## Sri Lanka Broadcasting Corporation -2014

The audit of financial statements of the Sri Lanka Broadcasting Corporation for the year ended 31 December 2014 comprising the statement of financial position and the comprehensive income statement, 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 27 of the Sri Lanka Broadcasting Corporation Act No.37 of 1966 and Section 13(1) of the Finance Act No.38 of 1971.

### 1.2 Management's Responsibility for Financial Statements

The 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 my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing 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 judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risks 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 circumstances, 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 financial statements. Sub Sections (3) and (4) of Section 13 of the 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 audit opinion.

### 1.4 Basis for Adverse Opinion

Had the matters described in paragraph 2.2 of this report been adjusted, many elements in the accompanying financial statements would have been materially affected.

## 2. Financial Statements

### 2.1 Adverse Opinion

In my opinion, because of the significance of the matters described in paragraph 2.2 of this report, the financial statements do not give a true and fair review of the financial position of the Sri Lanka Broadcasting Corporation as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 2.2 Comments on Financial Statements

#### 2.2.1 Continuous Existence of the Institution

It was revealed at the analysis of the financial statements of the Corporation that the financial position of the Corporation deteriorates continuously. The bank overdraft of the Corporation as at end of the year under review amounted to Rs.36.7 million and the interest paid thereon during the year under review amounted to Rs.5.7 million. Out of the Rs.77.5 million granted by the General Treasury for capital expenditure in the year 2011, a sum of Rs.40 million had been spent on revenue expenditure before the creation of bank overdrafts referred to above. The General Treasury had granted provision in view of the unfavourable financial position existing in the Corporation. The amount granted by the General Treasury for capital and revenue expenditure during the year under review amounted to Rs.436 million. Accordingly, it was observed that the existences of the Corporation is in suspense without the financial provisions of the General Treasury.

#### 2.2.2 Sri Lanka Accounting Standards (LKAS) and the Sri Lanka Reporting Standards (LKAS)

The following non compliances with Sri Lanka Accounting Standards and Sri Lanka Reporting Standards were observed in audit.

| | Reference to Standards | Non-compliance |
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| (a) | Sri Lanka Reporting Standard 5 | (i) The investments of Rs.1,000,000 had been identified in 2012 as remained without return for a long time and needs to be sold. But, action had not been taken either to sell it or to value it at the market value or fair value, whichever is less and bring it to the accounts. |
| | | (ii) The income, expenditure, profit/ loss before tax should be disclosed whenever a unit (service centre) is closed/ terminated. However, the Kotmale Broadcasting station closed down on 04 April of the year under |

review had not been disclosed in the financial statements.

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| (b) | Sri Lanka Reporting Standard 8 | There are 06 Regional Services, 08 channels and a Deutsche well 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. |
| (c) | Sri Lanka Accounting Standard 1 | The withholding tax deducted by the bank from the interest obtained on fixed deposits from 2000 to the year under review aggregated Rs.32,862,470. This should have been adjusted in the profits of those years concerned. But, the entire amount had been shown in the financial statements under non financial liabilities. |
| (d) | Sri Lanka Accounting Standard 7 | The unreconciled difference of the cash flow statement furnished along with the financial statements had been adjusted in the balance receivable of the working capital. As a result, the variance of the balance receivable (debtors) of the cash flow statement had been understated by Rs.328,367. |
| (e) | Sri Lanka Accounting Standard 16 | Assets disposed of, should be deleted from the non current assets and shown in the financial statements. However, the cost and the accumulated depreciation of assets disposed of, during the previous years and during the year under review for Rs.1,661,326 and Rs.186,396 respectively had not been deleted from the non-current assets account. |
| (f) | Sri Lanka Accounting Standard 17 | The motor vehicles purchased on lease basis should be accounted for, on the basis of cost or the fair value, whichever is lower. However, contrary to the standard, the value had been understated by Rs.2,155,753 in the financial statements, while depreciation had also been understated. |
| (g) | Sri Lanka Accounting Standard 18 | Out of the agreements entered into by the corporation for broadcasting long term commercial advertisements, the recognized income so as to indicate the under of commercial |

