

Sri Lanka Broadcasting Corporation - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Broadcasting Corporation (“Corporation”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the Statement of comprehensive income, statement of changes in equity 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 and the Finance Act No. 38 of 1971. My comments and observations which I consider should be reported to the Parliament appear in this report.

In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

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

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). 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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka 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 Corporation’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 Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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 Corporation.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of 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 scepticism 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 Corporation'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 Corporation'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 Corporation 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 Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its power, functions and duties; and
- Whether the resources of the Corporation had 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-Compliance with Sri Lanka Accounting Standard

Non – compliance with reference to the Standard	Management Comment	Recommendation
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a) The impact of Sri Lanka Financial Reporting Standard 16 for lease assets had not been assessed and disclosed in the Financial Statements by the Corporation	Discussions are being taken place regarding lease assets and therefore the impact cannot be shown in the Financial Statements	An assessment for lease assets should be done according to the Standard
b) According to the paragraph 26 (a) of Sri Lanka Accounting Standard 12, the accounting base of retirement benefit obligation should be Rs. 232,428,448 which is the carrying amount of the liability shown in the Statement of Financial Position but instead, the gratuity provision for the year amounting to Rs. 85,040,305 which has charged to the Statement of Comprehensive Income had been taken in the deferred tax	Agree with the audit observation. Steps will be taken to rectify this matter in future.	Deferred tax for retirement benefit obligation should be calculated according to the Standard.

calculation. In addition to that, the tax base of the liability should be 'Nil' but Rs. 50,416,830 had been taken as the tax base. And also deferred tax component amounting to Rs. 15,839,459 which is relevant to actuarial loss of Rs. 56,569,495 had not been shown under the Other Comprehensive Income.

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| <p>c) According to Sri Lanka Accounting Standard 19, the discount rate for the year 2018 had been decided as 11.88 per cent based on weekly economic indicators issued by Central Bank of Sri Lanka and the same rate had been used for the year 2019 as well. But as per weekly economic indicators for the week ended 27 December 2019 issued by Central Bank, the market yield rates for treasury bonds were in between 8.64 per cent to 10.54 per cent. According to the paragraph 84 of the Standard, there is a material impact of discount rate on retirement benefit obligation and without considering prevailing market rates, prior year discount rate had been used for the year under review.</p> | <p>Agree with the audit observation.</p> | <p>Market yield rates for the year, issued by Central Bank of Sri Lanka should be used to determine the discount rate.</p> |
| <p>d) According to the paragraph 30 of Sri Lanka Accounting Standard 37, compensation payable amounting to Rs. 11,783,507 which was not a Contingent Liability further, had not been reclassified as other payable in the Financial Statements.</p> | <p>Agree with the audit observation and steps will be taken to rectify this matter in future.</p> | <p>Compensation payable should be reclassified in the Financial Statements.</p> |

1.5.2 Accounting Deficiencies

Audit observations	Management comments	Recommendation
a) It was observed that a difference of net deferred tax liability for the year ended 2019 amounting to Rs. 318,240,140 according to the independent calculation of deferred tax performed based on the Statement of Financial Position and schedules provided for the audit during the year 2018 and 2019.	Steps will be taken to rectify this matter in future.	Deferred tax should be duly calculated and accounted.
b) Overdraft amounts relevant to two bank accounts of the Corporation amounting to Rs. 36,746,228 and Rs. 179,751 had been included in Trade and Other Payables instead of showing as a separate line item under the Current Liabilities in the Statement of Financial Position.	Agree with the audit observation and steps will be taken to rectify this matter in future.	Overdraft balances should be separately shown in the Financial Statements.
c) An exchange loss of Rs. 44,998 had not been recognized on Chennai bank account balance amounting to INR. 676,658 and as a result, the bank balance had been overstated by the same amount.	Agree with the audit observation.	Bank balances should be correctly shown in the Financial Statements.
d) Depreciation expense for computer software amounting to Rs. 886,166 and buildings amounting to Rs. 67,864 had not been recognized in accounts and as a result, loss for the year under review had been understated by Rs. 954,030.	The depreciation amount for software has been corrected during the year 2020. Agree with the audit observation for building depreciation.	Asset balances should be duly presented in the Financial Statements.

