Independent Television Network Ltd - 2016

The audit of financial statements of the Independent Television Network Ltd., for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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. My observations on the performance of the Company which I consider should be presented to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.A detailed report was issued to the Chairman of the Company on 29 June 2017.

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 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 the 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 misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company'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 Company'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.

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

1.4 Establishment of the Company and Ownership

Commenced on 13 April 1979 as a Company in the Private Sector the Company had been acquired by the Government in accordance with the Notification Published in the Government Extraordinary Gazette No. 39/04 dated 05 June 1979 under the Business Undertakings (Acquisition) Act, No 35 of 1971. The Government Owned Business Undertaking was converted to a Public Company in terms of the Conversion of Public Corporations or Government Owned Business Undertakings into Public Companies Act, No. 23 of 1987 and subsequently registered under the Companies Act No. 07 of 2007 and this is a Company fully owned by the Government and its share ownership rests fully with the General Treasury.

1.5 Basis for Qualified 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 Independent Television Network Ltd., as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

Following observations are made.

(a) Sri Lanka Accounting Standard 01

According to the paragraph 32 of the standard, though an entity shall not offset assets and liabilities or income and expenses unless required or permitted by any standard, over provision of doubtful debt for Rs. 175,052 had been accounted by offsetting to expenditure in the year under review. Further economic service charges of Rs. 2,141,466 paid during the year had been offset with current liabilities as legal fees payable instead of accounting under current assets as brought forward taxes in the financial statements.

(b) Sri Lanka Accounting Standard 16

According to the paragraph 51 of the standard, assets cost of Rs. 877,760,119 had further been used due to non-reviewing of effective life time of non-current assets annually, even it was fully depreciated. Accordingly, actions had not been taken to revise that estimate error as per the Sri Lanka Accounting Standard 08.

(c) Sri Lanka Accounting Standard 19

According to the paragraph 57 (d) of the standard, though determining actuarial gain or loss from defined benefit obligations, to be recognised under other comprehensive income in the comprehensive statements, actuarial loss of Rs. 7,292,562 in the year under review had been accounted under other operational and administration activities.

2.2.2 Sri Lanka Financial Reporting Standards

According to the paragraph 31 and 33 of the standard 07, the information regarding interest rates risk had not been disclose by the Company, though the information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments should be disclosed through notes to the accounts.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) It had been recognize in accounting policies that Property, plant and equipment procured from Government Grants had been amortized during the effective life time of those assets. Accordingly, the assets of Rs. 31,221,094 procured from Government Grants in the year 2008 should be amortized during 08 years by Rs. 3,902,637 per annum. However, only a sum of Rs. 26,753,353 had been amortized by the Company from the year 2008 to the year 2016, thus amortization of Rs. 3,829,492 for the previous year and amortization of Rs. 638,249 for the year under review had been understated in the financial statements. Further, the balance of Government Grants as at the end of the year under review had been overstated by Rs. 5,615,264 in the financial statements due to the erroneous calculations.

(b) Motor vehicles depreciation amount with relating to the year under review had been understated by Rs .4,847,767 and as a reason of this the assets amount had been overstated by that amount.

(c) Depreciation of buildings and other assets of the Company had been overstated by Rs 10,476 and Rs. 467,423 respectively and as the result of understating the depreciation of plant and equipment by Rs. 477,899, that assets amount had been understated and overstated by that amounts respectively.

(d) Though the Value Add Tax payable amount as at 31 December 2016 was Rs. 6,504,858 Value Add Tax payable had been overstated by Rs. 3,082,032 due to disclosing it as Rs. 9,586,890 in the financial statements.

(e) As a reason of accounting the sales commission payable with relating to the previous year for Rs. 24,142,870 as expenditure of the year under review, the loss had been overstated by that amount.

(f) According to the economic service charges of the Company economic service charges of Rs. 3,482,138 for the first and last quarters of the year had not been remitted to Inland Revenue Department and provision for this had not been made in the financial statements.

