Sri Lanka Broadcasting Corporation – 2017

The audit of financial statements of the Sri Lanka Broadcasting Corporation for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 27 of the Sri Lanka Broadcasting Corporation Act No.37 of 1966 and Section 13(1) of the Finance Act No.38 of 1971. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14 (2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for 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 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 Sri Lanka Broadcasting Corporation as at 31 December 2017 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following non-compliances were observed in audit.

(a) Sri Lanka Accounting Standard 01

According to Paragraph 15 of the Standard, Government grants should have been identified as a separate entity under equity in the statement of financial position. However, grants from the Government of Germany amounting to Rs. 1,128,190,137, Japanese grants amounting to Rs. 70,849,537, and Government grants amounting to Rs. 863,445,527 had been shown under non-current liabilities.

(b) Sri Lanka Accounting Standard 19

(i) Despite being stated that the projected unit credit method had been used for estimating post employee benefits, the actuarial assumptions used had not been disclosed in terms of Paragraph 75 of the Standard, and no actuarial profit or loss had been identified relating to the year.

(ii) According to Paragraph 83 of the Standard, the discount ratio should be decided based on the rate of Treasury bonds to discount the benefits after the service. However, the Corporation had used 11 per cent as the discount ratio without any basis whatsoever.

(c) Sri Lanka Accounting Standard 21

(i) The foreign debtors of the Corporation amounting to US $ 20,035 and Indian Rupees 3,346 relating to the period from the year 2007 up to 31 December of the year under review had been shown after being converted based on the exchange rates as at the last date of the year in which the debtors had come into effect, instead of being shown as Rs. 3,070,427 in the financial statements by converting under the exchange rates prevailed as at 31 December of the year under review in terms of Paragraph 23 (a) of the Standard. Accordingly, the foreign debtors of the year under review had been understated by Rs. 417,416 in the financial statements.

(ii) In terms of Paragraph 23 (a) of the Standard, the financial items in foreign currencies should be converted based on the exchange rates prevailing as at the end of the period of reporting. However, as the balance of Indian Rupees 676,658 in the account of Bank of Ceylon in Chennai had not been converted based on the exchange rate prevailed on 31 December 2017 being Sri Lankan Rs. 2.3854 per Indian Rupee, the said balance had been understated by Rs. 3,654 in the statement of financial position. Due to the matters mentioned above, the favorable value of Rs. 3,654 owing to the fluctuations in foreign exchange had not been identified in the computation of profit.

2.2.2 Accounting Policies

The following observations are made.

(a) According to the policy followed by the Corporation and Paragraph 7 of Sri Lanka Accounting Standard 07, only the investments of which the period of maturity should be less than 03 months since the acquisition, should be shown under cash and cash equivalents. However, fixed deposits valued at Rs. 63,368,597 with a maturity period of over 03 months had been shown under cash and cash equivalents in the statement of financial position as at 31 December 2017.

(b) According to the policy identified by the Corporation, the overdraft should be shown under current liabilities by considering it as a loan. Contrary to that, the bank overdraft of Rs. 5,699,421 existed as at the end of the year under review had been shown as a minus value under cash and cash equivalents. As such, the current assets and current liabilities had been understated by that amount in the statement of financial position.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The interest income receivable from 04 fixed deposits with maturity periods of 06 months had been calculated using the annual interest rate instead of half-yearly interest rate. Accordingly, the interest income and the receivable interest had been overestimated by a sum of Rs. 344,481.

(b) The capital profit of Rs. 19,997,092 incurred following the sale of a portion of the land in Seeduwa belonging to the Corporation in the year 2005, had been credited to the Capital Reserves Account instead of Retained Earnings Account.

(c) The instrument named “Power Logger” being used in surveying valued at Rs. 425,000 had been misplaced in the year 2016, but action had not been taken even up to the date of audit, 03 September 2018, to eliminate the said instrument from the Machines and Equipment Account. As such, the balance in the Machines and Equipment Account had been overstated by that amount as at 31 December of the year under review.

(d) The sum of Rs. 250,000 paid to the institution, Markfed in respect of the ownership of the building obtained on lease in the year 1979, had been debited to the Buildings Account. Although the said lease agreement had expired on 01 June 2015 with the ownership thereof transferred to the Divisional Secretary of Nuwara Eliya, action had not been taken to eliminate the said value along with relevant allocations on depreciation from the Buildings Account. As such, the value of buildings shown in the financial statements as at 31 December of the year under review had been overstated by that amount whilst the allocations for depreciation had been overstated by a sum of Rs. 250,000.

