Independent Television Network Ltd. - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Independent Television Network Ltd for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 . My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 on the matters described in paragraph 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 Company'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 intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope

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 Company'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 Company'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 Company 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 Company and whether such systems, procedures, books, records and other documents are in effective operation;

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

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

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

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non Compliance with Sri Lanka Accounting Standards

	Audit observation	Management Comment	Recommendation
(a)	According to the Sri Lanka accounting Standard 01, even though assets and liabilities cannot be set off each other in the financial position statement, the bank over draft as at the end of the year under review amounting to Rs. 69,119,727 had been set off to the bank balances amounting to Rs. 29,160,605.	Actions will be taken to show them separately under the current liabilities and current assets in the future.	Actions should be taken as per the Sri Lanka Accounting standard.
(b)	Although clarification of financial assets in the financial position statement should be done according to the Sri Lanka Financial Reporting standard 09, which had been empowered in the year 2018,(SLFRS 09) clarification of financial assets had been done by the Network according to the Sri Lanka Accounting Standard 39 (LKAS 39).	When the financial assets recognized, it was shown based on the business format of the institute for assets management and the cash flow. When showing trade and other receivables necessary provisions were made and financial assets were clarified in a fair value. Risk was recognized separately and provisions were made. Further the Financial assets and the financial liability were recognized and institute was shown in a fair value through the loss.	Actions should be taken as per the standard.
(c)	According to the paragraph 18 b of the Sri Lanka Accounting Standard 7, profit before tax should be used to calculate the cash flow under the operating activities when making cash flow statement into the indirect method. However the loss after adjusting comprehensive income amounting to Rs. 329,653,045 had been utilized by the Network. Accordingly the cash flow under the operating activities had been understated by Rs. 14,058,366.	According to the IFRS, when making financial statements, even though other comprehensive income was shown separately in the comprehensive income statement, comprehensive income should be adjusted when calculating operating profit of the institute.	Actions should be taken as per the standard.

(d)	According to the Sri Lanka Accounting Standards 24, (LKAS 24) , related parties should be disclosed in the financial statements. However relevant information in connection with key management personals had not been disclosed in the financial statements by the Network	Actions will be taken to disclose the information about key management personals.	Actions should be taken as per the standard

1.5.2 Accounting Policies

	Audit Observation	Management Comment	Recommendation
(a)	According to the Sri Lanka Financial Reporting Standard 15 (SLFRS 15), even though debtors and creditors arisen from contracts entered with customers should be shown separately as contract debtors and contract creditors, Balance of debtors and the balance of creditors arisen from contra deal agreements amounting to Rs. 28,824,028 and Rs. 69,702,230 respectively had been shown in the financial position statement under the trade and other receivables and the differed income.	Actions will be taken to show separately in the future.	Actions should be taken as per the standard

1.5.3 Going concern of the Institute

Audit Observation	Management Comment	Recommendation
The equity capital of the Network for the year 2015 was Rs. 3,198,499,721 and it had been decreased continuously up to the year 2021. The loss of the company for the year 2016 was Rs. 107,189,266 and the loss of the Independent Television was Rs. 238,131,346, the loss of ITN FM was Rs. 41,325,521, the loss of Wasantham FM was Rs. 10,455,852 and after receiving a sum of Rs. 46,337,505 to the Wasantham Television as grants, the loss of Wasantham Television was Rs. 26,061,682. Accordingly the total loss of the Company for the year under review was Rs. 315,974,401.	Not commented	Actions should be taken to minimize the continuous loss.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Observation	Management Comment	Recommendation
(a)	The balance of debtors of the Network as at the end of the year under review of which one year had been exceeded was Rs. 371,580,502 and out of that legal actions had been taken only for Rs.2,531,970	A certain amount of money is being received currently and actions are being taken to collect all money which can be collected. Out of the said amount, legal process had been closed for Rs. 6.5 million. Even though another Rs. 26 million had been referred to the legal division in order to proceed, there are some legal issues and relevant actions are being taken to resolve the matter. Further actions are being taken to discuss and to recover money even as instalments in every time because recovering legally is a long time process. Legal actions are being taken against minor clients whose documents are completed properly and it is difficult to take legal actions for recovering receivable balances against major agencies because they bring advertisements continuously to the institute. This situation was occurred because this business depends on several main agencies and a limited amount of clients.	Actions should be taken to recover the debtor balance without delay. Documentation should be maintained properly and immediate actions should be taken to recover the balances receivable.
(b)	The balance of contra deal debtors as at the end of the year under review was Rs. 28,824,029 and impairment had been done in the financial year for Rs. 14,641,728 of which the total of the balances of contra deal debtors who had been exceeded 05 years because the relevant services had not been obtained by the network.	Impairment was done for this balance of contra deal debtors according to accounting because the said balance had exceeded 5 years.	Actions should be taken to recover the services relating to contra deal agreements without delay.

