

Selacine Television Institute – 2016

The audit of financial statements of the Selacine Television Institute for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of financial performance, statement of changes in equity and cash flow statement 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 comments and observations which I consider should be published with the Annual Report of the Institute appear in this report.

1.2 Management’s Responsibility for the Financial Statements

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector 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 risk assessments, the auditor considers internal control relevant to the Institute’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 Institute’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 Institute

Even though the Selacine Television Institute was vested in the Ministry of Mass Media on 20 December 2001, provision had not been made by way of an Act or any other law to determine its objectives and functions and implement its powers. Even though action was being taken from the year 2009 to register this Institute under the Companies Act as a Public Company under the name “Selacine Limited”, such action had not been finalized even by the end of the year under review.

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 Selacine Television Institute 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 Public Sector Accounting Standards

Even though a van costing Rs.4,000,000 had been fully depreciated as the useful life of non-current assets had not been reviewed annually in terms of Sri Lanka Public Sector Accounting Standard 07, it was being further used. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03. This motor vehicle had been depreciated for Rs.511,269 exceeding the cost thereof as at the end of the year under review and as such, the net value of assets had been understated by the same amount on 31 December 2016.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) A motor vehicle obtained at a cost of Rs.1,935,000 on 21 May 2013 had been brought to account as Rs.1,613,750 and as such, the value of the motor vehicle had been understated in the account by Rs.321,250 as at the end of the year under review. Moreover, expenditure on depreciation for the year under review had been understated by Rs.64,250 and retained profit, overstated by Rs.230,230 in the financial statements due to being depreciated on low cost since the year 2013.
- (b) A sum of Rs.598,230 payable to the Rupavahini Corporation had been deducted erroneously from trade debtors balance of the Institute and shown in the financial statements.
- (c) The financial fraud amounting to Rs.11,988,000 committed by the officers of the Institute had not been disclosed in the financial statements and instead, it had been erroneously classified and shown in the statement of financial position by adding to the trade and other receipts.

2.2.3 Unexplained Differences

The following observations are made.

- (a) According to the statement of financial position, the value of non-current assets as at 31 December of the year under review amounted to Rs.38,194,809. However, according to the schedule, that value had been Rs.35,146,357, thus indicating a difference of Rs.3,048,452.
- (b) According to the statement of financial position, the accrued expenditure as at 31 December of the year under review amounted to Rs.26,251,713. However, according to the schedules, that expenditure had been Rs.26,354,214, thus indicating a difference of Rs.102,501.
- (c) According to the statement of financial position, the trade debtors balance as at 31 December of the year under review amounted to Rs.200,012,426. However, according to the schedule, that balance had been Rs.201,303,503, thus indicating a difference of Rs.1,291,077.
- (d) Even though the balance payable to the Associated Newspapers of Ceylon Ltd. as at the end of the year under review had been shown as Rs.72,401,933 in the financial statements, the balance which was ascertained by financial statements of that Company had been Rs.65,817,229, thus indicating a difference of Rs.6,584,704.

2.2.4 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been made available to Audit.

Item of Account -----	Value -----	Evidence not made available -----
	Rs.	
(a) Fixed Assets	29,113,985	Register of Fixed Assets
(b) Debtors Balance for the year 2016	6,611,743	Detailed Debtors Schedules Confirmation of Balances
(c) Economic Services Charge receivable	3,599,744	} Confirmation of Balances
(d) Balances receivable from the Associated Newspapers of Ceylon Ltd.	2,538,029	