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| | | advertisements broadcast during the year under review and number of commercial advertisements obliged to be broadcast in future seperately and the broadcasting obligations to be fulfilled in future had not been disclosed in the financial statements. |
| (h) | Sri Lanka Accounting Standard 19 | Details relating to the accounting policies adopted by the Corporation for accounting of payment of retirement benefits, current and future service costs and the profit and loss of actuarial values had not been disclosed in the financial statements. |
| (i) | Sri Lanka Accounting Standard 20 | The Corporation had received government grants amounting to Rs.436,162,836 for capital and recurrent expenditure. However, the accounting policy adopted for accounting of government grants, conditions not fulfilled with regard to the government grants and amortization of capital grants had not been disclosed in the financial statements. |
| (j) | Sri Lanka Accounting Standard 21 | (i) The foreign debtors amounting to US$1,040,090 and Indian Rupees 547,718 of the Corporation as at 31 December of the year under review had not been converted at the exchange rate existed as at end of the year under review and shown as Rs.139 million in the financial statements. As a result, the favourable foreign exchange fluctuation benefits of Rs.73 million had been understated in the financial statements. |
| | | (ii) While accounting the broadcasting of 4 advertisements in the country through foreign trade agencies and the income due from 2 foreign broadcasting services, the income from sale of air time had been accounted on the basis of the exchange rate existed at the time of commencement of the agreement instead of the exchange rate existd at the date of transaction. As a result, the income from sale of air time for the year under review and the debtors had been understated in the accounts by Rs.952,603. |

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| | | (iii) The value of sale of foreign air time for the year under review amounted to Rs.197,962,756. However, adjustments had not been made for the favourable/ adverse exchange fluctuation rates with regard to the duration between the sale of air time and the receipt of money thereon. |
| (k) | Sri Lanka Accounting Standard 24 | Balances payable to government institutions noted as related parties had not been disclosed in the financial statements. |
| (l) | Sri Lanka Accounting Standard 38 | A sum of Rs.3,400,000 had been spent during the previous years to obtain automation facilities for broadcasting services. This had not been shown in the financial statements under intangible assets. Instead, it had been accounted for, under computer accessories and provision for depreciation had also been made. |

**2.2.3 Accounting Policies**

The following observations are made.

(a) The Corporation had not introduced an accounting policy of accounting for the income from sale of air time. Instead of identifying the sales value based on sale invoices, accounting had been done on the broadcasting schedules. The internal control relating to the preparation of schedule of sale of air time was weak as observed in audit. As a result, the accuracy of the sale of air time income for the year under review amounting to Rs.534,031,687 could not be confirmed in audit.

(b) The assets of the relay broadcasting station at Trincomalee which commenced in 1980 and subsequently transferred to the Corporation on 01 January 2012, free of charge, had not been revalued and brought to account. Instead, the cost in (EURO) existed at the time of purchases made by the Government of Germany pertaining to the relay broadcasting station concerned had been converted into the exchange rate as at 31 December 2012 and the rupee value of Rs.2,430,781,990 had been accounted for, as the value of assets and depreciation had been made on this value since the year 2012. Action had not been taken to revalue the assets even during the year under review.

**2.2.4 Accounting Deficiencies**

The following observations are made.

(a) The depreciation policy of fixed assets had been changed from straight line method to diminishing balance method in the year 2010. At the time of doing so, due to errors in computation and non-depreciation of computer softwares amounting to

Rs.73,612,786 the opening accumulated loss and the depreciation for the year had been understated by Rs.338,927,087 and Rs.20,144,777 respectively.

(b) The Value Added Tax relating to the balances of sale of air time and the value of Nation Building Tax had been omitted in the Debtors' Account. As a result, the Value Added Tax, Nation Building Tax and Debtors' Account had been understated by Rs.24,436,043, Rs.2,277,082 and Rs.26,713,124 respectively.

(c) The current account maintained at the Head Office for each regional services and the current accounts with the head office maintained at each regional services had not been reconciled and necessary adjustments had not been made in the accounts. Instead, credit balances of current accounts of the Head Office as at end of the year under review aggregating Rs.4,845,298 had been added to the creditors as at end of the year and shown.

(d) The value Rs.12,890,000 amounting to 2 motor vehicles registered under the name of the Corporation in the year 2011 and the year under review had not been shown in the financial statements. As a result, the depreciation for the year under review and the accumulated depreciation had been understated in the financial statements by Rs.1,691,562 and Rs.5,106,288 respectively.