1.6.2 Accounts Payable

	Audit observation	Management Comment	Recommendation
(a)	A balance lower than 5 years amounting to Rs. 22,725,000, a balance between 05 years to 10 years amounting to Rs. 45,379,753 and a balance more than 10 years amounting to Rs. 1,597,477 had included in the balance of differed income of Rs. 69,702,230 shown in the financial statements. However actions had not been taken to settle such balances even during the year under review.	Actions will be taken to settle the balances which had exceeded 3 years on the recommendation of the Audit and Management Committee and the approval of the Board of Directors as done as in the year 2021.	Actions should be taken to settle the balances of differed income.
(b)	Actions had not been taken even during the year under review to settle the balance of Rs. 41,470,241 included in the balance of client debtors amounting to Rs. 127,240,756 as at the end of the year under review even though the said balance had exceeded 10 years.	Several balances included in the said balance had been recognized correctly and adjustment had been made during the year 2021 and likewise actions will be taken in the current year to recognize and to make adjustments.	Immediate actions should be taken to settle the balances of client advances.
(c)	Actions had not been taken even during the year under review to make adjustments regarding 242 cheques valued at Rs. 2,644,085 brought forward over a period more than 3 years and 239 cheques valued at Rs. 2,485,466 brought forward over a period of 02 to 03 years which had been included in the balance of cancelled cheques amounting to Rs. 5,718,320 shown in the financial statements.	Actions were taken to write off a sum of Rs. 5,485,708/12 as the value of cheques cancelled before 31.12.2017 which had been remained in the cancelled cheques account in the financial statements on the recommendation of the Audit and Management Committee and the approval of the Board of Directors. Further necessary actions will be taken to write off the value of cancelled cheques more than 3 years from the balance of the cancelled cheques account in the year 2022.	The balance of the cancelled cheques account should be recognized and settled.

1.7 Non - compliance with Laws, Rules, Regulations and Management decisions

Reference to Laws, Rules, Regulations etc.	Non compliance	Management comment	Recommendation
(a) Circular No. PED01/2015 dated 25 May 2015			
(i) Paragraph 3.1	During the year under review, 2,505 liters of fuel valued at Rs. 348,708 and 1,207 liters of fuel valued at Rs. 167,292 had been obtained by the Deputy General Manager (News) and the Deputy General Manager (Marketing) of the Network respectively exceeding the approved limit.	Fuel had to be obtained exceeding the approved limit due to the nature of the duty of the Deputy General Manager (News) and the Deputy General Manager (Marketing). Actions were taken to get the approval of the Chairman on the approval of the Board of Directors according to the circular No.PED 2015/01 dated 25 May 2015.	Actions should be taken as per the circulars.
(b) Paragraph 1.2 of the Public Enterprises Circular No. PED 1/2020 dated 27 January 2020	(i) In addition to the official vehicle provided for the official or personal use of the Chairman, a hired vehicle had been deployed and 6,347 liters of fuel valued at Rs. 1,088,897 had been provided. Whilst a sum of Rs. 3,438,685 had been paid as rent.	Not replied	Actions should be taken as per the circulars.
	(ii) Although the approved limit of fuel for the post of Chairman is 1,800 liters as per the instructions of the Circular, 6,025 liters of fuel valued at Rs. 1,035,828 had been	Limit of fuel had increased due to the nature of the duty of the Chairman. Approval of the Board of Directors was granted under the minutes of the Board paper No. 33/334 for the additional usage of	Actions should be taken as per the circulars.