- e) Interest cost of retirement benefit obligation amounting to Rs. 23,499,231 had been recognized as Rs. 19,095,278 in the Financial Statements and as a result, interest cost had been understated by Rs. 4,403,953.
- Steps will be taken to rectify this matter in future.
- Interest cost of retirement benefit obligation should be duly shown in the Financial Statements.
- f) According to the Financial Statements for the year 2018, the closing balance of Retained Loss was Rs. 94,949,639 but the opening balance had been shown as 'Nil' in the Statement of Changes in Equity for the year under review.
- Agree with the audit observation and steps will be taken to rectify this matter in future.
- Retained Loss balance should be duly shown in the Financial Statements.
- g) Inventory of CD, cassettes and magazines valued at Rs. 1,430,845 which had been identified to dispose during the physical verification for the year 2018, had been shown under the inventory instead of showing as unusable stock until to be disposed.
- This will be shown as an expense for the year 2020.
- Closing stock value should be duly shown in the Financial Statements.
- h) According to the letter presented by Sri Lanka State Plantation Corporation, even though the total rent payable for Hunnasingiriya broadcasting station premise was Rs. 12,305,708 , the lease rent payable for the year 2018 amounting to Rs. 1,215,000 had only been taken into accounts. As a result, the lease rent payable had been understated by Rs. 11,090,708.
- Steps will be taken to discuss with Sri Lanka State Plantation Corporation and make payments.
- Total rent payable amount should be shown in the Financial Statements.

- i) The lease rent payable amounting to Rs. 124,344,000 for the land 119.5309 hectare in extend where is located in Kuchchaveli Divisional Secretariat and obtained on long term lease basis since 2009 for conducting a broadcasting station had not been taken into accounts up to 31 December 2019 of the year under review. Steps will be taken to obtain a Cabinet paper to write off the said lease rent payable and further actions will be taken accordingly. Lease payable amount should be duly shown in the Financial Statements.
- j) According to the records Default Tax Recovery Unit of the Department of Inland Revenue and tax accounts of the Corporation, the total tax liability as at 31 December 2019 should be Rs. 199,616,562 (without fines) but it had been shown as Rs. 106,891,027 under the Non-Financial Liabilities in the Statement of Financial Position and as a result the total tax payable amount had understated by Rs. 92,725,535. Difference of Rs. 92,725,535 will be rectified in future. Total tax payable amount should be duly shown in the Financial Statements.

1.5.3 Unreconciled Control Accounts or Records

Subject	Balance as per Financial Statements	Balance as per Corresponding Records	Difference	Management Comments	Recommendation
	Rs.	Rs.	Rs.		
a) Airtime Debtors	231,611,659	231,733,058	121,399	Agree with the audit observation	Balances should be rectified after identifying reasons.
b) Deposits Receivable	9,452,462	9,032,782	419,680	Agree with the audit observation	Balances should be rectified after identifying reasons.

c)	Airtime Creditors	14,601,069	13,924,704	676,365	Agree with the audit observation. Actions will be taken for rectify this matter in future	Balances should be rectified after identifying reasons.
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1.5.4 Unavailability of Documentary Evidences for Audit

Subject	Amount	Unavailable Evidence	Management Comments	Recommendation
Rs.				
a) Expenses	856,253	Payment vouchers	Agree with the audit observation	All payment vouchers should be presented to the audit.
b) Buildings	193,700,207	Fixed Asset Register Physical verification reports	Agree with the audit observation	Fixed asset register should be prepared and verification reports should be maintained after conducting a physical verification.
c) Lands	7,761,326	Fixed Asset Register Physical verification reports	Agree with the audit observation	Fixed asset register should be prepared and verification reports should be maintained after conducting a physical verification.
d) Trade Debtors - Lakhandha Branch	12,807,802	Relevant files & detailed schedules	Agree with the audit observation	Necessary actions to be taken for the balances which have no documents for the confirmation.
e) Bank of Ceylon Account balance Chennai (INR.676,658)	1,768,243	Balance Confirmation	Agree with the audit observation	Balance confirmation should be obtained.

f) Trade Debtors	69,500,324	Debtor Confirmations	Agree with the audit observation	Balance confirmation should be obtained.
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1.6 Receivable and Payable Accounts

1.6.1 Receivable Accounts

Audit observations	Management comments	Recommendation
a) A sum of Rs. 238,952 was being brought forward since 1986 for more than 32 years relating to an overpayment of contribution to Employee Provident Fund on behalf of the staff and this amount had not been recovered until 23 July 2020.	Agree with the audit observation and steps will be taken to write off the amount in future.	Actions should be taken to recover the receivables.
b) Advances paid to suppliers amounting to R .449,415 during the year 2017 and 2018 had not been recovered up to 31 December 2019 and the amount had been included in Trade Receivables.	Agree with the audit observation.	Immediate actions should be taken to recover the advances paid to suppliers.
c) Miscellaneous income receivables, electricity charges receivable and other debtors which were 2 to 19 years older amounting to Rs. 29,753,026 had not been recovered up to 31 December 2019.	Agree with the audit observation.	Receivable income should be recovered.
d) Foreign debtor balance amounting to Rs. 61,163,788 and local debtors amounting to Rs. 29,965,096 which were 10 years older had not been recovered by the Corporation up to 31 December 2019.	Agree with the audit observation.	Debtor balances should be recovered and actions should be taken against the officers who failed to recover these debtor balances.

