Selacine Television Institute - 2018

1.1 Qualified Opinion

The audit of the financial statements of the of Selacine Television Institute for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of comprehensive income and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be tabled in Parliament appear in this report.

In my opinion, except for the effects of the matters described in Paragraph – Basis for Qualified Opinion of this report, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAS). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Sub-section 16 (1) of the National Audit Act No. 19 of 2018, the Institute is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Institute.

1.4 Scope of Audit (Auditor's Responsibilities for the Audit of the Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Institute, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;

- Whether the Institutehas performed according to its powers, functions and duties; and

- Whether the resources of the Institutehad been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-compliances with Sri Lanka Public Sector Accounting Standards

The following non-compliances were observed.

	Non-compliance with Reference to the Relevant Standard	Comment of the Management	Recommendation
a)	The Property, Plant and Equipment, the cost of which amounted to Rs. 19,185,720 as at 31 December of the year under review in accordance with the financial statements, had been depreciated in full. Action had not been taken to identify the assets still in use, thereby failing in annually reviewing the useful life in terms of Section 65 of the Sri Lanka Public Sector Accounting Standard, No. 07 thus revising the estimated error in accordance with Sri Lanka Public Sector Accounting Standard, No. 03 and properly disposing of the unusable assets by rectifying the financial statements.	Action has been taken in terms of Sri Lanka Public Sector Accounting Standard 03 to review the useful life and evaluate again. Action will be taken to dispose of the unusable assets thus writing them off of the Inventory.	Action should be taken in terms of Accounting Standards to rectify the financial Statements.
b)	Following the verdict of a case filed by an officer against the Institute, a sum of Rs. 992,080 had been paid to that officer on 03 July 2019. However, that had not been adjusted in the financial statements in accordance with Section 9 of the Sri Lanka Public Sector Accounting Standard, No. 06.	That could not be included in the report of the account for the year 2018 by mistake. Action will be taken in due course to make provision.	In accordance with the nature of incidents following the date of the balance sheet, disclosures and adjustments should be made in the financial statements in a suitable manner.

1.5.2 Accounting Deficiencies

Audit Observation	Comment of the Management	Recommendation
Allocations for gratuity should have amounted to Rs. 11,119,014 as at 31 December of the year under review, but the same had been shown as Rs. 11,919,393. As such, allocations for gratuity had been overstated by a sum of Rs. 800,379.	The over provisioned amount of Rs. 800,379 will be rectified by adjusting to the profit and loss account being brought forward.	Allocations for gratuity should be accurately computed and brought to accounts.

1.5.3 Lack of Documentary Evidence for Audit

Item	Sum Rs.	Audit Evidence not Made Available	Comment of the Management	Recommendation
Property, Plant, and Equipment	8,602,172	Detailed schedules.	A comprehensive register on the assets is being prepared with respect to useful life, assessed value, and cumulative depreciation.	Detailed schedules should be maintained for the Property, Plant, and Equipment.

1.6 Accounts Receivable and Payable

1.6.1 Monies Receivable

Audit Observation	Comment of the Management	Recommendation
The balance of the trade debtors totaled Rs. 451,976,993 as at 31 December of the year under review, and that included a debtor balance of Rs. 102,655,375 continued to exist over 3 years representing 23 per cent of the total debtor balance. No adequate action had been taken for the recovery of that balance. As at 31 July 2019, a sum of Rs. 100,024,268 remained further recoverable therefrom.	The balance of the trade debtors totaled Rs. 451,976,993 as at 31 December of the year under review. Action has been taken for the recovery of Rs. 102,655,375 remained therein over a period of 03 years	The recovery of loans should be expedited.

1.6.2 Monies Payable

Audit Observation	Comment of the Management	Recommendation
The balance of the account payable as at 31 December of the year under review amounted to Rs. 51,372,048. Action had not been taken to settle a sum of Rs. 36,422,506 therefrom that had continued to exist from the years, 2015, 2016 and 2017.	Action has been taken to settle the payments to be made with respect to the years 2015, 2016, and 2017 after being obtained from the relevant clients.	Action should be taken to settle the accounts payable.