(e) The total taxable income that should have been taken into consideration in computing the Nation Building Tax for the year 2017, had been Rs. 536,777,714, but the value taken into consideration by the Corporation had only been Rs. 524,226,609. Accordingly, the Nation Building Tax for the year 2017 was understated by a sum of Rs. 251,022.

(f) Due to failure in taking into consideration the income received from the sale of 04 vehicles valued at Rs. 5,722,380, in the computation of income liable to Value Added Tax, the payment on Value Added Tax for September 2017 had been made less Rs. 858,357. The said vehicles had been purchased on lease with input tax reimbursed.

(g) The bank reconciliation statement prepared for a current account of a state bank had shown a sum of Rs. 122,529 under cash in hand not deposited in the bank as at 31 December 2017 as unrealized deposits in the bank reconciliation by recording in the cash book as monies deposited in the bank instead of being debited to a cash in hand account.

(h) A land acquired on 29 May 1959 had been vested in the Divisional Secretary of Homagama in the year 2009 for a playground without taking action to eliminate the book value of Rs. 186,563, the value of buildings thereon amounting to Rs. 247,441, and depreciation on buildings amounting to Rs. 235,069, from the books.

(i) The sales cost of Rs. 22,301,224 pertaining to the sales income of the relay station in Trincomalee, had been shown under other operating expenses. As such, the gross profit of the year 2017 had been overstated by that amount.

(j) The sum of Rs. 122,614,833 payable to the Government with respect to the lands obtained by the Corporation from various Government institutions on long-term leases, had not been brought to accounts.

2.2.4 Contingent Liabilities

The Corporation had made appeals to the Supreme Court, Appellate Court, and High Court against 03 verdicts demanding the payments of Rs. 10 million, Rs. 1,783,587, and Rs. 80,311 be made to the plaintiff. However, no provision had been made in the accounts for those cases.

2.2.5 Unreconciled Control Accounts

The following observations are made.

(a) The balance of the schedules relating to airtime creditors presented along with the financial statements of the year under review, amounted to Rs. 12,824,165, but the balance in the airtime creditor control account of the Accounts Division amounted to Rs. 12,749,748. Accordingly, a difference of Rs. 74,417 was observed between the balances of airtime creditor control account and schedules of creditors.

(b) The balance of the schedules relating to airtime debtors presented along with the financial statements of the year under review, amounted to Rs. 226,557,638, but the balance in the airtime debtor control account of the Accounts Division amounted to Rs. 233,214,273. Accordingly, a difference of Rs. 6,656,635 was observed between the balances of debtor control account and schedules of debtors.

2.2.6 Unexplained Differences

The following observations are made.

(a) The comparison between the balances of financial statements and schedules made available to Audit in regard to foreign trade debtors and receivable deposits revealed that the balances of the said schedules had been equated to that of the financial statements by including the unidentified balances totalling Rs. 35,720,721.

(b) It was revealed in the audit conducted on the account of State Bank of India in the year 2016 that the balance of the said bank account amounted to Indian Rupees 179,278 in accordance with the verification of bank balances. However, the said balance amounted to Indian Rupees 182,176 as per accounts of the Corporation.

2.2.7 Lack of Evidence for Audit

The evidence shown against each of the following assets, liabilities, and payments shown in the accounts, had not been made available to Audit.

Item of Account	Value	Evidence not Made Available
	Rs.	
(a) Lands	7,764,234	Register of Fixed Assets Physical Verification Reports
(b) Buildings	168,923,977	Physical Verification Reports Register of Fixed Assets Files relating to the assets received from foreign countries as donations.
(c) New Building of the Head Office	189,338,449	Approved plan, expenditure estimates, work-done certificates, and invoices relating to construction of the building.
(d) Trade Debtors of the Lakhanda Branch	12,807,802	Schedules detailing out the files and values.
(e) Payments	33,613,157	45 vouchers relating to payments.
(f) Balance in the account of the State Bank of India	182,176	Confirmation of Balances.
	412,629,795	

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The sum of Rs. 149,420,035 payable to the Telecommunications Regulatory Commission as at 31 December of the year under review included balances that remained unsettled over a period of 36 years from the year 1981.