1.6.2 Payable Accounts

Audit observations	Management comments	Recommendation
It was observed that a balance amounting to Rs. 149,420,035 which was payable to Telecommunication Regulatory Commission had been remained unsettled since 1981 to 2016 for a period of 38 years as at 31 December of the year under review.	Agree with the audit observation. Payables since 2016 had been settled properly.	Reasons for long outstanding balances should be identified and rectified.

1.7 Non-Compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Law, Rules, Regulations etc.	Non-Compliance	Management Comments	Recommendation
a) F.R. 371 (2) (b) and 371 (5) amended by Public Finance Circular No. 03/2015	Sub-impressts issued amounting to Rs. 1,206,006 which was delayed from 33 days to 14 years had not been settled as at 31 December 2019. Even though an ad hoc sub-impresst can be issued up to a maximum value of Rs. 100,000 for one time to managerial level officers for a specific purpose, the Corporation had issued advances for 14 times exceeding the above limit. Out of those advances, Rs. 538,850 was delayed from 27 days to 567 days and had not been recovered up to 31 December 2019.	Agree with the audit observation.	Ad hoc sub-impresst should be settled as per the Circular.
b) Paragraph No. 3.1 of Public Enterprises Circular No. PED	An extra fuel cost amounting to Rs. 1,323,456 had been incurred for assigned	Proper procedures will be followed	The procedures in the Circular should be followed regarding the fuel

01/2015 dated 25 May 2015	vehicles used by 04 officers of the Corporation during since 2019 up to June 2020 by exceeding the entitled fuel allocation limits. The Director Board approval had been obtained only for Rs. 553,574 for the fuel expenses incurred in April, June, July and August of 2019 and in January of 2020. And also, a sum of Rs. 95,763 had been incurred by exceeding monthly allocated fuel limit for the assigned vehicle of Chairman from February to June 2020.	future. Agree with the audit observation. Currently, steps have been taken to follow the proper procedure.	allocation limits.
c) Paragraph No. 3.3 of Public Enterprise Circular No. PED 1/2015 dated 25 May 2015 and Paragraph No. 02 of Public Administration Circular No. 05/2016 dated 09 March 2016	An officer who is entitled to an official vehicle has the option either to use the official vehicle or to avail a monthly transport allowance of Rs. 50,000 and monthly fuel allowance applicable to the post. Despite that, Chairman had been provided a transport allowance of Rs. 20,000 and fuel allowance of Rs. 93,160 from April to July 2020 while an official vehicle had been assigned to him since February 2020.	Agree with the audit observation. Proper procedures will be followed in future.	Either fuel allowance or assigned vehicle should be provided as per the Circular.
d) Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka	(i) F.R. 110	It was observed that losses and damages register had	Agree with the audit Losses and damages register

		not been maintained for the year under review.	observation.	should be prepared and updated.
(ii)	F.R. 396	Actions had not been taken as per Financial Regulations regarding 60 cheques valued at Rs. 277,986 which were remained unrepresented and exceeded the validity period of 6 months as at 31 December 2019.	Steps will be taken to rectify this matter in future.	Actions should be taken as per Circulars for cheques which have expired its' validity period.
e)	Paragraph No. 04 of Staff Notice No. S.L.B.C./3142 of Sri Lanka Broadcasting Corporation	Advances should not be issued to an officer over and over again while previously issued advances remains unsettled. Out of total unsettled advances remained as at 31 December 2019, it was observed that such advances had been issued for 10 times under the above circumstance. As a result, cash in hand amount remain around 10 officers throughout the year was Rs. 1,476,171.	Agree with the audit observation.	According to the Staff Notice, an advance should be issued to an officer only if he/she has settled the previously obtained advances.