(e) Two vehicles removed from the service had subsequently been repaired by spending Rs.4.480,200 and brought for use. However, the assets had been understated by Rs.680,031 while accounting these motor vehicles again.

(f) The royalties of Rs.510,000 paid on behalf of the previous year had not been retrospectively adjusted and the payments made for the ensuing year amounting to Rs.16,854,788 had not been accounted for, as expenditure of the year under review.

(g) The sum of Rs.5,081,632 paid for co-ordination of programmes by the relay broadcasting stations during the year under review had not been shown as direct expenditure of the cost of sales in the financial statements. Instead, it had been shown under the expenditure on Maintenance of Equipment and Fittings in the financial statements. The broadcasting charges of Rs.1,020,408 for 2 months of the year under review had not been identified as expenditure of the year under review.

(h) The value of lease instalments had been adjusted more to the expenditure on tax by Rs.272,170 while computing the expenditure on tax for the year under review and the lease liability at the commencement had been overstated by Rs.802,979 in the financial statements.

(i) The Economic Services tax payable for the last 10 years amounted to Rs.51,368,972 as per assessment notice of the Department of Inland Revenue. However, it had been shown as Rs.58,041,334 in the financial statements resulting in an overstatement of liabilities by Rs.6,672,362.

(j) According to various adjustments made to the balances of the Stock Control (Inventory) Account, the balance of the account should be Rs.3,296,381. However, the physically verified stock balance was Rs.2,129,075 and thus difference of Rs.1,167,306 was observed.

(k) According to the Memorandum of Understanding entered into between the Broadcasting Corporation and the Uva Provincial Council, the amount due to the Corporation for the year under review was Rs.3,323,333. Of this, an income of Rs.2,323,333 had been understated in the financial statements.

(l) The sum of Rs.23,394,866 received from the Trincomalee Project had been shown under Other Income. But, its depreciation value of Rs.178,531,044 had been shown as an expenditure of the Corporation and the expenditure of the Project had been added to the cost of sales and shown in the financial statements.

(m) Contributions to external broadcasting institutions payable as at 31 December of the year under review had been computed at an erroneous exchange rate in the expenditure account and the accrued expenses account and the expenditure for 2012, 2013 and 2015 had been computed as the expenditure of the year 2014 and a sum of Rs.2,079,496 had been shown as expenditure of the year under review. Accordingly, the expenditure of the year under review had been overstated in the accounts by Rs.1,419,054 whereas the accumulated profit and the accrued expenses account had been understated in the accounts by Rs.1,429,902 and Rs.10,848 respectively.

(n) The expenditure on electricity of Rs.2,074,016 reimbursed during the year under review on behalf of the year 2013 for giving towers on lease to private institutions had been credited to the accrued electricity expenditure account instead of being credited to the accounts receivable concerned. As a result, the accrued electricity expenditure account and the income receivable account had been overstated by similar amounts.

(o) The shortcomings pointed out in the reports of the previous years had not been rectified. As a result, the effect on accumulated profit, assets and liabilities amounted to Rs.3,046,987, Rs.35,687,683 and Rs.5,121,333 respectively.

### 2.2.5 Unreconciled Control Accounts

A difference of Rs.13,875,844 was observed between the balances appearing in the schedule and the balances shown in the financial statements furnished for audit with regard to 3 items of accounts. Meanwhile, an unidentified balance of Rs.14,726,349 had been included in the schedule furnished for audit with regard to 4 items of accounts which had been equalized with the balances appearing in the financial statements.

### 2.2.6 Unexplained Variations

A difference of Rs.2,636,228 was observed between the value shown in the financial statements and the value shown in the board of survey reports with regard to the balances of 6 items of stock.

**2.2.7 Suspense Account**

The cash shortage of Rs.221,965 detected over 21 years ago and the cash fraud of Rs.281,110 detected in 2007 had been transferred to a Suspense Account. This had been shown as a balance of Suspense Account under the Current Assets in the financial statements.