(b) Action had not been taken adequately to settle the loans older than 10 years amounting to Rs. 59,692,746 included in the foreign debtor balances totalling Rs. 62,267,095 as at 31 December of the year under review.

(c) Letters of verification of balances had been sent to 136 trade debtors with an aggregated value of Rs. 82,612,880 as at 31 December of the year under review. Only 07 of them valued at Rs. 1,063,687 had sent replies confirming that they had no balances to be paid to the Corporation.

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

The following non-compliances with Laws, Rules, Regulations, and Management Decisions were observed in audit.

Reference to Laws, Rules, and Regulations, etc.	Non-compliance
(a) Nation Building Tax Act, No. 09 of 2009 amended as at 30 April 2013	In terms of Sections 4(i), and (ii) of the said Act, the tax for the relevant month should be remitted to the Department of Inland Revenue on or before the 20th day of the ensuing month. The tax reports relating to each quarter should be sent to the Department of Inland Revenue on or before the 20th day of the ensuing quarter in terms of Section 8 (d) of the said Act. Nevertheless, the Corporation had paid the NBT after a lapse of over 02 months from the specified date. Furthermore, the quarterly tax reports had not been furnished to the Department of Inland Revenue on time.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i.) Financial Regulation 177	The total of the unidentified direct debits of the account amounting to Rs. 1,002,063 as at 31 December 2017 had not been settled even up to 31 May 2018. The said balance included a sum of Rs. 49,318 being brought forward from the year 2016.
(ii.) Financial Regulation 396 (ii), (iii)	Action had not been taken in terms of Financial Regulations with respect to 23 cheques valued at Rs. 918,136 not presented to the bank for payment despite a period of 06 months had elapsed as at 31 May 2018 since the date of expiration.
(c) Sections (a), (b) of Paragraph 4.2.1 of the Government Procurement Guidelines.	The main Procurement Plan should be prepared by the procurement entity, and the procurement activities expected for at least 03 years should be listed therein. Nevertheless, the Corporation had prepared a Procurement Plan only for the year 2017.
(d) Paragraph 2.11 of Schedule 03 of the Treasury Circular, No. 842, dated 19 December 1978.	A Register of Fixed Assets had not been prepared in terms of the Circular; instead, such a register had been maintained on computer, but particulars relating to items of importance such as, lands, buildings, vehicles, generators, and transmitters had not been included therein.
(e) Treasury Circular, No. IAI/2002/02, dated 28 November 2002.	A Register of Fixed Assets should separately be maintained for computers, accessories, and software. But a Register of Fixed Assets had not been maintained.

(f) Public Enterprises Circular, No. PED/12, dated 02 June 2003,	
(i.) Paragraph 7.2	The Corporation having stocks valued at Rs. 27,677,392 as at 31 December 2017, manually maintained the stock reports. As a computerized accounting software, or at least a spreadsheet software had not been used to maintain stock reports in terms of the relevant regulation, it was observed that a considerable length of time was taken to obtain the final stock reports.
(ii.) Paragraph 7.4.5	The Corporation should have verified the physical existence of every fixed asset by appointing Committees annually. Nevertheless, the vehicles had not been physically verified in the year under review.
(g) Public Enterprises Circular, No. PED 01/2015, dated 25 may 2015.	(i) For an officer to be entitled to official vehicles or transport allowance, he should belong to the category HM 1-1 or above in terms of Circular, No. MSD 03 issued by the Department of Management Services in the year 2006. Nevertheless, a monthly transport allowance of Rs. 20,000 had been paid from 01 December 2017 to directors of the Corporation who had not been absorbed into the said salary scale. (ii) Among those whom the said allowance had been paid to, it was observed that there was an officer officiating in the post of Director who had not been qualified enough to be absorbed into the said salary scale, and produced bogus educational certificates.
(h) Paragraph 02 of the Public Finance Circular, No. 02/2015, dated 10 July 2015.	Action should have been taken to identify and dispose of the condemned vehicles. However, 2 vehicles revalued to have been Rs. 1,300,000 set aside from use after being condemned for 2-10 years, and a vehicle of which the cost could not be identified, had not been disposed of as per Circulars.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the year under review had been a profit of Rs. 71,383,395 as compared with the corresponding profit of Rs. 55,217,495 in the preceding year, thus indicating an improvement of Rs. 16,165,900 equivalent to 29 per cent in the financial result of the year under review. The 33 per cent increase, equivalent to Rs. 22,801,224, in the other operating income had mainly attributed to the increase in the net profit.