		provided exceeding the approved limit.	fuel of the Chairman since January 2020 on the powers of the Board of Directors as a Company.	
(c)	Circular No. PED 03/2021 dated 15 December 2021	Although a sum of Rs. 3000 can be paid per person in government owned companies of which a loss had been reported in the financial year 2020 and the loss had not been minimized compared with the financial year 2021 as bonus. Contrary to the said requirement a sum of Rs 13,027,000 had been paid by the Network as bonus during the year under review exceeding the limit of Rs. 3,000 each.	According to the bonus No.3 of the Circular, a sum of Rs.5,000 each can be paid to the staff of the public Corporations and the fully government owned companies. Bonus were paid as Rs. 5,000 each because Rs 5,000 can be paid by the institution of which the loss was reduced compared to the previous year under the base 3.	Actions should be taken as per the circulars.

1.8 Financial Management

	Audit observation	Management comment	Recommendation
(a)	Approval had been taken for limit of over draft of Rs.75 million against to a fixed deposit on the approval of the Board of Directors during the year under review and the balance of the overdraft at the end of the year was Rs. 69,119,727. However a sum of Rs. 3,593,733 had been paid as interests to the overdraft exceeding the approved limit of the overdraft in 7 consecutive months of the year under review.	Not commented	Overdraft facilities should be obtained on the proper approval and the expenses should be managed.
(b)	The working capital of the Network for the year 2020 was Rs. 620,761,280 and it had reduced up to Rs.399, 833,265 in the year 2021.Accordingly, due to the weaknesses of management of working capital, it had to be faced to difficulties of day to day financial requirement. Practically in working capital management, financial budget should be prepared for the year under review and cash	Although the income was forecasted expecting a general market condition, there were huge variations of the market due to the COVID pandemic prevailed. Therefore expected targets could not be achieved for the year 2021. However	Actions should be taken to avoid weaknesses in capital management and proper methods of budgetary control should be applied.

flows should be planned forecasting the cash inflows and outflows quarterly. However such kind of budget controls had not been used.	financial activities of the institute could be done without using the fixed deposits. Therefore there was a problem in preparing a financial budget.

2 Financial Review

2.2 Financial Results

The operating result of the year under review was a deficit of Rs. 330,032,837 and the corresponding deficit for the preceding year was Rs. 213,974,507. Accordingly, Increase of expenses and decrease of income had mainly affected to the deterioration of Rs. 116,058,330 in the financial result.

2.3 Ratio Analysis

The current ratio and the quick ratio for the year under review were 1.44 and 1.43 respectively. The net profit ratio for the year under review was -23 and it reflected an increase of 5 per cent compared with the previous year. The sales to working capital ratio had decreased by 1.67 and percentage of operating expenses had decreased by 4 per cent compared with the previous year. There is a possibility of a future risk in going concern of the institute due to the competition of the market, adverse basic financial ratios, continuous substantial operating losses and recruiting of huge number of non-effective employees.

3 Operational Review

3.1 Management Inefficiencies

	Audit observation	Management comment	Recommendation
(a)	A loss of Rs. 18,348,836 had been incurred from 8 local tele dramas purchased by the Network during the year 2021 and even though the tele drama namely "Sath Varsha" had been recommended by the pre view committee as not suitable to telecast, according to an appeal made by the producer, it had been telecasted on the approval of a reappointed pre view committee. However a loss of Rs. 5,100,506 had to be incurred by the Network in this regard.	The tele drama "Sath Varsha" was completely edited and referred to the appeal board. The tele drama had been recommended by the appeal board as an ideal drama of which the attention of viewers should be drawn. This tele drama was telecasted by purchasing at a lower rate than the rate generally paid viz. Rs. 150,000. However losses were incurred from this tele drama because of low advertising revenue in the air time of 6 p.m	Action should be taken maximizing the profit which could be earned from tele dramas.