**2.2.8 Lack of Evidence for Audit**

The following items of assets and liabilities could not be satisfactorily vouched or accepted in audit due to lack of evidence to confirm the existence, ownership and value indicated against each item.

| | Details | Value | Evidence not made Available |
|---|---|---|---|
| | | Rs. | |
| (a) | Fixed assets (Vehicles as at 31 December 2014 and assets purchased in 2012, 2013 and 2014 excluding cost of assets) | 3,038,827,778 | The register of fixed assets in form General 287 and the ledger of fixed assets in form General 288 and the board of survey report. |
| (b) | Project income (Trincomalee Project) | 23,394,866 | Details of computation. |
| (c) | Value of motor vehicles | 16,816,920 | Schedule confirming the difference between the cost of motor vehicles shown in the financial statements as Rs,73,414,986 as at 31 December 2014 and the motor value of vehicles as per the Transport Division. |
| (d) | Dishonoured Cheques | 2,468,535 | Register of dishonoured cheques/ detailed schedule. |
| (e) | Deposits payable | 9,259,694 | Detailed schedules. |
| (f) | Debtors (obituary notices) | 7,997,854 | Detailed schedules. |
| (g) | Deposits receivable | 561,272 | Detailed schedule and register of deposits. |
| (h) | Fixed assets at the Trincomalee (Doishwell) Relay broadcasting station | 2,446,105,313 | Board of survey reports. |
| (i) | Furniture and equipment at the Trincomalee Relay broadcasting station | Value had not been included in the accounts | Board of survey reports. |

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|---|---|---|---|
| (j) | Spare parts of transmitters and antennas at the Trincomalee Relay broadcasting station | Value had not been included in the accounts | Register of Inventory or vesting register and schedule of goods taken over. |
| (k) | Payments for work in progress | 130,000,000 | Invoices, receipts, expected work plans, cost, estimates, documents approving payments. |
| (l) | Advances to employees | 7,684,737 | Detailed schedule and reconciliation statements. |
| (m) | Adjustments made in the accounts (Regarding Journal Entry 17) | 65,486,992 | Supporting documents. |
| (n) | Adjustments made in the accounts | 124,221 | Journal vouchers and supporting documents. |
| (o) | Debtors | 35,301,041 | Files containing confirmation of balances and supporting documents. |
| (p) | Sale of foreign air time | 80,417,505 | Invoices. |
| (q) | Balances of trade and other receivables remaining in the accounts for over 10 years. (Lak handa Brach Account) | 12,807,802 | Connected details of files and schedule showing computation of value. |
| (r) | Sundry Payments | 294,689,798 | 96 paid vouchers and supporting documents. |
| (s) | Air time debtors | 29,551,845 | Detailed schedules. |
| (t) | Air time creditors | 16,717,242 | Detailed schedules. |

### 2.3 Accounts Receivable and Payable

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The following observations are made.

(a) According to the schedule furnished for audit, the balances of debtors of sale of local and foreign air time as at 31 December of the year under review aggregated Rs. 201,356,608 of this, the balances of foreign debtors aggregated Rs.66,117,780. Ninety per cent of these balances of debtors had exceeded 10 years.

(b) The amount due on short term broadcasting should be recovered before broadcasting the programme. However, broadcasting had been carried out contrary to this policy.

As a result, the sum of Rs.14,570,437 receivable as at 31 December of the year under review on behalf of broadcasting short term programmes had been shown as debtors. Although the time limit for credits allowed by the Corporation is 2 months, balances amounting to Rs.783,285, Rs.5,481,053 and Rs.532,214 relating to periods of over 10 years, 5 to 10 years and 1 to 5 years were among those balances respectively.

(c) It was observed that a sum of Rs.7,628,917 representing 82 per cent of the balance of deposits receivable amounting to Rs.9,264,962 as at 31 December of the year under review continued to be in existence for over 5 years.

(d) Action had not been taken to settle the audit fees of Rs.3,035,760 due for the period 2007 to 2011.

(e) Advances amounting to Rs.2,793,558 given to suppliers were in the possession of suppliers for over 3 months to 2 years.

(f) The Nation Building Tax of Rs.40,402,845 recovered from employers for the period 2010 to the year under review had not been remitted to the Department of Inland Revenue. Instead, it had been shown under non financial liabilities in the financial statements.