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

Reference to Laws, Rules, and Regulations, etc.	Non-compliance	Comment of the Management	Recommendation
	Rs.		
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.			
(i) Financial Regulation 105 and 109.	According to the report dated 19 December 2017 of the Committee appointed to investigate the camera costing Rs. 94,900 that had been misplaced in October 2017, it had been decided to recover a loss of Rs. 118,625. However, no action had been taken even up to 25 October 2019 to recover that loss thereby failing to remove from the inventories.	Approval of the Board of Directors has been obtained for the said recovery. Action will be taken in due course to promptly recover from the relevant parties and remove from the inventory.	Acton should be taken for the recovery of losses in accordance with the recommendations of the Committee.
(ii) Financial Regulation 371 (2) (b), and Public Finance Circular, No. PFD/RED/01/04/2015/01, dated 14 July 2015.	A sum of Rs. 494,662 had been given as advances to 08 non-staff grade officers in 23 instances whereas in 13 instances, advances totaling Rs. 3,374,500 had been given in excess of the maximum of Rs. 100,000.	Advances had been given to non-staff grade officers only for purchasing items relating to the recreational activities of the Institute. However, having been rectified at present, advances are given to a staff grade officer.	Advances should be given and settled in accordance with the Financial Regulations.
(iii) Financial Regulation 396.	Action had not been taken in terms of Financial Regulations on 09 cheques valued at Rs. 106,735 and older than 06 months.	Financial Regulations will be followed.	Financial Regulations should be followed.
(b) Public Finance Circular, No. PF/PE/05, dated 11 January 2000, and Public Enterprises Circular, No. 95, dated 14 June 1994.	A sum totaling Rs. 1,553,256 comprising entertainment allowances, sales allowances, and attendance allowances had been paid in the year under review without obtaining Treasury approval.	Those payments had been made by obtaining approval of the Board of Directors.	Approval of the Treasury should be obtained for the payment of allowances.

(c)	Public Enterprises Circular, No. PED/12, dated 02 June 2003.			
(i)	Section 6.5.3	The Annual Report of the year 2017 had not been tabled in Parliament even by 25 October 2019.	Action has been taken to submit the Annual Report to the Ministry of Mass Media and obtain the approval of the Cabinet.	The Annual Report should promptly be tabled.
(ii)	Section 8.2.1	The excess of revenue relating to each year should be remitted to the Treasury, but the Institute had not done so. The excesses for the year under review and the preceding year amounted to Rs. 29,704,437 and Rs. 1,210,437 respectively.	The Institute carried out its operations without receiving any provision from the Treasury. Action has been taken to invest the excess revenue generated through the operations of the Institute , in fixed deposit accounts under approval of the Board of Directors with a view to obtaining a building and other assets for the Institute.	Action should be taken in terms of the Circular to remit the excess revenue.
(iii)	Section 8.2.2	A sum totaling Rs. 20 million had been invested in 03 fixed deposit accounts without being approved by the Minister of Finance.	It is informed that a request has been made through the Line Ministry in order to obtain the consent of the honorable Minister.	Prior approval of the Minister of Finance should be obtained for the investments.
(iv)	Section 8.3.3	The financial statements of the year 2017 had been presented after a delay of 140 days. Nevertheless, a sum of Rs. 1,293,348 had been paid as bonus in the year under review.	Action will be taken in due course to present the financial statements on time. Bonus had been paid by obtaining approval of the Board of Directors.	Bonus should be paid in accordance with instructions of the Circular.
(d)	Public Enterprises Circular, No. PED 2/2015 dated 25 May 2015.	Payments can be made for communication bills in terms of provisions of the Circular. However, having added a fixed allowance to the salary, the Institute had paid a sum totaling Rs. 1,492,200 in the year under review. Furthermore, an overpayment of Rs. 88,000 had been made to 03 officers contrary to the allowance	Three staff grade officers are employed by the Institute and although they are entitled to a sum of Rs. 9,000 per month, only a sum of Rs. 7000 is paid. The other officers have been paid up to Rs. 5,000 as telephone allowance in accordance with the Circular.	The bills should be reimbursed in accordance with provisions of the Circular.

		approved in the Circular whilst a sum of Rs. 467,999 had been paid to the non-executive staff.		
(e)	Circular, Nos. 05/2008 dated 06 February 2008 and 05/2008(I) dated 24 January 2018 issued by the Ministry of Public Administration and Home Affairs.	All the state institutions should prepare the Citizens' Charter, but the Institute had not taken measures to prepare and implement the Citizens' Charter.	Action will be taken in due course to prepare the Citizens' Charter.	Action should be taken to prepare the Citizens' Charter.

2. Financial Review

2.1 Financial Results

The operating result of the year under review had been a profit of Rs. 29,704,437 as compared with the corresponding profit of Rs. 1,210,437 in the preceding year, thus observing an improvement of Rs. 28,494,000 in the financial result. This improvement had mainly been attributed by the decrease in direct expenses, and the decrease in sales and distribution expenses irrespective of the decrease in revenue.

