Sri Lanka Rupavahini Corporation

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Rupavahini Corporation as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Accounting Deficiencies

The following observations are made.

(a) According to the financial Statements the Value Aded Tax Payable was Rs. 15,225,000 and the Value Aded Tax Payable as per tax returns was Rs. 16,143,590 hence a difference of Rs. 918,590 was observed.

(b) A sum of Rs. 103,405,215 had been debited to cumulative profit as at the end of the year under review as unidentified previous year adjustments.

(c) Out of the purchase of foreign Tamil films/ teledrama a sum of Rs. 2,544,000 identified as payments for upcoming years has been included in the stocks as at 31 December 2011.

(d) Even though 3,438 DVD/CD tapes in respect of 100 items had been available as per the report of the board of survey of the sales outlet in Marketing Division, the value related to them had not been shown in the financial statements.

1.2.2 Accounts Receivables and Payables

The following observations are made.

(a) Client Debtors

(i) A sum of Rs. 131,011,201 or 22% higher value had been taken in the provision for doubtful debts as at 31 December 2011 out of the Client debtor of Rs. 590,034,524.

(ii) According to the Credit Policy of the Corporation, the credit period is limited to one month but the debtors for more than one month amounted to 76 % or Rs. 450,361,210, debtors for more than 3 months amounted to 38% or Rs. 222,787,840. Debtors for more than 3 years amounted to Rs.129,018,011 or 22%.

(iii) Out of the client debtor balances of the Corporation debts valued at Rs. 56,039,150 or 9% were due from Government institutions and remaining for the period ranging from 1 to 12 years. These government institutions were included a sum of Rs. 1,619,601 from Ministry of Trade and Consumers, Rs. 1,462,000 from Ministry of Mass Media, Rs. 4,931,273 from National Youth Organisation, Rs. 1,136,957 from Negambo Municipal Council, Rs. 1,000,000 from State Printing Corporation.

(iv) Out of the client debtor balances debts valued at 7% or Rs. 42,575,585 were due from Political Parties and remaining for the period ranging from 1 to 8 years.

(v) The value of Debtor balances relating to 2 agreements without stating the client's name amounted to Rs. 320,600 and remaining for the period ranging from 14 to 16 years.

(vi) The debtor balances were aggregating Rs.26,355,965 due from 7 institutions relating to the period from 2 to 10, and it was observed that the amount due from 7 institutions representing 4 % of the total debtors.

(b) Sundry Debtors

Out of the total sundry debtors amounting to Rs. 60,114,000 as at 31 December 2011, the provision for doubtful debts amounted to Rs. 21,449,142 or 36 percent. This balancee included a sum of Rs. 324,034 receivable from persons, a sum of Rs. 4,101,510 receivable from foreign TV Institutions, a sum of Rs.17,858,971 recoverable from the Department of Inland Revenue and a balance of Rs. 598,523 receivable from Insurance Companies in respect of reimbursement of medical bills remaining for the period over 2 years. It was observed that the level of controls over the sundry debts recoveries is weak hence providing 36 percent as doubtful debts.

(c) Staff Debtors

The amount provided as 100 % doubtful debtors as at 31 December 2011 was Rs. 179,664 with regard to the dues from employees who resigned or retired from service. As a result of non-taking actions to recover from them at the time of retirement or later from guarrenters had to be provided the doubtful debts accordingly. It was informed by the Chairman that those loans could not be recovered due to resign, dead, cases filed by employees.

(d) Granting and Settling of Advances

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The following observations are made.

(i) A sum of Rs. 250,000 given to outsider as advance for producing programs and a sum of Rs. 26,850 given as programme advances in years 2007 and 2009 had not been settled even as at 31 December 2011.

(ii) The necessary actions had not been taken to recover from the relevant contractor or the parties' responcible for that payment which was Rs. 187,500 paid to a contrctor for non-getting service in year 2010.

(iii) Even though a sum of Rs. 450,000 had been given to contractors in the year 2008 for computer programmes and its related activities, such purposes had not been completed even as at the end of the current year.

(e) Accounts Payable

A sum of Rs. 75,184,086 had to be paid to sevice providing institutes from the year 2001 to year 2010 and the necessary actions had not been taken to settle that dues to relevant institutions even as at 31 December 2011. It was informed by the Chaiman that the request should be made by the relevant institutions to pay this cash back.