The analysis on the financial result of the year under review and 04 preceding years indicated a net loss for the years 2013 and 2014 whereas a net profit had incurred in the years 2015 and 2016. When the employee remuneration, taxes paid to the Government, and depreciation on non-current assets were adjusted to the financial result, the contribution of the year 2016 amounting to Rs. 813,039,252 had decreased to Rs. 812,076,634 in the year 2017.

3.2 Analytical Financial Review

The following observations are made.

a) According to the numerical values shown in the accounts for the year under review, the current ratio and instant ratio had been 1.77 and 1.71 respectively as compared with the preceding year. However, due to the fact that the debtors shown under the current assets had included the local debtor balances totalling Rs. 53,413,844 continued to exist for 02-42 years along with foreign debtor balances totalling Rs. 61,918,484, it was observed that there was no possibility of recovering the loans, and no liquidity existed.

b) As compared with the preceding year, the gross profit ratio of the year under review had increased from 6.24 per cent to 10.81 per cent. It was observed that the sales cost relating to the sales income of the station in Trincomalee being shown under other operating cost, had mainly attributed thereto.

c) As compared with the preceding year, the net profit ratio had increased from 8.3 per cent to 10.82 per cent, and the increase in other miscellaneous income as compared with the preceding year had attributed thereto.

3.3 Legal Cases Instituted by or against the Corporation.

The following observations are made.

a) Although a case had been filed in the Colombo District Court to recover a sum of Rs. 150,000 in respect of the programmes that the People's Trust Credit Investments Company had broadcast through the Corporation, the case could not be proceeded as the accused had left the place of residence, and hence, the case had been laid aside for a period of over 02 years.

b) A case had been filed in the Colombo District Court to recover a sum of Rs. 471,715 in respect of the programmes that the Lanka Cement Company had broadcast through the Corporation. However, due to failure of the Corporation to furnish particulars on the assets of the Company in the wake of the order issued by the Court that the assets of the accused be furnished in view of issuing a writ, the case had remained laid by for a period of over 02 years.

c) In order to recover the sums of Rs. 4,716,813 and Rs. 7,551,750 relating to frauds committed by a Sales Executive Officer in 02 instances, the Corporation had filed 02 cases in the Colombo District Court and Provincial High Court. However, the said cases had remained laid by for a period over 03 years as the accused had left his residence.

d) The Corporation had made an appeal to the Provincial High Court of Colombo against the verdict demanding the payments of Rs. 80,311 and Rs. 80,311 for contribution and surcharge be made with respect to a lawsuit filed at the Colombo Magistrate Court due to the failure of the Corporation to pay contributions to the provident fund of an employee of the community radio in Girandurukotte. Legal charges amounting to Rs. 245,000, as thrice as the compensation, had been paid up to the end of the year under review.

4. Operating Review

4.1 Performance

4.1.1 Planning

a) The Internal Audit Plan that should have been presented with the Action Plan in terms of Public Finance Circular, No. 01/2014, dated 17 February 2014, had not been furnished.

b) A Corporate Plan had not been prepared for the period 2017-2019 in terms of Section 5.1.2 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003. Instead, the Corporate Plan for the period 2012-2016 had been made available to Audit.

4.2 Management Activities

The following observations are made.

a) As registers had not been maintained in a manner that the cost of assets , either sold or withdrawn from use out of the ones purchased by the Corporation since the year 1974, could be identified, the cost thereof had not been eliminated from accounts. Hence, differences between the balance of fixed assets shown in the financial statements as at the end of the year under review, and the assets physically existing at the Corporation were observed. No adequate action had been taken by the parties responsible to rectify those differences even up to the date of the report.

b) Despite being stated in the report of the Board of Survey made available to Audit relating to Stores No. 02 that instructions had been issued to take measures to dispose of several items not in use be disposed of, the items to be disposed of had not been mentioned on the papers used in valuing stocks.

c) An interest of Rs. 5,419,200 had been paid on the bank overdrafts obtained by the Corporation for the year 2017 whereas as the interest income from the fixed deposits amounted to Rs. 4,868,900. Accordingly, the sum that the Corporation had been deprived of by maintaining overdrafts with surplus funds being invested in fixed deposits, amounted to Rs. 550,300.