2.2 Trend Analysis on the Items of Main Revenue and Expenditure

As compared with the preceding year, the revenue amounting to Rs. 637,351,163 had decreased to Rs. 597,861,538 by Rs. 39,489,625 in the year under review equivalent to 6 per cent. However, the other revenue that amounted to Rs. 4,379,747 in the preceding year increased up to Rs.13,822,647 in the year under review indicating 215 per cent. Furthermore, the direct expenses that amounted to Rs. 541,297,910 in the preceding year decreased to Rs. 490,793,242 in the year under review by Rs. 50,504,668 equivalent to 9 per cent whilst the sum of Rs. 26,231,866 being the sales and distribution expenses for the preceding year decreased to Rs. 21,892,667 by Rs.4,339,199 indicating 17 per cent in the year under review.

3. Operating Review

3.1 Uneconomic Transactions

Audit Observation	Comment of the Management	Recommendation
A sum of Rs. 480,000 had been paid to an external party on 15 November 2016 to obtain a building on rent for a period of one year with the objective of establishing a printing institution. The said sum had been paid although	The former governing body had made a payment of Rs. 480,000 to an external party to obtain a building on rent. However, that building had not been handed over after being suitably completed. The successive governing	Plans should be prepared following a feasibility study based on the duties of the Institute. Formal agreements should be entered into prior to incurring expenses.

the building had remained unusable and an agreement had not been entered into with the lessor as well. As such, the objective of establishing a printing division could not be achieved. The recovery of Rs. 400,000 therefrom had also ended up in failure.	body decided that this building was not necessary, and action was taken to recover a sum of Rs. 80,000. In order to recover the balance amount, action has been taken to send letters informing that a case would be filed through a lawyer.	

3.2 Management Inefficiencies

	Audit Observation	Comment of the Management	Recommendation
(a)	This Institute had been taken over by the Mini of Mass Media from the Mahaweli Authority on 20 December 2001. However, no provisions had been made through an Act or any other law in order to specify the objectives and activities thereof and implement the powers. Although action had been taken since the year 2009 to register this Institute under the name of "Selacine Limited" as a public company through the Companies Act, those attempts could not be completed even by the end of the year under review.	In the wake of receiving the Cabinet approval in the year 2018 relating to the registration of the Institute as a "Limited by guarantee company" belonging to the Government, a Articles of Association was prepared thereon and sent to the Director General of Legal Division of the Ministry of Finance under approval of the Department of Public Enterprises.	The activities relating to the incorporation of the Institute should be completed promptly.
(b)	According to the Cabinet Decision, No. 10/1682/407/014, dated 12 August 2010, advertisements and promotional activities of the state institutions should be carried out through the Selacine Television Institute. However, the management had not taken measures to fulfill the human and physical resources requirements required in that connection. Despite a lapse of 09 years, it was the norm for the Institute to award sub-contracts to private institutions without	As this Institute had continuously sustained losses during the period of its inception, activities such as purchasing camera equipment being the capital assets, could not be done. As such, it is pointed out that the external parties had to be relied upon.	Human and physical resource requirements should be planned, and measures should be taken to fulfill such requirements.

	adhering to the Cabinet Decision. According to the audit test check, a revenue of Rs. 37,418,546 had been received with respect to 07 productions of programmes, but a sum of Rs. 24,285,418 had been paid to external parties for producing those programmes.		

3.3 Management of Procurements

	Audit Observation	Comment of the Management	Recommendation
(a)	A vehicle had been obtained on rent for the Chairman of the Institute and a sum totaling Rs. 1,150,000 had been paid thereon relating to the period from July 2017 up to April 2018. Prior approval of the Treasury had not been obtained therefor in terms of Section 2.2 of the National Budget Circular, No. 1/2016, dated 17 March 2016, and contrary to Section 2.3 (I) of the Circular, a vehicle that had been driven for 8,864 Km, was obtained. Furthermore, a formal agreement had not been entered into between the Institute and the lessor in terms of Section 6 of the Circular. The formal procurement procedure had not been followed in selecting the supplier.	As the Institute had not possessed a vehicle suitable for the Chairman, a vehicle had been obtained on rent for the Chairman. A letter had been sent to the Treasury seeking approval in that connection. Action had been taken to follow the procurement procedure when obtaining the said vehicle, and it is informed that the vehicle had been obtained from the lowest bidder.	Procurement Guidelines and the provisions set out in the other relevant Circulars should be followed.
(b)	A building had been obtained on rent by the Institute without following the Procurement Procedure, and rental totaling Rs. 1,281,290 had been paid with respect to the period from August 2016 up to June 2017 at Rs. 120,000 per month along with an advance amounting to Rs. 720,000. Assistance of the Government Valuer had not been	Due to lack of ample space for the events in the present building, action had been taken to obtain a suitable building on short term basis. The time was not sufficient for valuing the building, and the events assigned by that time, had to be executed on time.	The requirements should be properly looked into, and plans should be prepared properly thus fulfilling the requirements.