(g) Total amount of Rs. 15,443,220 paid in the year under review as book vouchers, gift vouchers and mid-year bonus had been debited to staff welfare account and performance allowances instead of debiting to Bonus Account.

2.2.4 Unexplained Differences

According to the financial statements, the taxable income for the year under review amounted to Rs.1, 829,879,669 whilst a sum of Rs.1,852,030,397 had been considered as the income for the preparation of the Value Added Tax Return, and as such a difference of Rs.22,150,728 was observed between the financial statements and the Value Added Tax Return. Similarly, a sum of Rs. 1,824,866,850 had been considered as income for the preparation of the Nation Building Tax Return and as such a difference of, Rs. 5,012,819 was observed between the financial statements and the Nation Building Tax Return.

2.2.5 Lack of Evidence for Audit

(a) Evidence mention in front of following objectives was not presented to audit.

	Description	Amount Rs.	Evidence not Presented
(i)	Client Debtors	786,464,300	Debtor schedules with detailed Age Analysis
(ii)	Other Debtors	15,674,565	
(iii)	Library Books	-	Name list of person who had not returned the Cassettes and Library Books

(b) Information regarding the programme telecasted without charging fees and information regarding purchase of foreign programs, dramas and films in the year 2016 were not presented to Audit.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The value of dishonoured cheques as at the end of the year under review amounted to Rs. 16,163,159 and an amount of Rs. 8,494,552 in that amount with relating to the period from the year 2008 to 31 December 2015. It was observed that out of this amount the dishonours were cheques received from two customers in several instances for Rs. 3,000,000 and for Rs. 2,702,500, and out of the dishonour cheques amount remain at the end of the year under review, impairment adjustment had been made for Rs. 7,275,778.

(b) The Contra Trade Debtor balance brought forward from the year 2004 was Rs. 14,641,729 as at the last date of the year under review and impairment adjustment had been made for the entire balance without taking actions to obtain the service as agreed by the Company.

(c) According to the policy of the Company for allowing credit to its clients, such debts should be recovered within a period of 03 months, nevertheless, out of the client debtors amounting to Rs. 786,464,300 receivable as at the end of the year under review, the balance between 03 months and 06 months was aggregating Rs. 137,954,614, the balance over 06 months and less than 01 year was aggregating Rs. 89,543,433 and the debtor balance older than 01 year was aggregating Rs. 200,782,625.Accordingly, 54 per cent of total debtor balances had been lapsed the 03 months and impairment adjustment had been made for the balance of Rs. 149,258,497 or 19 per cent.

(d) Amount receivable of Rs. 269,973 with regarding 03 Televisions given to the Ministry of Mass Media by the Company in the year 2010 had not been received even as at the end of the year under review. Further, personal telephone bills charges of Rs. 35,942 paid with regarding four Officers of the Company in the year 2009 had not been reimbursed even as at the year under review.

(e) Time lapsed deposits amount was Rs. 859,275 which was paid back by the Company and non-taking actions even as at the end of the year under review in accordance with Financial Regulation 571.

(f) Six Hundred forty five cheques written since the year 2012 with a view of issuing to customers but not issued amounting to Rs. 4,957,007 had been cancelled and that amount had been accounted as cancelled cheques under Other Payables in the year under review. It is observed that non-claiming of payments for these amounts by relevant parties would be an abnormal event.

(g) Advance amount of Rs. 7,441,948 had been paid to have many services from private customers in the year 2016 and those services had not been taken even by the month of May 2017 and steps had also not been taken to settle the advance amount.