d) The sum of Rs. 144,722 that should have been reimbursed relating to the period 2004 – 2009 from a person who had been resigned from the Corporation and released from time to time to other institution while in service, had not been reimbursed up to the date of audit, 03 September 2018.

e) Despite being verified that the Corporation had sustained a loss owing to a financial fraud of Rs. 221,965 older than 21 years, and another fraud of similar nature that had taken place in the year 2007 involving a sum of Rs. 281,110, no action had been taken even up to the end of the year under review to settle the relevant losses and damages.

f) A sum of over Rs. 153 million had been maintained throughout the year in a bank account said to have been opened in view of Letters of Credit, but no interest income whatsoever had been received on that sum. Had that amount been deposited in a general savings account, the Corporation could have earned an interest income of at least Rs. 14,356,565.

g) A case had been filed at the Colombo District Court by a former Chairman of the Ceynor Foundation saying that he had been defamed in a news item broadcast by the SLBC. Accordingly, the SLBC was ordered to pay a sum of Rs. 10 million. As such, it was observed in audit that the Corporation had contradicted its objectives of fostering a meaningful broadcast media culture conforming to a Code of Ethics, and providing reliable and balanced, information.

4.3 Operating Activities

The Audit observed the verification of 99 items of stocks on 17 February 2017. Among those items, differences between book balance and physical balance relating to 12 items were observed, but that difference had not been mentioned in the physical stock verification reports furnished to the Audit; instead, the physical stock balance and the book balance had been shown as being equal. Furthermore, 19 unused electrical items in Store No. 01 that had been observed in the audit at the stock verification, had not been shown in the annual report of the Board of Survey.

4.4 Transactions of Contentious Nature

The following observations are made.

(a) The officer who had served in the capacity of Director General of the Corporation, had been released from that position with effect from 19 January 2015. However, the said officer had not been reinstated in the previously held position of Deputy Director General in terms of Section 19 (3) (b) of the Sri Lanka Broadcasting Corporation Act. Instead, he had been positioned in the post of Consultant of the Corporation with effect from 19 October 2015 on the approval of the Board of Directors sans Cabinet approval, but it had been informed that he would not accept that post. Nevertheless, a payment of Rs. 3,227,353 had been made from the year 2015 up to 31 December of the year under review on official residence, official vehicles, fuel, salaries, Employees' Provident Fund, and telephone allowances that a Director General had been entitled to. Once retired, the service of that officer had been extended for 06 months under approval of the Cabinet, and the pre-retirement salary along with other facilities had also been approved without assigning a specific duty.

(b) According to the Letter of the sales manager of the Spanish supplier, dated 25 January 2017, all expenses of the two officers taking part in the training on audio mixers, would be borne by the Spanish supplier. However, a sum of Rs. 341,848 had been paid as expenses for food for 02 officers based on a letter of the Managing Director of the local agent.

4.5 Apparent Irregularities

Funds had been allocated to purchase 12 Mixer Consoles based on requirements at the time of commencing the renovation project of control rooms C1 – C12 of the Head Office in the year 2016. However, the Corporation had sustained a loss of Rs. 6,452,319 in the wake of taking measures to purchase 06 Mixer Consoles in each of the years 2016 and 2017.

4.6 Underutilization of Funds

Although Government grants amounting to Rs. 214.3 million had been received for capital expenses in the year 2017, only a sum of Rs. 175.6 million had been spent on capital expenses according to the payment vouchers. As such, about 18 per cent of the Government grants received for capital expenses had been saved.

4.7 Idle/Underutilized Assets

The following observations are made.

a) A Short Wave Transmitter of functional state handed over to the Corporation after being used by the Voice of America in Iranawila, had been stored at the Station in Trincomalee without being used and proper security up to the date of audit, 03 September 2018.

b) A motor car that could have been made use of after being repaired, had remained idle over a period of 1 ½ years at the premises of Head Office in Colombo.

4.8 Uneconomic Transactions

According to the reports of the Department of Inland Revenue relating to taxes in arrears, economic service charges, Nation Building Tax, and Value Added Tax totalling Rs. 90,054,857 and fines thereon totalling Rs. 51,684,603 had remained payable to the Department of Inland Revenue as at 17 September 2018.