sought in terms of Financial Regulation 835 (2) (c) to decide on the value of the monthly rental. Furthermore, in the event of one party terminating the agreement , the other party should be informed in writing prior to a period of 03 months as per the Agreement, No. 947, dated 11 August 2016. Nevertheless, the Chairman had informed *ex parte* that the agreement would be terminated with effect from 01 July 2017; hence, the advance amounting to Rs. 640,000 could not be recovered.

(c) The Institute had executed the arrangement of the function relating to the Nevil Fernando Private Hospital being taken over by the Government for a sum of Rs. 13,575,000. An external Institute had been selected at an estimate of Rs. 4,544,500 to execute the main arrangements thereof, but the Procurement Procedure had not been followed in that connection. Payments had been made although the invoice presented by the selected supplier, had not been signed by an authorized officer of that institute. A formal agreement had not been entered into with that supplier as well. Even though the total cost identified with respect to that function amounted to Rs. 5,380,345, the value of quotation presented to the Ministry of Health amounted to Rs. 13,575,000 including a profit equivalent to 152 per cent of the cost.

(d)	Procurement Committees should be appointed for procurements over Rs. 500,000 in terms of Guideline 3.4 of the Procurement Guidelines and Supplement, No. 28. However, according to the audit test check, Procurement Guidelines had not been followed when selecting external suppliers with respect to 03 printing works, and a sum of Rs. 5,041,219 had been paid to the external parties.	The Procurement Guidelines could not be followed during the preceding periods as the Institute had been entrusted with tasks to be executed within a very short period of time.	Procurements should be made by following the Procurement Guidelines.

3.4 Human Resource Management

	Audit Observation	Comment of the Management	Recommendation
(a)	The cadre approved under the tertiary and middle level management was 5, but 06 officers had been recruited by the Institute. Furthermore, only 39 employees had been approved on contract basis though, 13 employees had been recruited in excess without being approved by the Department of Management Services. A Scheme of Recruitment had been prepared by the Institution and presented to the Department of Management Services in the year 2015. However, action had not been taken even by October 2019 to get it approved after making amendments.	The Institute receives no financial assistance whatsoever from the Government, and this is the only advertising institution belonging to the Government at present. As such, services are obtained through competition of the private sector. Accordingly, one manager had been recruited in excess. After completion of the audit being carried out at present on the Institute in regard to the human resources and administration, action will be taken to prepare a new Scheme of Recruitment and obtain approval thereon.	Staff requirements should be forecasted based on the functions of the Institute. Recruitments should be made only within the limits of approved cadre. Amendments to the Scheme of Recruitment should be made immediately.
(b)	According to the Letter, No. DMS/1595 of the Department of Management Services, dated 15 October 2014, addressed to the Secretary to the Ministry of Mass Media in regard to the restructuring of the staff of Selacine, 06 posts of Sales Executive had been approved on contract basis. In order to decide	The information requested through that Letter had not been provided by the then governing body by mistake.	Salaries should be paid by obtaining approval formally.

on the monthly salary, it had been informed that information relating to the qualifications and experience for recruitment to that post be furnished to the relevant Department. However, without obtaining approval on the salary by presenting such information to the Department, 03 officers had been recruited by the Institute and a sum totalling Rs. 1,489,646 had been paid as salaries in the year under review.		

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comment of the Management	Recommendation
In terms of Section 6.5.1 of the Public Enterprises Circular, No. PED/12, dated 02 June 2003, the financial statements should be presented to the Auditor General within a period of 60 days from the closure of the year of accounts,. However, the financial statements of the year under review had been presented on 05 August 2019 after a delay of 05 months and 05 days.	Action will be taken in due course to present the financial statements on time by avoiding such delays.	Action should be taken to present the financial statements prior to the date specified.

4.2 Sustainable Development Goals

Audit Observation	Comment of the Management	Recommendation
Every state institution should act in accordance with “2030 Agenda” on Sustainable Development adopted by the United Nations. As the Institute had not been aware as to how to act with respect to the activities under its purview, sustainable development goals and targets relating to those activities, and the milestones in achieving those targets along with the indicators to measure the achievement of targets, had not been identified.	Action will be taken to fulfill the objectives identified by the Institute with respect to the “2030 Agenda” on Sustainable Development adopted by the United Nations.	Sustainable development goals, targets, and indicators should be observed.