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

The following instances of non compliance with laws, rules, regulations and management decisions were observed in audit.

| Reference to Laws, Rules, Regulations etc. | Non compliance |
|---|---|
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulation 104(1)(a) | No investigations had been conducted to identify the loss and the parties responsible with regard to the vehicle purchased in December 2009 and subsequently removed as unusable due to the accident caused. The compensation received from the insurance for this vehicle in the year 2015 amounted to Rs.2,779,300. |
| (ii) Financial Regulation 110 | A register of losses and damages had not been maintained. |
| (iii) Financial Regulation 155 | Replies had not been furnished even by 11 July 2015 for 13 audit queries issued during |

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|---|---|---|---|
| | | | the year under review. |
| | (iv) | Financial Regulation 396(d) | Action had not been taken in terms of the regulation with regard to 97 cheques amounting to Rs.599,321 remaining unpresented for payments for over 6 months as at 31 December of the year under review. According to the bank reconciliation of March 2015, the position of 89 of these cheques amounting to Rs.584,570 remained as unpresented cheques. |
| | (v) | Financial Regulation 371(2)(b) | Advances amounting to Rs.3,246,907 ranging from Rs.22,500 to Rs.249,000 had been granted on 60 instances during the year under review, exceeding the limit of Rs.20,000. |
| | (vi) | Financial Regulation 371(2)(c) | It was observed that the settlement of advances of Rs.706,476 obtained on 20 instances had been made after a delay of 2 months to 5 months of completion of work concerned. |
| | (vii) | Financial Regulation 371(5) | The advances of Rs.473,130 to be settled before 31 December of the year under review had not been settled even by 31 March 2015. |
| | (viii) | Financial Regulations 1645 and 1646 | The motor vehicle running charts and monthly performance summaries to be furnished to the Auditor General through the head of the institution had not been submitted. |
| | (ix) | Financial Regulation 1645(b) | Log books in Form General 267 had not been updated and maintained after 2006. |
| | (x) | Financial Regulation 1647(c) | Reports relating to spare parts removed during repairs to motor vehicles had not been maintained and proper procedure had not been followed in returning those to the stores. |
| (b) | Paragraph 4.2.2 of the Public Enterprises Circular No.PED12 of 02 June 2003. | | Monthly cash flow statement and reports relating to the liquidity position and obtaining loans had not been prepared and |

referred to the Board of Directors of the Corporation for its attention.

## 3. Financial Review

### 3.1 Financial Results

The financial results of the Corporation for the year under review amounted to a pre tax loss of Rs.50,629,337 as compared with a pre tax loss of Rs.139,931,525 for the preceding year thus indicating an improvement in financial results by a sum of Rs.89,302,188. The amortization of the assets acquired from the government grants amounting to Rs.240,041,678 and the government contributions for revenue expenditure amounting to Rs.218,160,000, totalling Rs.458,201,678, had been recognized as income and had mainly attributed to the decrease in loss of the year under review by this amount.

### 3.2 Working Capital Management

The following observations are made.

(a) An important ratio analysis is shown below.

| | Ratio | 2014 | 2013 |
|---|---|---|---|
| | **Liquidity** | | |
| (i) | Current | 0.74:1 | 0.61:1 |
| (ii) | Quick | 0.66:1 | 0.51:1 |
| | **Profitability** | | |
| (i) | Gross Profit (in percentage) | 26.92 | 30.78 |
| (ii) | Net Profit (in percentage) | (9.41) | (27.02) |

(b) A comparison with the previous year shows that the gross profit ratio of the year under review had decreased from 31 to 27 per cent, that is 4 per cent and the net loss had decreased by 18 per cent as compared with the previous year.

(c) The overdraft continued to increase in the main bank account during the year under review resulting in the payment of Rs.5,683,109 as interest on overdrafts during the year under review. It was observed that this shows an increase of 103 per cent as compared with the previous year.

(d) The current and quick ratios shown above had deteriorated further due to the lack of efficiency in recovering loans and due to the lower liquidity assets amounting to Rs.184 million shown under current assets.

### 3.3 Legal matters against the Corporation or Initiated by the Corporation

The following observations are made.

(a) The Corporation had not taken action to properly obtain the broadcasting rights of the cricket match between Sri Lanka and England during the year under review and action had been taken to obtain commercial advertisements while broadcasting the cricket match. As a result, the institution which had obtained proper broadcasting rights had instituted legal action to claim compensation amounting to Rs.50 million. A sum of Rs.872,000 had been paid lawyers' fees by the Corporation during the year under review in this connection.