4.9 Identified Losses

A preliminary inquiry had been carried out in March, 2018 on the theft of a part of RF Cable in the premises of the Haputale Station that had belonged to a TV Station with responsibility assigned to the Sri Lanka Broadcasting Corporation for protection thereof. Nevertheless, no action had been taken even up to the date of audit, 03 September 2018 to assess the loss of the said cable in diameter of 3 ½ inches in order to recover the value from the parties responsible.

4.10 Commencement of Projects on Lands / Properties not Vested Properly

The following observations are made.

a) The land in extent of 2.5036 hectares in Colombo on which the Department of Broadcasting had been maintained and currently used by the Sri Lanka Broadcasting Corporation, is enjoyed since 1949. But, the Corporation has failed to take over the land legally.

b) In terms of Section 2.3.1 of the Government Procurement Guidelines, it is the responsibility of the officers of the Procurement Committee to verify that the procurement entity has completed the land acquisition when buildings are constructed, and all other procurement preparedness activities as may be relevant to the project, have been executed. However, without obtaining clarifications from the officers responsible, a payment of Rs. 1,579,442 had been made to a contractor as at 31 December 2017 for the construction of a 2-stroied building for *Kandurata Sevaya* on a land belonging to the Ministry of Higher Education and located at a distance of 500 meters from the land "*Aniwatta Bahirawakanda*" in extent of 23 perches with an old building that had been fully-owned by the Corporation.

c) Although a vehicle in running condition provided by the Board of Investment had been brought to accounts after being revalued to the sum of Rs. 2,300,000 in the year 2010, action had not been taken even up to the date of audit, 03 September 2018 to properly vest the ownership thereof in the Corporation.

4.11 Resources of the Corporation Released to other Government Institutions

In terms of Section 9.4 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, employees of Government Corporations should not be released to other institutions without Cabinet approval. However, a **Grade-I Reporter, and an Administrative Officer (Rural)** had been released to two other institutions sans approval of the Cabinet.

4.12 Staff Administration

The following observations are made.

a) Approval had not been obtained even up to the date of audit in August 2018, on the Scheme of Recruitment and Promotion in accordance with provisions of the Circular, No. 30 of the Department of Management Services, dated 22 September 2006.

b) According to the information made available, the permanent cadre of the Corporation had been 803 including 302 excess cadre as at 31 December of the year under review.

c) Three main executive posts of the Corporation namely, Additional Director General, Deputy Director General (Finance), and Deputy Director General (Engineering) had remained vacant for a period of 03-09 years. Furthermore, 08 vacancies in the posts of Deputy Director General (Engineering), Director Engineer (Studio), Superintendent Engineer, and Engineer had remained vacant for a period of 01-04 years. It was further observed that those vacancies had made a negative impact on the performance of the Engineering Division.

d) A number of 227 employees had been recruited to 47 unapproved posts of the Corporation in the year under review.

e) When an internal applicant is appointed to the post of Engineer in terms of Paragraph 06 of the Scheme of Recruitment of the Sri Lanka Broadcasting Corporation, a period of service of 05 years should have been completed in the post of Grade-I Technical Assistant. However, it was observed that in the years 1985 and 2002, two officers who had not completed a service period of 05 years in the said post, had been appointed to the post of Engineer.

4.13 Market Share

According to the report of the Lanka Market Research Bureau Limited (LMRB), the Sinhala National Service maintained among 08 main local Sinhala services by the Sri Lanka Broadcasting Service held the 10^{th} rank out of 29 radio channels by September 2017 whilst the other services remained lower than that. As for the regional services, Ruhunu Service held the 24^{th} position.

5. Sustainable Development

5.1 Achievement of sustainable development goals

The following observations are made.

a) Every Government institution should comply with the Letter, No. NP/SP/SDG/17 of the Secretary to the Ministry of National Policies and Economic Affairs, dated 14 August 2017, relating to sustainable development, and the 2030 Agenda for Sustainable Development adopted by the United Nations . The Corporation had not been aware as to how to act in regard to the activities under its purview.

b) As the Board had not been aware of the 2030 Agenda, no action had been taken to identify the sustainable development goals and targets, milestones in reaching those targets, and the indicators to measure the achievement of the targets.

