

## **Selacine Television Institute - 2017**

-----

The audit of financial statements of the Selacine Television Institute for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 and the statement of financial performance, cash flow statement and the statement of changes in equity 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 Selacine Television 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 from the Mahaweli Authority 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 2017 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**

-----

The following observations are made.

(a) **Sri Lanka Public Sector Accounting Standard 1**

-----

According to Paragraph 48 of the Standard, assets and liabilities, and revenue and expenses shall not be set off unless required or permitted by a Sri Lanka Public Sector Accounting Standard. Nevertheless, the Institute had set off Value Added Tax and Nation Building Tax payable amounting to Rs. 186,181,686 against the tax receivable totaling Rs.112,861,729 and only a balance payable amounting to Rs.73,319,957 had been shown in the financial statements.

(b) **Sri Lanka Public Sector Accounting Standard 7**

-----

Since useful life of the non-current assets had not been reviewed annually as required by Paragraph 65 of the Standard, fixed assets of 05 categories costing Rs.13,041,759 were further in use despite being fully depreciated. Accordingly, action had not been taken to revise the estimated error in terms of Sri Lanka Public Sector Accounting Standard 03.

#### **2.2.2 Accounting Policies**

-----

Even though furniture and computer accessories had been depreciated at a rate of 10 per cent and 20 per cent respectively, it had been shown in the accounting policies that depreciation was being done in a range between 02 years to 10 years and 03 years to 05 years respectively.

### **2.2.3 Accounting Deficiencies**

-----

The following observations are made.

- (a) A sum of Rs.71,502 paid to the Department of Pensions in respect of a former Working Director of the Institute pertaining to the period from 27 April 2016 to 31 December 2016, had been brought to account as an expenditure of the year instead of being adjusted to the profit of the preceding year.
- (b) Even though a Cab received as a donation from the Ministry of Finance and Mass Media in the year 2004 was vested in the Institute during the year 2011 and being used at present, the said asset had not been valued and brought to account despite being used for 13 years up to 31 December 2017.
- (c) Even though the annual depreciation for camera and video equipment purchased at a cost of Rs.115,300 and Rs.115,500 respectively in the years 2009 and 2011 amounted to Rs.11,530 and Rs.11,550, those had been depreciated at Rs.2,306 and Rs.6,930 respectively per year. As such, the net value had been overstated by Rs.83,016 and Rs.32,340 whereas the depreciation of the year had been understated by Rs.9,224 and Rs.4,620 respectively as at 31 December of the year under review.

### **2.2.4 Lack of Evidence for Audit**

-----

Even though accounts receivable and payable for Value Added Tax had been brought forward from preceding years without being settled, age analysis thereon had not been made available. As such, the accurate amount of tax paid and received during the year could not be ascertained. Moreover, even though tax balances payable from preceding years were observed, no payment of tax whatsoever was observed during the year. The balance of Tax Account as at 31 December 2017 amounted to Rs. 54,853,633.

### **2.3 Accounts Receivable and Payable**

-----

The following observations are made.

- (a) The trade debtors balances as at 31 December 2017 amounted to Rs.377,742,663 and it included debtors balances of Rs.95,729,558 over 03 years representing 25 per cent of total debtors. No recovery had been made in respect of Rs.89 million pertaining to 42 debtors out of the said debtors balance over 03 years during the year under review.
- (b) Action had not been taken to settle a salary advance of Rs. 21,000 paid to an officer who had vacated the post despite a lapse of 03 years from 31 December 2014.

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

---

The following non-compliances were observed.

<b>Reference to Laws, Rules and Regulations</b>	<b>Non-compliances</b>
-----	-----
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
(i) Financial Regulation 103(1)(c) and 104(1)(a)	Formal Inquiries on 2 accidents to motor vehicles occurred in the year under review, had not been held in terms of Financial Regulations.
(ii) Financial Regulation 110	A proper Register of Losses had not been maintained.
(b) Circulars No.05/2008 of 06 February 2008 and No.05/2008(I) of 24 January 2018 of the Ministry of Public Administration and Home Affairs	Even though every public institution should prepare the Citizen's Charter, the Institute had not taken action to prepare and implement the Citizen's Charter.