(b) An employee of the Corporation had instituted a case in a District Court claiming a compensation of Rs.8 million for damages caused while travelling in a Corporation's motor vehicle.

(c) A marketing executive officer had defrauded Rs.13.21 million and due to improper maintenance registers and books of accounts the Department of Criminal Investigation had filed a case to claim only Rs.5.65 million. Subsequently, the Corporation had filed a case at the Colombo Commercial High Court to recover the balance of Rs.7.56 million.

## 4. Operating Review

### 4.1 Performance

The following observations are made.

(a) The Action Plan had not been prepared so as to measure the performance and as a result, the performance of the Corporation could not be evaluated.

(b) According to 4.2.2 of the Public Enterprises Circular No.PED 12 of 02 June 2003 relating to Good Governance, the Board of Directors should periodically investigate the Corporate plan, Budget and the Performance and should find out whether the actual performance differs from the planned performance and the Corporate Plan and the Budget should be altered accordingly. However, such a supervision had not been made.

### 4.2 Management Inefficiencies

The following observations are made.

(a) Action had not been taken to recover the lease of Rs.7,210,000 due from a holiday resort belonging to the Corporation for the period 2005 to February of the year under review. Further, legal fees amounting to Rs.2,151,206 had been spent from the year 2010 to obtain the ownership of properties again from the lessee. However, necessary action had not been taken to recover the legal fees upto 30 June 2015.

(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 by 14 May 2012. This work had not been completed even by July 2015 and the Corporation could not achieve the expected benefits from this process.

(c) During the year under review, purchases valued at Rs.13,951,244 had been made as urgent purchases on 14 instances through the online purchasing system contrary to Procurement Guideline. A period of 02 to 9 months had been taken to receive the items. However, out of these, 3 purchases, purchase totalling Rs.6,860,574 represented purchase of Rs.2 million each and 3 purchases totalling Rs.3,943,046 represented purchase exceeding Rs.1 million each. A certificate to show that the goods received at the Corporation were of the required specifications had not been obtained.

(d) Action had not been taken to obtain vesting orders and to ensure proper ownership of two houses which had been purchased by the Corporation by paying Rs.860,000.

(e) It was observed that out of the 22 official quarters of the Corporation 3 quarters had been used by the Sri Lanka Army and 2 other quarters were being used by persons who were not employees of the Corporation. The Director's bungalow in the Anuradhapura city limits had to be demolished as it had not been used and lying without safety. Three more houses remained without being used safety.

Apart from this, allocation of official residence among the staff had not been done in a proper manner. Necessary supporitng documents and reports had not been maintained to confirm the officers occupying those quarters at present, how those quarters had been allocated to them and whether rent was being charged.

(f) Accrued expenses of Rs.135,375,722 pertaining to a period of 2 to 10 years had been also included in the accrued expenses shown under the current liabilities. Further, action had not been taken to analyze and write off the non-liable expenditure which had exceeded the liable period or expenditure which had no actual liability.

(g) According to the Air time Creditors' Schedule, a sum of Rs.1,269,922 to be payable to a customer as at 31 December 2014 whereas the marketing division had written a letter stating that the credit balance was Rs.136,969.

(h) Invoices had been issued by the trade division with regard to 3 agreements during the year under review. This had been noted as "no sales" by the Accounts Division based on the Broadcasting schedule.

## 4.3 Operating Inefficiencies

The following observations are made.

(a) A loss of Rs.9.2 million was caused to the Corporation due to abandonment of the project for installation of antenna towers at Puthur. The Handicrafts Board to which the contract had been awarded had no capability to perform to the construction activities and making of an erroneous payment of Rs.5,024,998 for iron to the Board concerned along with the advances paid had attributed to this. The Chairman concerned had agreed to pay the entire loss a sum of Rs.4,348,041 on 16 July 2014 and it had repaid by September 2015. But, legal action had not been taken to recover the remaining loss, and submitted of wrongful information regarding the ability to carry out construction work when entering into agreement and the fraudulent act of a external person signing on behalf of the Handicrafts Board.

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

(c) According to the rental agreements of the transmission towers, security deposits amounting to Rs.1,600,000 should had been charged from 16 lessees at the rate of Rs.100,000 each. However, these deposits had not been charged.

**4.4 Identified Losses**

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The following observations are made.