(b)	Three defamation cases, 06 lawsuits against the company's violation of the right to exhibit, distribute or sell films through the media in Sri Lanka and 06 film intellectual property cases, 05 cases regarding dismissal, termination of service and compulsory retirement and 04 cases for other matters had been filed and the compensation claimed for those cases were Rs. 741,650,000. Although a sum of Rs. 1,036,494 had been incurred on these cases as at the end of the year under review, Actions had not been taken to disclose these 23 lawsuits in the financial statements.	If compensation is ordered to be paid by the court in the future, the provision for such compensation will be made in the relevant year.	Adequate disclosures should be made in the financial statements regarding the lawsuits which had been filed against the Network and actions should be taken to ensure that the short term financial capability does not fall.

3.2 Operating Inefficiencies

Audit Observation	Management comment	Recommendation
Gift vouchers for employees valued at Rs. 10,130,000 had been included in the sales of air time for the year under review and even though air time revenue had been obtained from contra deal, a cash inflow had not been received to the Network. As a result, the net working capital had decreased by Rs.220, 928,015 even though the sales income had increased by Rs. 257,569,354. Accordingly, even though sales to net working capital ratio was 1.85, it had increased up to 3.52 during the year under review.	Not commented	Actions should be taken to avoid liquidity problems in future.

3.3 Idle or underutilized Property, Plant and equipment

	Audit Observation	Management Comment	Recommendation
(a)	The hot swappable power distribution rack purchased by the Network at a cost of Rs. 1,588,500 in the year 2015 and aros flexus FT – 30 30KVA UPS system purchased at a cost of Rs. 1,218,274 in the year 2021 had been remained idle since the date of purchased and since 3 years respectively.	Although a hot swappable power distribution rack was fixed, it could not be operated due to the government policy of limitation of imports for equipment relevant to it and the financial crisis prevailed in the institute. The 30	Actions should be taken to utilize the resources properly.

	KVA ups system had disabled due to thunder stroke and it took a period more than 1 ½ years to receive the insurance claim. After that a period about to a year had been lapsed due to limitation of imports. Spare parts relevant to this rack could not get supplied due to the current situation of dollar crisis.	

3.4 Procurement Management

Audit observation	Management Comment	Recommendation
Although the government procurement Guidelines should be followed for work, supplies and services of the government institutions, a supplier had been selected for estimated value of Rs.11,000,000 for event management of the musical programme " Asia Star Gala" held on 31 December 2021 without following procurement guidelines. Accordingly actions had not been taken to provide fair and maximum opportunity for the parties concerned and qualified to participate to the procurement in order to get the maximum economic benefits for a minimum cost as to be fulfilled the objectives of the procurement. Further the existence of the institute selected could not be confirmed in the internet.	Income around Rs. 30 million was earned by this and the cost was around Rs. 15 million. It is informed that such kind of special programmes could not be proceeding according to the procurement guideline. This programme was organized and presented by our institute and a payment had not been made for event management of this programme.	Action should be taken to follow the Government Procurement Guideline.

3.5 Human Resources Management

	Audit Observation	Management comment	Recommendation
(a)	In a situation of continuous losses and working capital issues of the Network, even though more attention should be paid for the personal management, employees had been recruited by the Network as 2 employees on contract basis and 16 employees on daily basis. Sixty seven employees had been recruited exceeding the approved	Posts were approved on the requirement and the approval was granted by the Department of Management Services to deploy the officers then served to the posts in the institutes at that time as personal to holder. Further, the Department of Management Services had	Human resources should be managed complying with the approved cadre and recruitments should be made only to the approved cadre.

cadre and 113 employees had been recruited to the posts which had not been included in the approved cadre as hold to the officer. Further 13 employees had been recruited to the vacancies of the permanent posts of the approved cadre on contract basis.

informed under No. 06 of the letter dated 08.05.2018 for the employees who had not qualified to absorb as per the new scheme of recruitment, post should be continued as hold to them and after the officer get promoted or retired, the said post should be abolished. And new recruitment should not be made for the said posts.

Accordingly actions will be taken to hold the staff who had not qualified to absorb as per the new scheme of recruitment as it is until they get retired or resigned and after they resigned or retired post will be considered as abolished.