## 3. Financial Review

---

### 3.1 Financial Results

---

According to the financial statements presented, the financial result of the Institute for the year 2017 had been a net profit of Rs.1,210,436 as against the net loss of Rs.25,628,992 for the preceding year, thus indicating an improvement of Rs.26,839,428 in the financial result for the year under review as compared with the preceding year. Even though the direct expenditure had increased by Rs.199,212,092, the increase of income by Rs.239,658,881 had been the main reason for the above improvement.

An analysis of the financial results for the year under review and the 04 preceding years revealed a financial surplus in the years 2013 and 2017 and financial deficit in the years 2014, 2015 and 2016. However, in readjusting the employees remuneration and the depreciation for non-current assets to the financial result, the favourable contribution of Rs.36,182, 489 in the year 2013 had increased to Rs.55,447,319 with fluctuations in the year 2017.

## 4. Operating Review

---

### 4.1 Management Activities

---

- (a) The Institute had not paid employees provident funds of 28 months pertaining to the period from February 2002 up to December 2009 on the due date and as such, a penalty of Rs.812,459 had to be paid. According to the letter No.19643/AC of 14 January 2011 issued by the Assistant Commissioner of the District Labour

Office in Colombo Central, approval had been granted to pay the said amount by 10 installments of Rs.81,245 each and a sum of Rs.406,229 had been paid from August 2017 to December 2017. Even though the said penalty paid from the funds of the Institute should be recovered from the officers responsible for the delays in the payment of provident funds, it had not been so recovered.

- (b) The officer who has been recruited as the Internal Auditor of the Institute had committed a financial fraud of Rs.11,988,000 in the year 2014 due to weak financial management, weaknesses in internal control and failure in implementing the internal audit systematically. Nevertheless, no amount whatsoever had been recovered from the responsible party even by the end of the year under review as the relevant inquiries were not concluded without delay.

#### **4.4 Staff Administration**

-----

The Institute had recruited an officer from 09 April 2015 for the post of Personal Legal Adviser which was not included in the approved cadre. Further, a sum of Rs.849,000 had been paid as allowances and fees from the year 2015 to the year 2017 without an approval.

### **5. Sustainable Development**

-----

#### **5.1 Achievement of Sustainable Development Goals**

-----

Every Government institution should act in terms of the 2030 “Agenda” for Sustainable Development of the United Nations while the Institute had not been aware of the manner in implementing the functions that come under its scope pertaining to the year under review. As such, action had not been taken to identify the sustainable development goals, targets relating to those functions and focal points to reach those targets and indices for measuring the achievement of targets.

### **6. Accountability and Good Governance**

-----

#### **6.1 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 within 60 days after the close of the year of accounts. Nevertheless, the financial statements for the year ended 31 December 2017 had been presented to the Audit by the Selacine Television Institute only on 18 July 2018 with a delay of 140 days.

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

**Areas of Systems and Controls**

-----

**Observations**

-----

- |                                   |  |
|-----------------------------------|--|
| (a) Internal Audit                | Failure to strengthen the Internal Audit Unit by attaching a suitable staff to enable the identification of weaknesses in the internal control and the changes to be made. |
| (b) Debtors and Creditors Control | Failure to maintain records to enable obtaining correct information on due date in the manner required and non-settlement of loan balances on due dates.                   |
| (c) Payment of Advances           | Failure in adhering to the provisions in financial regulations and circulars to be applied in the payment of advances.   |
| (d) Assets Control                | Non-maintenance of Register of Fixed Assets and the Inventory, failure to conduct the Boards of Survey properly and to submit the reports thereon.                         |