(a) A surcharge amounting to Rs.1,218,609 had to be paid during the year under review on an order made by the Department of Labour due to under payment of gratuities to retired employees.

(b) Economic Services charges had not been paid on the due dates and as such surcharge amounting to Rs.11,979,867 had been levied on the arrears of tax from the assessment year 2004/ 2005 to 2013/2014. This surcharge had not been paid upto 31 May 2015.

(c) Action had not been taken upto the date of this report to identify and write off from the books the value of 77 damaged and missing items belonging to of 21 varieties damaged and missing as per board of survey conducted the year 2011 of the external publicity division and to take necessary action in terms Financial Regulations 101 and 113.

(d) Even though a land of 30 acres the Weeraketiya Transmission Station and 68 acres of the Mahawa Transmission Station together with the buildings constructed by the Corporation had been transfered to the government. However, action had not been taken to recovery of compensation at the present market value of those lands.

(e) Thirty acres of the Weeraketiya transmission Station had been released to the Sagara University and Youth Military Programme. However, action had not been taken, so far, to recover the present value of those land and buildings which had been purchased by the Corporation.

**4.5 Deficiencies in Contract Administration**

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Technical assistance had been obtained from a private institution in 2012 linking programmes for relay broadcasting centres on a lease basis by paying an initial amount of Rs.15 million and Rs.400,000 monthly rental without acting in accordance with the instructions of the

Ministry. Although lease amount had been increased to Rs.510,204 during the year under review, it was observed that the services rendered were not efficient as there were frequent breakdowns. However, the management had not taken action upto June 2015 for repair and make use of the Micro Link System installed in the year 2000 valued at Rs.45,175,730 and said to be not functioning properly or for acquisition a suitable system.

**4.6 Commencing Projects on Lands/ Properties not Properly Acquired**

The Corporation had purchased only the ownership of the holiday resort building situated on a land of 1 rood, 20 perches extent situated in the Grama Niladhari Division, Hawa Eliya of Nuwara Eliya for a sum of Rs.250,000 in the year 1979. According to the letter dated 08 of January 1987 of the Nuwara Eliya Additional Government Agent and the Deputy Commissioner of lands had informed to pay Rs.6,000 per year for the years 1985, 1986 and 1987 and obtain the lease hold right to the land. But, the lease rights of the land had not been obtained upto 30 June 2015.

**4.7 Resources of the Corporation Given to other Government Institutions**

The following observations are made.

(a) Number of machinery not belonging to the Corporation had been parked in a land of about 12 acres where the Ekala Transmission Station was situated. Apart from this, water and electricity of the Corporation had been used by external parties. Action had not been taken upto 31 December of the year under review to obtain information relating to external persons who make use of the assets of the Corporation and to compute the value of water and elertricity consumed by them and recover the persons concerned.

(b) The Corporation had provided necessary building facilities for the maintaince of the Selacine Institution from the year 2004 to April 2014. An agreement had not been entered into in this connection. Rent of building had not been recovered while no recoveries whatsoever had been made for water supplied from the year 2004 to April 2014.

**4.8 Personnel Administration**

The following observations are made.

(a) Even though the Department of Management Services had informed the Corporation to prepare the scheme of recruitment and Promotions in accordance with the Circular of the Department of Management Services No.30 dated 22 September 2006 and forwarded to the Ministry for approval, the Scheme of Recruitment and promotion had not been furnished to the Secretary to the Ministry even by 30 June 2015.

(b) It had been informed that employees should not be recruited without approving the scheme of recruitment. Inspite of this, contravening the directions of the Department of Management Services and without obtaining approval, 160 permanent employees and 90 employees on contract basis had been recruited in the years 2012, 2013 and 2014.

(c) The officer recruited as Director (Music) on 01 July 2004 after calling for applications by following the scheme of recruitment had been assigned the cassette sales division which did not have post of Director, and officer who had not forwarded application for the post of Director (Music) and who has no qualifications for the post of Director (music) had been appointed to act in the post since the year 2009. This had not been rectified till June 2015.

(d) According to the information furnished, the salaries and wages paid as at 31 December of the year under review to 886 permanent staff and 3 officers on contract basis amounted to Rs.383,304,981 whereas the amount paid to the supportive staff amounted to Rs.33,771,360. Obtaining the services of from relief staff and from the staff on contract basis staff, despite the existence of excess staff in the permanent staff is a problematic situation.