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Letters of confirmation of balances had been called for 85 loan balances totalling Rs.161,333,844 out of 110 trade debtors balances of Rs.190,632,488 remained as at the end of the year under review. Out of that, replies had been received only for 13 debtors balances and only 3 balances valued at Rs.3,084,183 representing 1.9 per cent had reconciled. Further, six Government institutions exceeded the value from Rs.6 million to Rs.47 million for which Letters of Confirmation of Balances were called for, had not submitted confirmation of balances and this amount represented 50 per cent of the total trade debtors.
- (b) The said total debtors included the trade debtors balances of Rs.95,761,058 representing 50 per cent older than 2 years and loan balance of Rs.6,611,748 older than 10 years. However, action had not been taken to identify and recover those balances.
- (c) Even though a sum of Rs.4,143,949 had been indicated in the financial statements of the Institute as payables to the Rupavahini Corporation as at 31 December 2016, no values whatsoever had been indicated in the financial statements of the Rupavahini Corporation for the year 2016 as receivables from the Selacine Television Institute.
- (d) The Value Added Tax of Rs.19,311,618 and Nation Building Tax of Rs.14,703,472 shown in the financial statements as at 31 December of the year under review were being brought forward continuously instead of remitting to the Department of Inland Revenue.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations	Non-compliances
<hr/>	<hr/>
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 178(3)(b)	Even though Paying-in-Vouchers should be accompanied by documents and particulars for the confirmation of relevant payments, bills relating to the settlement of advances of Rs.1,813,508 made in 11 instances with regard to the Programme on “Diyawannawe Dina Dasadahasak”, had not been attached to the voucher.

(ii) Financial Regulation 371(2)(b) as amended by the Public Finance Circular No.03/2015 of 14 July 2015

- Even though an advance should be settled immediately after the completion of the purpose for which it is granted, sums totalling Rs.1,930,012 and Rs.1,370,000 granted as production advances and other advances in 13 and 3 instances respectively had not been settled even by 30 June 2017 by the Institute.
- Even though advances should be limited to staff officers, advances of Rs.3,195,500 had been granted by the Institute to non-staff officers in 11 instances.
- An “Ad Hoc” Sub-Imprest should not exceed Rs.100,000 and in the instances of exceeding these financial limits, the Accounting Officer should obtain the prior approval of the Department of Treasury Operations with the recommendation of the Secretary to the Ministry concerned by presenting adequate matters to ascertain that requirement. However, the Selacine Institute had granted advances totalling Rs.5,468,508 ranging from Rs.197,500 to Rs.876,000 in 13 instances exceeding this limit without revising the said advances limits.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute during the year under review had been a net loss of Rs.25,628,992 as compared with the corresponding net loss of Rs.28,537,463 for the preceding year, thus indicating an improvement of Rs.2,908,471 in the financial result for the year under review as compared with the preceding year. Even though the direct expenditure of the year under review had increased by Rs.112,389,843 as compared with the preceding year, the increase of income by Rs.130,075,022 had been the main reason for the above improvement.

An analysis of the financial results for the year under review and the 2 preceding years revealed that the net loss which was Rs.686,947 in the year 2014 had increased to Rs.25,628,992 by the year 2016. Further in readjusting the employees remuneration and the depreciation for non-current assets to the financial result, the contribution of the Institute which was Rs.26,070,098 in the year 2014, had decreased to Rs.16,065,700 by the end of the year 2016.

4. Operating Review

4.1 Transactions of Contentious Nature

The Project on “Diyawannawe Dina Dasadahasak” had been planned by the President’s Special Media Unit to celebrate the completion of ten thousand days of parliamentary life of the President and further, the Selacine Institute had organized the Bodhi Pooja held at the Kelaniya Rajamaha Vihara on 02 October 2016 relating to the said programme. A sum of Rs.15,250,000 had been received by the Institute therefor from sponsors and a sum of Rs.11,084,197 had been spent for the said programme. The following matters were observed at the audit test check carried out on this expenditure.