6. Accountability and Good Governance

6.1 Procurement and Contract Process

6.1.1 Procurements

The following observations are made.

a) An annual Procurement Plan had been prepared only for the procurements made with capital grants from the Government. However, a main Procurement Plan had not been prepared at least for a period of 03 years by including the procurements to be made from recurrent grants and funds of the Corporation. As such, the procurements relating to projects extending over one year, and the procurements for which recommendations of the Committee had not so far been implemented despite being approved by the Procurement Committee, had not been evaluated at all.

b) Procurement worth Rs. 80 million and Rs. 193.75 million had been planned in the years 2016 and 2017 for renovating the control room of the Head Office, and FM station in Haputale respectively. However, procurements worth Rs. 43 million and Rs. 88.7 million had only been executed respectively even by the end of the year 2017, thus failing to execute procurements worth Rs. 37 million and Rs. 105.05 million respectively.

c) Although the Corporation executed procurements worth approximately Rs. 200 million annually, the failure to establish a separate division for procurements had mainly contributed to weaken internal control. Accordingly, systems of internal control such as, policies, practices, and organizational structures had not been introduced in order to minimize the risks of errors in procurements.

6.2 Tabling of Annual Reports

The annual report for the year 2015 had not been tabled in Parliament even up to the date of audit, 31 August 2018.

6.3 Unresolved Audit Paragraphs

The unresolved audit paragraphs mentioned in the audit report for the year 2016 are as follows.

a) In spite of financial and technical feasibility, the construction work of the antenna tower in Puttur had been assigned to the Handicrafts Board on 16 July 2011 by deviating from the Procurement Guidelines. A sum of Rs. 9,126,933 had been paid to the Handicrafts Board as advance, but the contract had been abandoned with no constructions made. As only a sum of Rs. 4,348,041 had been repaid to the Corporation out of the advance, a loss of Rs. 4,778,892 had occurred.

b) A sum of Rs. 23,119,683 had been spent in the year 1996 for importing 2 antenna towers in length of 60 m and 100 m. A private institution had been paid a sum of Rs. 2,568,000 as an advance to erect the towers. As locations for installation had not been decided, those towers had not been erected even up to the end of the year under review but remained unprotected at the premises in Ekala.

c) Action had not been taken to obtain certificates of transfer and properly take over the ownership of 02 houses (Anuradhapura, and Kandy) purchased by the Corporation at a sum of Rs. 860,000.

d) According to the Paragraph 07 of the Sri Lanka Accounting Standard 16, if the institution receives future benefits from a certain property, and the cost thereof can be computed, it should be identified as an asset. However, the motor vehicle bearing the number 058-6222 with an insurance value of Rs. 2,200,000 received from the Ministry of Mass Media, had been made use of by the Corporation since the year 2014 though, the vehicle had not been identified as a fixed asset and brought to accounts.

e) The vehicle bearing number 60 ශ්‍රී 355 given by the Mahaweli Authority and remaining parked at the premises of the station in Ekala for a period of over 10 years after being withdrawn from use, had been revalued for a sum of Rs. 150,000 and brought to accounts in the year 2010, but due to failure in taking action so far to properly take over the ownership thereof, the vehicle remained without being possible even to be disposed of.

f) At the conclusion of the projects commenced in the year 1989 under assistance of the NHK of Japan, the building of the transmitter along with all the instruments had been handed over to the Head Office of the Broadcasting Corporation in the year 1993. The said land and building had been assessed to the value of Rs. 960,000,000 as per the assessment report dated 29 July 2011. But, no asset whatsoever had been brought to accounts, and no file relating to the project had been made available to audit as well.

g) Due to default on lease rent in violation of the agreement, a lawsuit had been failed against the lessee of the "*Niwahana*" holiday bungalow in Nuwara Eliya thereby evicting the lessee. However, the Corporation had not taken legal action even up to 31 August 2018 to reclaim the legal charges totaling Rs. 2,151,206 incurred from the year 2010 to recover the lease rents totalling Rs. 5,106,500 relating to the period 2005-2014 along with the ownership of the property.

h) An area of land in extent of about 30 acres within the areas of Nuwara Eliya and Welimada Divisional Secretariats, had been allocated by the Government in the year 1984 for establishing the radio station in Ambewela. Nevertheless, action had not been taken to legally take over the said land through a lease agreement, and the land had not been made use of for the intended purpose even up to 31 December 2017. Although action had been taken to sign the lease agreement with respect to the land of 06 acres therefrom belonging to the Divisional Secretariat, Nuwara Eliya, the Divisional Secretary had taken action to lease out a part of the same land to a private institution named "Vidulanka". Furthermore, the Corporation had failed to obtain lease rights for the rest of the 24 acres belonging to the Divisional Secretary of Welimada, and only the 02 tourist bungalows at the land had been maintained by the Corporation.