(e) Three Chief Executive posts of the Corporation, namely, Deputy Director General (Finance), Deputy Director General (Engineering) and the Deputy Director General (Administration) had been vacant for a long period. An officer had been recruited on contract basis for the post of Deputy Director General (Administration) from 6 July 2012 to 31 December 2014.

(f) The period of service of fifteen officers and a consultant recruited on assignment basis had been extended during the year under review solely on the approval of the Board of Directors. Allowances amounting to Rs.4,685,000 had been paid to them without examining their performance. Meanwhile, approval of the Cabinet of Ministers had not been obtained to extend the period of service of consultants.

(g) Copies of letters assigning duties to officers in the Head Office and the Regional officers had not been furnished to audit. An examination of personal files revealed that assignment of duties had not been properly done.

**5. Accountability and Good Governance**
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**5.1 Presentation of Financial Statements**
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The financial statements should be furnished to the Auditor General within 60 days of the closure of the financial year in terms of Section 6.5.1 of the Public Enterprises Circular NO.PED12 of 02 June 2003. However, the financial statements had been presented to the Auditor General on 08 May 2015.

**5.2 Corporate Plan**
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The following observations are made.

(a) The Corporate Plan for 2012 – 2016 had not been prepared as per paragraph 5.1.2 of the Public Enterprises Circular No.PED 12 dated 02 June 2003.

(b) According to Section 5.1.3 of the above circular and the Public Enterprises Circular No.PED 47 of 18 December 2007 the Corporate Plan approved by the Board of Directors and the updated budget should be forwarded to the Department of Public Enterprises and the Treasury. However, it had not been approved and furnished, as required.

**5.3 Action Plan**

The following observations are made.

(a) The Action Plan should be prepared according to the Corporate Plan. However, 5 Divisions included in the Corporate Plan had not been mentioned in the Action Plan. Certain activities too had not been included in the Divisions furnished.

(b) Seven of the 41 activities under 3 Divisions out of 5 divisions, included in the action plan had not been implemented.

**5.4 Internal Audit**

The following observations are made.

(a) One hundred audit queries had been issued by the internal audit division, comprising 20 in 2011, 25 in 2012, 30 in 2013 and 25 during the year under review. However, the management had furnished replies for 20 of those queries even by 30 June 2015.

(b) There were 4 posts of Audit Assistants in the Internal Audit Division as per approved cadre. However, only 2 audit assistants had been employed as at 31 December 2014.

**5.5 Audit Committees**

According to Section 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the committee should consist of at least 3 non executive members of the Board of Directors. However, deviating this requirement, a Director of the Corporation employed on an assignment basis too had participated.

**5.6 Tabling of Annual Reports**

The annual report of 2012 had not been tabled in Parliament even by 30 June 2015.

**5.7 Unresolved Audit Paragraphs**

The following observations are made.

(a) A sum of Rs.23,119,683 had been spent in 1996 for the import of 2 antenna towers which were 60 meters and 100 metres in height and sum of Rs.2,568,000 had been paid as advance to a private institution to install the tower. The towers had not been installed even by end of the year under review as the sites for Installation had not been decided. Further, the entire value had been accounted under work in progress till 2010 and subsequently at the end of the year 2010 it had been incorrectly accounted under the Audio Frequency Account. This too had not been rectified.

(b) It had been identified that the sales executive who had carried out 32 contracts had defrauded a sum of Rs.6,356,853. However, the police had filed action to recover a sum of Rs.945,000 only. Action had not been taken even by 24 July 2014 to take legal action for recovery a sum of the balance.

**5.8 Discharge of Environmental and Social Responsibilities**
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A unit to accept complaints regarding the quality of transmission had not been established in the Corporation and none of the Division of the Corporation had registered complaints received from the listners. Eventhough action should have been taken to refer complaints to the Audio Record Division to take suitable action, such a procedure was not in existence. Hence the Corporation had filed to take timely action due to the prevailing situation.

**6. Systems and Controls**
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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) Assets Control
(b) Income from Air time
(c) Debtors
(d) Staff control
(e) Management Information
(f) Control over Income form trade advertisement agencies
(g) Procurement
(h) Budget
(i) Execution of Projects
(j) Payment of advances