- (a) Ten employees had been recruited on temporary basis to this Programme and a sum totalling Rs.430,000 had been paid thereon. According to the Letters of Appointment given relating to the said recruitments, it had been informed to report for duty on 01 July 2016. Nevertheless, the date of completion of the service, duty list, the period for which the proposed allowance should be given, had not been specifically mentioned therein. Moreover, number of days served or daily Attendance Register and Work Done Register for ascertaining the period relating to payments had not been maintained. As such, the relevant payments could not be satisfactorily vouched.
- (b) Two persons had been recruited for the posts of Marketing Instructor and Marketing Assistant of this Programme and sums of Rs.150,000 and Rs.5,000 each had been paid for them respectively. The requirement of creating these posts had not been explained to Audit.
- (c) In terms of the Letter of Appointment dated 27 June 2016, a person had been recruited as an Event Organizer with effect from 01 July 2016 and an allowance of Rs.30,000 had been paid in August 2016 without determining the service period specifically. Further, a sum of Rs.100,000 had been requested for as an agreed amount by the Letter dated 26 April 2017 for planning this programme on “Diyawannawe Dina Dasadahasak”. Even though it had been indicated that the relevant programme had been attached, a sum of Rs.50,000 had been paid therefor on the recommendation of the Event Manager without such a Programme or a written agreement for making those payments.
- (d) A sum of Rs.1,195,000 had been paid in the year under review for supplying electricity for the Bodhi Pooja Programme and the following observations are made in this connection.
 - (i) Hand quotations had been obtained from two institutions and an estimate valued at Rs.545,000 had been submitted by one institution for performing other activities except for the illuminating of the stupa while an estimate of Rs.650,000 had been submitted by the other institution for performing the entire purpose. Accordingly, despite having the ability in getting the entire purpose performed by the institution from which quotations had been submitted for the entire purpose, it had been decided to perform the purpose

of illuminating of the stupa from one institution and the other purposes from another institution. As such, an additional cost of Rs.45,000 had to be incurred.

- (ii) Instead of paying a sum of Rs.545,000 to the Chinthaka Electricals who had performed other activities except for the purpose of illuminating the stupa and only paying the estimated amount of Rs.150,000 to the New City Electricals who had performed only the purpose of illuminating the stupa, the total estimated amount of Rs.650,000 had been paid and as such, an over payment of Rs.500,000 had been made.
 - (iii) In terms of Guideline 8.9.3 of the Procurement Guidelines, a written agreement should be entered into for Goods and Services exceeding Rs.500,000. Nevertheless, a written agreement had not been entered into in performing the said purpose.
 - (iv) In terms of Guideline 5.4.4 of the Procurement Guidelines, 20 per cent of the relevant value can be paid as mobilization advances on an acceptable advance payment guarantee. However, an advance of Rs.272,500 representing 50 per cent out of the estimated amount had been paid to the Chinthaka Electricals without obtaining any guarantee.
- (e) A sum of Rs.317,016 had been paid for printing of 30,000 posters without being determined the requirement and an evidence to acknowledge or to take over the said number of posters accurately or models of posters, had not been made available to Audit. A sum of Rs.292,000 had been paid to 4 persons therefor without confirming that those printed posters had been displayed.
 - (f) Even though a private institution had purchased 75 institutional T-shirts at a rate of Rs.650 for the use of officers relating to the programme and a sum of Rs.48,750 had been paid to that institution, an officer of the Selacine Institute had not ascertained that the said stock of T-shirts had been received or taken over accurately.
 - (g) According to the estimate No.WAS/PP/ICN/01 dated 01 August 2016 submitted by the Ceylon Electricity Board for supplying an Electric Generator, a sum of Rs.117,478 had been paid to the Board. Even though the payment made for this electric generator had been included in the expenditure of the Programme on “Diyawannawe Dina Dasadahasak”, a responsible officer had not confirmed that this service had been obtained to the relevant Programme.
 - (h) An advance of Rs.500,000 obtained on 29 July 2016 by the Event Manager for the erection of Parabolic Huts, had been settled on 09 May 2017. In settling the advances, a Letterhead of a private institution had been attached by indicating that this amount had been paid to that private institution for providing fresh floral decorations and 5,000 red roses to the Kelaniya Rajamaha Vihara. However, it was observed at the physical verification carried out on 18 September 2017 that the said private institution does not provide fresh flowers or make decorations and that the relevant supplies had not been made for the said religious activity held at the Kelaniya Rajamaha Vihara in the year 2016. Further, the name of the payee had not

been mentioned in the Form General 35 prepared for the sum of Rs.500,000 paid to that institution.