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

The following non-compliance with laws, rules, regulations and management Decisions etc. were observed

Reference to Laws, Rules, Regulations	Non-compliances
(a) Financial Regulations 757 of Financial Regulations of Democratic Socialist Republic of Sri Lanka	Though the Board of Survey should be conducted annually and its reports should be presented to Auditor General, the Board of Survey had not been completed even as at 26 May 2017.
(b) **Public Enterprises Circular**	
(i) Circular No. PED 01/2015 of 25 May 2015	A sum of Rs. 18,681,366 had been paid in the year under review as travelling and fuel allowances for 300 officers who are not entitled for travelling and fuel allowances Further the former Chairman and present Chairman had taken 1,762 litres of fuel for Rs. 222,976 by exceeding the Circular limits even without getting approval of the Secretary to the Ministry.
(ii) Circular No. PED/12 of 02 June 2003	
• Section 8.2.2	The consent of Minister of Finance and the approval of relevant Minister had not been obtained to invest a sum of Rs. 1,589,314,674 in fixed deposit as at 31 December 2016.
• Section 9.3	Even though there should be a very clearly and distinctly prescribed Scheme of Recruitment and Promotion for each post of the Cadre, such scheme was not available with the Company.
(iii) Circular No. PED 05/2016 of 16 December 2016	Following Bonus had been paid to employees by the Company in the year 2016.

	Independent Television Network	Vasantham Tv	ITN FM	Vasantham FM	Total
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	Rs.	Rs.	Rs.	Rs.	Rs.
Mid-year bonus by Rs.7,500	4,007,680	177,620	519,373	105,000	4,809,673
Mid-year and year end book voucher allowance by Rs.2,000	2,424,000	40,000	194,000	34,000	2,692,000
Cargills Food City gift voucher allowance by Rs.5,000	7,314,000	214,000	1,018,000	203,000	8,749,000
Year-end Bonus	12,384,195	394,407	1,452,417	259,275	14,490,294
Total					30,740,967

Following observations are made in this regard.

- A profit of Rs. 433,021,231 had been earnt by the Company in the year 2015 and a loss of Rs. 107,189,266 had been incurred in the year 2016. Though, a bonus of Rs. 2,000 could only be paid to an employee as per the circular instructions, total of Rs. 30,740,967 had been paid as bonus by Rs. 61,000 by employee contrary to the circular instructions.

- According to the paragraph 02 of the Circular, the consent of the Treasury should be acquired before the payment of bonus for the staff in Government owned Companies who were reported loss making status during the financial year and the request in this regard should be forwarded with the recommendation of the Secretary to the Ministry. However, consent of the Treasury had not been obtained to pay the bonus as above.

According to the instructions of the paragraph 3.3 of the Circular, before making the payment of bonus, annual financial statement of the Company should be presented to Auditor General in the due date or before as per the directions in the paragraph 6.5 of the guide lines for the Good Governance of the Public Enterprises issued with Public Enterprises Circular No.12 of 02 June 2003. However, the financial statements for the years 2015 and 2016 had only been presented to Auditor General on 26 May 2016 and 06 April 2017 respectively.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, loss of the Company for the year ended 31 December 2016 amounted to Rs. 107,189,266 as compared with the corresponding profit of Rs. 433,021,231 for the preceding year, thus indicating a decline of Rs. 540,210,497 or 125 per cent as compared with the preceding year. The decrease in income of sale of air time during the year under review by Rs. 656,657,443 or 27 per cent had been the main reason above decline.

3.2 Analytical Financial Review

Though a profit of Rs. 526,902,334 had been earnt in the year 2015 by Independent Television Network operating under the Company, it had been reduce to a loss of Rs. 8,618,025 in the year 2016 that is the profit by Rs. 535,520,359 or 102 per cent. The loss of Rs. 8,932,290 incurred by Vasantham Tv in the year 2015 had been increase up to the loss of Rs. 26,430,929 in the year 2016 that is by Rs. 17,498,639 or 196 per cent. Though Vasantham FM and ITN FM radio had incurred losses in both years 2015 and 2016, those losses had been decrease as compared with the previous year by Rs. 7,254,218 and Rs. 5,554,284 or 45 per cent and 8 per cent respectively.