1.2.3 Lack of Evidence for Audit

The following observations are made.

(a) Title deeds of lands and lands where transmission stations are located, transfer deeds, gazette notifications totalling Rs. 40,024,000 and the value to be decided on films purchased under contra agreemants in which the programme used to cover the amount of such mesurements could not be satisfactorily vouched, due to non-availability of information.

(b) According to final financial statements though the stocks of maintenance unit valued at Rs. 194,904,000 had been surveyed, the above balance could not be confirmed due to the values had not been included in the reports of the board of survey.

1.2.4 Non-compliance with Laws, Rules, Regulations and Management Decisions

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decision	Non-compliance
(a) Declaration of Assets and Liabilities Act, No. 01 of 1975 of the National State Assembly as amended by the Act, No. 24 of 1988	Even though the staff grade and executive officers of the Corporation should forward the annual declaration of assets and liabilities 6 officers had not forwarded the declaration of assets and liabilities.
(b) Chapter VIII and X, Section 21:5 of Capter XLVIII of Establishment Code.	The '***Remuneration***' payable to officers who were not guilty for charges should not be included any of allowances paid in way of duty allowances. But the approval had been given to pay bonus with conditons by

	superseding the present laws, rules and regulations by the management decision No. 766.02.01 of 21 June 2011 and a sum of Rs77,500 had been paid to one officer.
(c) **Financial Regulations (F.R.) of the Democratic Socialist Republic of Sri Lanka**	
i. F.R 71(i) e and Public Enterprice Circular PED/ 12 of 02 June 2003	Though the inspite of the source of fund, the prior aothurity of Deputy Secretary to the Treasury should be obtained, aggregating Rs. 27,456,539 as fuel allowances and Rs. 4,660,661 as travelling allowances in 2010, 2011 and since June 2012 had been paid contrary to the provision. Also actions had been taken to pay a sum of Rs. 1,314,426 during 2012 as arrears fuel allowances before 2010 and the payments had continuously been paid without considering the direction given by the Secretary to the Ministry on suspenton and recovering of the paid allowances.
ii F.R. 880	Security deposits had not been obtained from officers who should keep securities while securities had been obtained only from Cashiers of the Corporation.

(d) Public Enterprises Circular No. PED/12 of 02 June 2003 -------------------------------	
(i) Paragraph 5.1.3	Even though the updated Corporate Plan should have been submitted to the Auditor General at least before 15 days at the beginning of the year, it had not been done accordingly in 2011.
(ii) Paragraph 6.5.1	The draft annual report of the year 2011, had not been submitted to the Auditor General within 60 days after the close of the financial year.
(iii) Section 9.4	Approval of Cabinet of Ministers should be obtained to release officers of the institution to Ministries or other Institutions and any payment should not be paid during that period. But 06 officers recruited in contract basis had been released from corporaton service contrary to the provisions of the Circular and eventhough a sum of Rs. 4,276,954 had been paid as salaries and allowances to those officers as at 30 September 2011 it had not been reimbursed.
(e) Public Enterprices Circular No. PED/50 of 28 July 2008 and Public Administration Circular No. 22/99 of 08 October 1999	The fuel allowance for 96 and 92 officers and transport allowances for 98 and 94 officers had been paid in years 2010 and 2011 respectively contrary to the Circular by including the MM and JM salaries as executive officers.

1.2.5 Trasactions with Contentious Nature

A sum of Rs. 240,000 had been paid as bonus for years 2010 and 2011 by the Corporation on behalf of 06 officers who had been recruited on contract basis and released from corporation service.

2. Financial Review

2.1 Financial Results

The pre-tax profit of Rs.172,079,000 as compared with the profit of Rs. 42,120,000 for the preceding year thus indicating an increase of Rs. 129,959,000 profit for the year. A sum of Rs. 169,008,170 accounted during the year under review as prepayment, had been resulted the increase of the profit.

2.2 Analytical Financial Review

The income generate from sale of air time had been increased by 29 % and other revenue decreased by 19% in the year under review compared with the year 2010. The revenue from sale of air time of "Channel Eye" had been increased by Rs. 507,796,000 or 147 percent compared with previous year and telecasting of "2011 world Cricket Championship" was the reason of it. The revenue from "Channel One" being the main channel had been increased by 0.13 percent compared with previous year revenue of Rs. 1,338,943,000 and Rs. 1,340,696,000 in year under review.