- (i) Even though all Goods received by the Institute should be entered in the Inventory Book immediately upon receipt in terms of Financial Regulation 751(1), Goods valued at Rs.1,455,381 relating to 4 items obtained for this Programme, had not been entered in the Inventory Book.

4.2 Irregular Transactions

The building in which the Selacine Television Institute is functioned, is owned by the National Film Corporation and that building was obtained on rental basis for a period of 5 years since the year 2013. Despite having informed that no repairs or additions whatsoever should be made without a written approval of the lessor in terms of paragraph 7 of the Lease Agreement, repairs valued at Rs.9,293,750 had been carried out by the Institute in the year 2014 without the approval of the owner of the building and requests had been made to set off that expenditure against the rent of the building. However, the National Film Corporation had not allowed it. As such, it had been decided to account the said expenditure under non-current assets as expenditure on buildings and to write off within 5 years and a sum of Rs.1,842,062 had been written off against the profit of the year under review.

4.3 Management Activities

The Institute had not taken disciplinary action in terms of Section 5.3 of Chapter XLVII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka even up to the end of the year under review against the officers who are responsible for the financial fraud of Rs.11,988,000 committed by the officers of the Institute in the year 2014 due to weak financial management, weaknesses in internal control and failure in implementing the internal audit systematically.

4.4 Staff Administration

The approved permanent and temporary cadre of the Institute as at 31 December 2016 stood at 31 and 39 respectively. The actual cadre had been 69 comprising 15 permanent employees and 54 temporary employees. The following observations are made in this connection.

- (a) Despite having vacancies for the approved posts, 33 persons had been recruited to 32 non-approved posts. These officers had been recruited to service within a period ranging from 2 years to 29 years and out of them, 8 persons had been made permanent. However, action had not been taken to obtain the approval from the Department of Management Services and Salaries and Cadre Commission for these posts as per the requirement of the Institute.
- (b) Sixteen employees had been recruited on contract basis to 10 posts belonging to the approved cadre. Out of them, an officer who had been recruited to the post of Assistant Photographer had been made permanent without the approval by the end of the year under review.

- (c) The number of employees belonging to the 17 approved permanent and contract based posts stood at 41 and out of them, 33 had been vacant since the years 2013 and 2014. However, action had not been taken to recruit new staff to those posts or to make permanent the officers who were deployed in the service on contract basis, by formulating Schemes of Recruitment.
- (d) Even though the Department of Management Services had given instructions by the Letters No.DMS 1595 referred to the Selacine Institute on 15 October 2014 and 02 June 2016 to formulate the Schemes of Recruitment and to obtain the approval therefor, action had not been so taken even by July 2017, the date of audit.
- (e) The service period of 39 employees who had been recruited to approved and non-approved posts on contract basis, had expired on 30 September 2017 for a period from 01 month to 4 years. However, they had been deployed continuously in service without extending or terminating their service period. The total of the salaries and allowances paid to them relating to the said period had been Rs.33,097,313.

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, the Draft Annual Report and financial statements should be presented to the Auditor General and copies thereof, to the Ministry concerned and the Department of Public Enterprises under the General Treasury within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year ended 31 December 2016 had been presented to the Audit by the Selacine Institute only on 11 August 2017 with a delay of 180 days.

5.2 Tabling of Annual Reports

According to Section 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, action should be taken to table the Annual Report in Parliament within 150 days after the close of the year of accounts. Nevertheless, Annual Reports from the year 2003 to the year 2008, had not been tabled in Parliament.

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

Areas of Systems and Controls

Observations

- | | |
|-----------------------------------|--|
| (a) Accounting | Failure to furnish relevant ledger accounts and the related information to enable obtaining the particulars of transactions. |
| (b) Internal Audit | Failure to strengthen the Internal Audit Unit by attaching suitable staff to enable the identification of weaknesses in the internal control and the changes to be made. |
| (c) Debtors and Creditors Control | Failure to maintain records to enable obtaining correct information on due date in the manner required. |