3.3 Ratio Analysis

Profitability Ratios and Working Capital Ratios for the year under review and previous year are shown below.

Ratio	2016	2015
Gross Profit Ratio (per cent)	65	77
Net Profit/(Loss) Ratio (per cent)	(4)	18
Current Ratio	3.97	3.67
Quick Ratio	4	3.63

4. Operating Review

4.1 Legal Matters Initiated by the Company or against the Company

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The following observations are made.

(a) External parties had filed 08 cases against the Company as at 31 December of the year under review and 04 cases for slanderous statements made in the news telecasts of the Company and 04 cases for unauthorized telecasting of their films and out of them the compensation claimed in relation to 06 cases filed by the external parties amounted to Rs. 2,560,225,000. Whilst one case had been field by an interdicted employee, a sum of Rs. 920,085 had been paid as lawyers' fees for these cases.

(b) Nine cases had been filed against debtors for the recovery of a sum of Rs. 16,752,166 in connection with the air time provided by the Company by 31 December 2016 and out of them the cases amounting to Rs. 4,285,977 could not be maintained due to the inability to trace the permanent places of residence of those 02 debtors. Though the debtor balance over two years as at 31 December 2016 was Rs. 134,807,643, the cases filed to recover the amount had only been for Rs. 16,752,166.

4.2 Identified Losses

Following observations are made.

(a) A further recoverable amount of Rs. 1,210,620 were available from the amount of fraud conducted in the year 2011 by a former Company employee, though a Writ order had been issued for this in the Court actions taken in this regard, his address could not be found to deliver it. The impairment adjustment had been made for that full amount.

(b) A loss of Rs. 50,173,801 had to be borne from 13 local tele dramas telecasted during the year under review by Independent Television Network.

(c) Recommendations should be made through an independent committee appointed by the Secretary to the Ministry when procuring tele dramas by studying the content of drama and its quality with the prior evaluation of whether it is suitable or not for telecasting. However, Indian tele drama named "Ravana" with 154 episodes had been purchased in the year 2016 on the recommendation of the Company programme Producer without conducting such prior evaluation. It was revealed in the internal investigation conducted after telecasting of 61drama episode that the total of Rs. 22,330,935 had been spent as purchase of tele drama, dubbing expenses, import tax and air time cost for telecasting of its 61 episodes. However, a sum of Rs. 850,000 had only been received as revenue hence a loss of Rs. 21,480,935 had to be incurred and accordingly, telecasting of the balance episode had been suspended accordingly. Nevertheless, the payment of Rs. 6,143,423 made for the Indian Company had been included in the above cost with relating to the non-telecasted 93 episodes to avoid directing legal activities if not paid the entire amount to be payable for the drama.

4.3 Management Activities

The officer who functioned as the Working Director of the Company from August 2010 to July 2014 had in addition to obtaining the monthly Transport Allowance of Rs.40,000 and 140 litres of fuel, utilized the pool motor vehicles of the Company. The sum of Rs.755,950 recoverable for 46,237 kilometres so run, had not been recovered.

4.4 Operating Activities

Allowances aggregating Rs. 115,599,550 had been paid during the year under review as incentive allowances, performance incentive allowances, bonus and staff welfare allowances for the staff even the Company was heading towards loss making.

4.5 Idle and Underutilized Assets

Out of 11 vehicles belonging to the Company for cost of Rs. 15,093,025, three vehicles from the year 2014, 05 vehicles from the year 2015, 02 vehicles from January 2016 and another vehicle from May 2016 had not been used for travelling. Out of them, 02 vehicles were in as unused vehicles even by now due to non-informing by the Company to the buyer who were presented second highest quotation for which after rejecting to purchase by the buyer who presented the highest quotation.

4.6 Human Resource Management

Following observations are made.

(a) Approval for the Cadre had not been obtained from the Treasury even by the end of the year under review.