2.3 Working Capital Management

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Liquidity Ratios	Standard Ratio	2011	2010	2009
Current Ratio	2:1	1:0.25	1:0.22	1:0.25
Quik Ratio	1:1	1:0.34	1:0.18	1:0.32

According to the above information it was observed that liquidity ratio is deviated from standard percentage.

3. Operating Review

3.1 Management Inefficiecies

The following observations are made.

(a) Court Cases Filed Against / vs the Corporation

Seven cases and 11 cases had been filed against the Corporation by external parties and by the employees of the Corporation respectively at the end of the year under review. A sum of Rs. 5,051,095 had been paid as lawyers fees to the outside Lawyers on these cases. The compensation claimed by the complainants relating to the 7 cases filed by the external parties amounted to Rs. 1,016,500,000 and U.S. Dollars 250,000. Simlarly 32 cases had been filed by the Rupavahini Corporation against the external parties, and expected to be recovered a sum of Rs. 134,083,200 from those cases. Of them, 3 cases had been finalised during the year under review and a sum of Rs. 486,448 had been recovered. Lawyers fees paid to external lawyers for these cases amounted to Rs. 696,250. The amount disclosed in the notes to the financial statements as conitingent liability amounted to Rs. 1,554,000,000.

(b) Eventhough a sum of Rs. 1,104,000 had been invested in Lanka Puwath Institution in 1992 and 1994 no devident income had not been received and that investment had been kept as such.

(c) It is the policy of the corporation in reveing cash for general agreements by issuing invoices after supplying of the whole agreed air time. Accordingly if the agreement time exceeded the one year, then the revenue of whole year is taken by copleting the supply of air time after one year. This policy was adversely affected the debts recovery of the Corporation.

3.2 Operating Inefficiencies

(a) Contra Agreements

(i) Income on Contra agreements during the year under review amounted to Rs.58,009,000 and the expenditure amounted to Rs.65,996,000. Accordingly, the loss incurred by the Corporation there from amounted to Rs.7,987,000 representing 14 percent of the Contra agreement income.

(ii) Agreements in respects of 5 Contra activities valued at Rs.6,572,750 included in the debtor balance had not been signed and these institutions had not provided any services again to the Corporation.

(iii) According to the information made available for audit except the Contra agreements entered into for the procurement of films, the following clause had been included in all other Contra agreements. "If a sufficient service relevant to the value is not obtained within the agreement period, that loss should be born by that institute". Though a benefited situation of Rs.1,845,740 had been occurred from a contra agreement entered into by the Corporation, this beneficiary situation had been being set off with another agreement entered afterward without getting that benefit to the Corporation.

(iv) The Corporation had entered into contra agreements for 2 films in 2011 and though the said films should have to be given to the Corporation at the date of entering into the agreement, it had not been comply in one contra agreement and the time of delay was 09 months. The value of the air time provided by the Corporation upto November 2011 was Rs. 12,940,000.

(v) Even though agreements had been entered in to in a manner that, the debit or credit balances existed in those Contra agreements would be cancelled after a lapse of certain period, accounts balances valued at Rs.1,226,285 had been still shown further in the financial statements though the relevant period was elapsed.

(vi) The agreement had twice been revised to convert the benefit to outsider instead of getting such favourable balance even the corporation had generated the favourable balance from one contra agreement and finally an unfavourable amount of Rs. 10,966,915 had been born to corporation by that agreement.

(b) Purchase of Teledramas

The following observations are made.

(i) Out of the audit test check carried out on 04 teledramas, the corporation incurred a loss of Rs. 24,203,558 from two dramas.

(ii) Out of the audit test check carried out on thirteen teledramas, four had been telecaste before engaging legal contract between the Corporation and the producer of the teledrama

(iii) Eventhough the approval according to the procedure of selecting teledramas for telecasting should be given subject to the conditions and decisions of independent board of survey, out of the audit test check carried out on thirteen teledramas, two had been telecsted without producing to such board of survey.

(iv) Out of the audit test check carried out on thirteen teledramas the actual telecasting time and recommended telecasting time which the appropriate time approved by the board to telecast were different in 05 teledramas. It was informed by the Chairman that in some instances that could not be implemented practically and as an example the total episordes of a mega teledrama could not be produced to the board.