i) The land in Kalatuwawa in extent of 1.503 hectares purchased in the year 1990 at a sum of Rs. 50,000 for establishing an FM station, had not been made use of for the intended purpose up to the date of audit, 03 September 2018. An extent of 19.77 perches therefrom had been enjoyed by the Lankabell Ltd since the year 2011 by erecting a tower, and although the said company had agreed to pay a sum of Rs. 15,000 monthly in that connection, that lease rent for the land could not be recovered by the Corporation since the year 2011 due to failure in entering into a lease agreement.

j) The lease period of the property with "Niwahana" holiday bungalow that had been obtained under a lease agreement for 30 years entered into with Divisional Secretary of Nuwara Eliya, had expired in October 2015. The ownership of the property had then belonged to the Divisional Secretary since then, but despite that, the property had been given on lease to a buyer for maintaining a holiday resort for a period of 03 years from 01 June 2015 at a monthly lease rent of Rs. 290,000, and the lease rent in arrears totaled Rs. 725,000 as at 31 December of the year under review. it was thus observed that leasing out of a property that had not belonged to the Corporation, was a controversial issue.

k) Although a sum totalling Rs. 3,212,113 had been spent in several instances since the year 2008 on the automation of radio services, the relevant software had become functional only for 03 services even by December 2017 enabling the intended facilities. As such, it was observed that many of the activities had not become automated so far despite the extensive amount spent on the software.

l) During the period 2000-2001, the Divisional Secretary of Katana had distributed 1027 plots of land in extents of 10 perches each from the land of 125 acres in Seeduwa belonging to the Corporation, among the people without consent of the Corporation. The rights of the land had belonged to the Corporation up to the date of audit, 03 September 2018 though, no adequate action had been taken to recover compensation.

m) The equipment named Power Logger valued at Rs. 425,000 that had been in use at the Power Section while in the custody of Security Division, had been misplaced on a day between 19 October 2016 and 27 October 2016. Despite being verified that the equipment had been misplaced whilst being in use at the said Section in accordance with the verbal statement given by the Security Division, the loss had not been recovered from the parties responsible even up to the date of audit, 05 September 2018.

7. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Corporation from time to time. Special attention is needed in respect of the following areas of control.

Areas of Systems and Controls	Observations
a) Control of Assets	(i) Failure to take action to obtain deeds legally for the lands purchased by the Corporation. (ii) Failure to secure the lands belonging to the Corporation, and a large extent of lands remained unused. (iii) External parties encroaching on the lands not enjoyed by the Corporation. (iv) Failure to physically verify the lands and buildings. (v) Due to failure in separately identifying the cost and location of many of the fixed assets, a large number of older assets had been sold without eliminating them from the books. (vi) Failure to conduct a physical verification on vehicles.
b) Accounts Receivable	(i) Non-recovery of loan balances older than 42 years. (ii) Failure to identify and reconcile the differences between the Debtor Control Accounts and Schedules.
c) Stock Control	(i) Failure of the Board of Survey to report on the shortages and excesses of stocks identified in the stock verification. (ii) Due to failure in computerizing the data relating to items of stock, it takes extensive time to obtain stock reports.

d)	Accounts Payable	(i) Failure to take action to identify and reconcile the differences between Debtor Control Accounts and Schedules. (ii) Existence of unpaid accrued expenses relating to period of 02 – 10 years. Failure to analyze and settle the expenses having no actual liability or exceeded the period of liability in regard to those accrued expenses. (iii) Failure to properly identify the tax liability and the taxes relating to the year thereby settling the tax liability on time. Payment of surcharges on the taxes in arrears.
e)	Staff Administration	(i) Failure to obtain approval on a Scheme of Recruitment. (ii) Making recruitments continuously for posts not approved resulting in excess employees. (iii) Despite the interviews held properly, underqualified applicants had been recruited based on cancelled interviews.
f)	Accounting	(i) Failure to update the accounting policy of the Corporation. (ii) Observation of accounting deficiencies in the assets, liabilities, income, and expenditure accounts. (iii) Deficiencies in noting the numbers, values, and remarks of the journal vouchers which had been a main source document in accounting.
g)	Procurements	(i) Failure to prepare a detailed Procurement Plan. (ii) Deficiencies in transferring a contract for renovating a radio station.