, action had not been taken either to obtain insurance claims after repairing the Motor vehicles or to recover from the responsible parties.

(b) According to an audit test check, an officer who had obtained transport allowances amounting to Rs. 555, 600 had used a Corporation's motor vehicle too. In addition, it was observed in audit that three officers who had obtained fuel allowances amounting to Rs. 419, 770 had also been using pool motor vehicles. An officer who was not allocated a motor vehicle permanently had used pool motor vehicles in personal basis.

5. Accountability and Good Governance

5.1 Action Plan

Fifteen projects scheduled to be completed during the year under review by incurring a sum of Rs. 231.4 million had not been completed as scheduled. The progress of 3 projects, related to 04 projects of main control room, had not reach at least 20 per cent limit.

5.2 Internal Audit

Even though the Internal Audit of the Corporation had issued 12 internal audit queries in the first half of the year and 11 internal audit queries in the second half of the year had follow-up action had not been taken to rectify the matters pointed out through the queries.

5.3 Budgetary Control

Significant variances between budgeted income and expenditure and actual income and expenditure were observed and as such the budget had not been made use of as an effective instrument of management control.

6. 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
(b) Budget
(c) Accounting
(d) Staff Loans
(e) Payment of Advances
(f) Contra Agreements
(g) Collection of Air Time Income
(h) Staff Management
(i) Collection of Debtors