(v) Eventhough in deciding the amount to be paid for the teledrama considering the marks of board of survey is a primary element, out of the audit test check carried out on thirteen teledramas three had been taken without having evaluating marks.

(vi) Eventhough an application should be produced with the relevant fees for the approval of vedio copy of the teledrama, that had not been complied with relate to two teledramas, out of the audit test check carried out on thirteen teledramas.

(c) Disposing and Removing of Inventories

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The following observations are made.

(i) Fifteen divisions were renovated in 2010 and 2011 by the corporation and the files had not been maintained with regards to the goods removed from those divisions and its values.

(ii) According to the Shedule 08 of the financial statements of the year 2011 though the value of disposals of property plant and equipments had been shown as Rs. 593,000 it was shown that furniture, computers and other inventories were disposed according to the flie of granting inventories to other instution, the values had not been calculated. Further it was observed that this disposals of fixed assets were still included the financial statements

3.3 Idle and Underutilised Assets

(a) Certain parts of the automated barcode solution system purchased in the year 2005 by incurring an expenditure of Rs.1,734,000 with the objective of carrying out, the activities of the Rupavahini Audio Visual Library properly and efficiently to improve its activities being computerised and the EAS system had been idle without being utilised even by May 2012 and also the availability of those antenas were not disclosed in reports of the annual stocks verification.

(b) Spare parts of Rs. 18,053,000 and recorded cassette tapes of Rs. 170,000 of engineer division were held as non moving stocks.

3.4 Identified Losses

A receivable of Rs. 12,766,629 had been decided to write off in 06 meetings of board of directors in the year 2011. Out of these a sum of Rs. 2,064,841 was dues unrecoverable due to non availability of written document/ reasonable document relating to the business engagedment by the corporation and non-maintaining of files properly. A sum of Rs. 2,291,697 was dues unrecoverable due to scheduling without proper approval/ over scheduling, and a sum of Rs. 100,000 were dues unrecoverable due to non-issuing of invoices. Two activities of Rs. 247,312 were dues from a person and decided to written - off by stating that for the improvement of the cinema indury.

Also the decision to write off was included a sum of Rs. 85,026 dues from resigned/retired officers of corporation service.

3.5 Staff Administration

The following observations are made.

(a) Approved cadre of the corporation as at 30 June 2012 was 985 and the actual cadre was 1014.

(b) The Director General post was engaged by Acting Director Generals from 05 August 2008 and an officer had not been appointed to that post from 15 November 2011.

(c) The proper recruitment procedures had not been followed by the corporation in recruiting 06 officers in contract basis.These officers had been released to another institution and though the attendance should be certified by the supervicing officer of that institution, the attendance of those two officers had been certified by the Working Director/ Board Member of the Corporation. Aslo a sum of Rs. 4,276,954 had been paid by Corporation's funds to these two officers as salaries and alloawances as at 30 September 2011

3.6 Utilisation of Vehicles

Sixty four vehicles were in the vehicle pool of the Corporation, and 12 out of them were taken in the basis of rent. The number of vehicles allocated was 08. The total distance that those vehicles travelled in year 2011 was 1,659,121 kilometres and maitenace expences was Rs. 6,284,000 and fuel expences was Rs. 14,039,000. Accordingly the cost of maintenance and fuel were Rs. 3.79 and Rs.8.46 per kilometer respectively.

4. Accountability and Good Governance

4.1 Internal Audit

The staff cadre of the Internal Audit Unit of the Corporation was 06. 09 quaries in the first by annual and 12 quaries in second by annual had been sent.

4.2 Audit and Management Committees

Even though the audit and management committee should be commenced at least once in three months in terms of Public Enterprises Circular No . PED/31 of 01 July 2005, only one audit and management committee had been held in year 2011. Also, implementing of decisions taken in the audit and management committee was in unsatisfactory position.

4.3 Budgetory Controls

It was observed that excesses of revenue ranged from 80 percent to 111 percent and shortages of expences ranged from 11 percent to 97 percent deviation from budgeted targets due to the revenue estimations were not done properly. And also the excesses of expences ranged from 28 percent to 69 percent and shortages of expences ranged from 27 percent to 65 percent deviation due to the expence estimations were not done properly.

5. Systems and Controls

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

(a) Fixed Assets

(b) Debtors / Creditors Control

(c) Income on Air Time

(d) Advances

(e) Contra Agreements

(f) Journal Entries

(g) Invoicing