1.8 Fund Management

----- Audit observations -----	----- Management comments -----	----- Recommendation -----
A sum of Rs. 3,244,526 belongs to the Corporation had been kept idle in a current account of a private bank during the year under review so that, an interest income which can be received by depositing above sum in an interest receivable account had been lost.	This amount has been retained to use in an emergency.	This amount should be deposited in a bank account which provides an interest income

2 Financial Review

2.1 Financial Results

The operating result for the year under review amounted to a deficit of Rs. 104,863,956 and the corresponding deficit for the year amounted to Rs. 42,670,112. Therefore a decline amounting to Rs. 62,193,844 of the financial result was observed. The main reason for this decline was increase of actuarial loss by 754 per cent amounting to Rs. 65,222,761 and increase of financial expenses by 37 per cent amounting to Rs. 1,100,710 compared to the last year.

2.2 Trend Analysis of Main Income and Expenditure Items

- a) According to financial data of last 04 years, even though there was an increase in airtime income of the Corporation up to 2017, it had declined by 5 per cent during the year 2018. Again during the year 2019 it was observed that there was an increment of airtime income but it had not reached up to a certain level. The increment of airtime income was caused by restoration of airtime income from Trincomalee station which had declined during the year 2018. Other operating income had increased by 7 per cent compared to the year 2018.
- b) According to data of previous 04 years. Even though administration expenses of the Corporation had increased by 2 per cent, it was a less increment compared to the increase in administration expenses during the year 2018. Operating expenses had increased by 3 per cent and finance cost by 37 per cent compared to the year 2018.

2.3 Ratio Analysis

- a) A decline had noted in both current ratio and quick ratio for the year under review and it was reflected that a decline of short term financial strength accordingly. Further local debtor balance of Rs. 47,332,106 and foreign debtor balance of Rs. 62,865,830 remained over a period of 02 to 44 years had been included in debtor balance of Current Assets. Hence it was observed that there was no recoverability and liquidity.
- b) The gross profit ratio had decreased from 4.33 per cent to 2.31 per cent compared to previous year and the increment of cost of sales by Rs. 14,619,181 had mainly caused for this increase. Further the net profit ratio had reflected a slight increase from -7.79 per cent to -7.32 per cent but still the loss after tax was Rs. 48,294,461.

3 Operational Review

3.1 Management Inefficiencies

Audit observations	Management comments	Recommendation
The Korean server which was received under the Korean grant had been used for audio resources digital archiving	Relevant steps will be taken to rectify this matter in future.	Necessary actions should be taken to update the server in order to conserve the 'programmes'.

process of the Corporation since 2017, and in the server, only the conserved 'songs' had been stored but 'programmes' could not be stored. As a result, the expected objectives of the Corporation could not be achieved and the server had not been updated by connecting with the relevant Korean Institute through an online command since October of the year 2017.

3.2 Management Inefficiencies

----- Audit observations -----	----- Management comments -----	----- Recommendation -----
<p>a) Unutilized floor space of Corporation buildings was 1126.45 square meters in extend and it was observed that these buildings are being deteriorated without having a proper maintenance while these buildings can be developed and utilized for an effective purpose.</p>	<p>Agree with the audit observation. Construction of a new theatre has been proposed within the space but initiative actions have not been taken place yet.</p>	<p>Relevant buildings should be utilized immediately.</p>
<p>b) 06 vehicles of the Corporation had been idle from 06 months to 03 years while it was informed that these vehicles would be disposed soon. However disposal process of 04 vehicles had been delayed for more than 02 years.</p>	<p>This matter has been presented to the Board. This was approved during the first discussion and has been presented for the second discussion.</p>	<p>Vehicles in a disposable condition should be disposed immediately.</p>

3.3 Management Inefficiencies

Audit observations	Management comments	Recommendation
a) 05 projects amounting to Rs. 38.95 million that should be necessarily done put of the projects included in the Procurement Plan for the year 2019 had not been completed even up to 25 September 2019. According to the Financial Statements of the Corporation, Rs. 75 million had been received as a capital grant and Rs. 63.5 million out of that had been received from the treasury for renovation purpose of the Corporation.	It has planned to finish the renovation activities during 2020.	Capital grant should be effectively utilized and if there is a remaining balance from the grant, it should be returned to the treasury.
b) Although a sum of Rs. 42.5 million had been allocated for the construction of a studio complex for Yal FM in Jaffna as per the procurement plan for the year 2018, the grant had been reduced up to Rs. 28 million and the title of the land had not been cleared even up to the end of the year 2019. Hence the construction had not been commenced during the year under review and also the Bill of Quantity and cost estimations prepared for the construction of building had lapsed for more than 02 years.	Actions are being taken place to acquire the land.	The title of the land should be cleared immediately and actions should be taken to speed up the construction of the building.