(b) As per the Cabinet decision No.CM/05/Gen (026) dated on 16 June 2005, the approval of Cabinet should be taken when submitting application with the concurrence of the recommendation of Cabinet sub-committee by presenting memorandum with the inclusion of the bio-data, expected duties and responsibilities to be assigned, and the time period. However 07 Consultant had been recurrent in the years 2015 and 2016 without getting the approval of the Cabinet and aggregating of Rs. 6,713,933 had been paid as monthly allowances, vehicles and fuel allowances, and out of them a sum of Rs. 325,916 had been spent for two consultants during the period of 05 months August 2016 to December for 2910 litres of fuel.

Branded Apple phone and the television given by the Company to one Consultant had not been taken back at the time of his leaving in the year under review. Further settlement of private telephone bills of that Officer for Rs. 77,669 had been spent by the Company and that had also not been recovered from the officer.

(c) It was observed that a sum of Rs. 919,355 had been paid as monthly allowances, refreshment allowances, cost of living allowances and fuel allowances in illegal manner by appointing an Officer to the post of Chief Executive Officer of the Company by the appointment letter No. ITN/PF of acting Chairman of the Company dated on 04 July 2016, without approving the Cadre of the Company and without the approval of the Treasury.

(d) An Officer had been appointed as a member of the Director Board of the Company as well as working Director from a letter dated 21 January 2015 by the Secretary to the Treasury by mentioning that it was in accordance with the paragraph 78 of the article of Association. Following observations had been made in that regard.

(i) Though the authority to appoint members of the Director Board had only been entrusted to the Secretary to the Treasury by the paragraph 78 of Article of Association, this appointment had been made contrary to the provision.

(ii) A number of staff was not approved for the Company and the post of working Director had not been included in the staff cadre document prepared to present for the approval of the Treasury. However a sum of Rs. 900,000 as monthly allowances and a sum of Rs. 265,164 for fuel had been spent during the year under review other than the payments made as a member of the Director Board. Further, Company vehicle had also been allocated for his use.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, though the financial statements for the year under review should be presented to the Auditor General within 60 days after the close of the financial year, the financial statements had only been presented on 06 April 2017.

5.2 Corporate Plan

Following observations are made.

(a) Even though a Corporate Plan for the years 2014 to 2018 had been prepared in terms of Section 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the updated cooperate plan for the year 2016 had not been presented to Auditor General.

(b) Even though a Corporate Plan for the years 2014 to 2018 had been prepared in terms of Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003, information such as resources of the Company, organization structure of the Company, the review of the operating results of three preceding years had not been included.

5.3 Annual Action Plan

Even though an Action Plan had been prepared for the year under review, the activities identified for implementation in the year under review included in the Corporate Plan had not been included in the Action Plan. Further, certain activities included in the Action Plan had not been implemented during the year under review.

5.4 Market Share

According to the Survey on viewing television and listening to radio by the spectators conducted by Lanka Market Research Bureau by co – opting 15 Television channels, the market share of 14.4 per cent achieved by the Company in the year 2015 had retrogressed to 8.44 per cent by the end of the year under review. Though total of Rs. 2,996,990 had been spent for business promotions activities including a sum of Rs. 1,350,990 for printing advertisement for changing the name of Lakhanda Radio as ITN FM in the year 2016 and a sum of Rs. 1,646,000 the cocktail party organized for advertising agents, rising of the market share could not be achieved.

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 Company from time to time. Special attention is needed in respect of the following areas of control.

	Areas of Systems and Controls		Observations
(a)	Accounts Receivable	(i)	Failure to take action in terms of the Financial Regulation on dishonoured cheques.
		(ii)	Delays in recovery of client debtors.
		(iii)	Giving credit for clients by exceeding the credit period.
		(iv)	Failure to obtain agreed services for contra trade transactions.
(b)	Staff Administration	(i)	Absence of a Scheme of Recruitment and Promotion of Staff.
		(ii)	Failure to get approvals for the Cadre from the Treasury.