**Selacine Television Institute - 2014**

The audit of financial statements of the Selacine Television Institute for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statements of comprehensive income, cash flow statement , statement of changes in equity and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. My comments and observations which I consider should be published with the Annual Report of the Selasine Television Institute appear in this report.

**1.2 Management's Responsibility for the Financial Statements**

The management is responsible for the preparation and fair presentation of these financial statements in accordance with the Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

**1.3 Auditor 's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit conducted in accordance with Sri Lanka Auditing standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI-1000-1810)

**1.4 Basis for Disclaimer of Opinion**

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items, and the elements making up the statement of financial position , statement of comprehensive income and statement of changes in equity and cash flow statement .

**2. Financial Statements**

**2.1 Disclaimer of Opinion**

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these financial statements.

**2.2 Comments on Financial Statements**

**2.2.1 Sri Lanka Public Sector Accounting Standards**

Even though according to the Sri Lanka Public Sector Accounting Standard No. 01, financial statements should be prepared on accrual basis ,sales of Rs.5,362,247 in the preceding year had been accounted as the sales of the year under review due to accrual basis had not been followed in respect of sales .

### 2.2.2 Accounting Policies

Even though , when the determination of depreciation rates of property, plant and equipment, it had been revised as practicably in the preceding year, depreciation had been made based on old depreciation rates again without any reason in the year under review .Due to the changes in the depreciation policy in this manner ,depreciations in the year under review had been overstated by Rs.670,048.

### 2.2.3 Accounting Deficiencies

The following observations are made.

(a) Bank Interest receivable had been understated by a sum of Rs.432,969 and brought to account due to computation errors.

(b) Building rent and vehicle rent payable for the year under review amounting to Rs.630,000 and Rs.195,000 respectively had not been brought to account. Similarly, the vehicle rent amounting to Rs.65,000 paid in the year 2013 for the year under review had not been brought to account as expenditure of the year under review.

(c) A sum of Rs.270,000 written off and credited to the prior year profit without any reason during the year under review out of the house rent of Rs.900,000 payable to the Sri Lanka Broadcasting Corporation prior to the year 2013.

(d) Even though according to the accounting policy of the institute, a provision of 2.5 per cent for bad debts should be made from the debtors , over provision of Rs.2,869,544 had been made at the end of the year under review. Even though an unidentified balance of Rs.6,611,743 existed from periods prior to the year 2006 in the balance of debtors, it had not been considered when make provisions for bad debts.

(e) Depreciation expenditure of the year under review had been overstated by Rs.105,092 due to re-calculation of depreciations had been made considered as purchases made during the years 2011 and 2013 of 3 categories of fixed assets costing Rs.3,048,451 fully depreciated before the year 2003.

(f) Due to the advances amounting to Rs.6,270,975 received for the sales on which the related transactions had been completed during the year under review had been accounted as advances further more and as such sales income of the year under review had been understated.

(g) An accurate position on the cash flow of the year had not been reported by the cash flow statement prepared for the year under review. Leasing interest amounting to Rs.170,566 paid in cash had not been identified as a cash flow and interest income amounting to Rs.3,084,865 receivable which was not a cash flow and journal entries totalling Rs.431,978 used for the rectification of errors had been entered as cash receipts were among several such instances observed.

(h) Instead of being identified as the income of the year ,the income of Rs.98,200 received when the investments of fixed deposits belonging to the Institute had been converted into debenture investment .

**2.2.4 Un- explained Differences**

A difference of Rs.5,947,445 had been observed in 6 debtors balances when comparison of confirmation letters with the debtors balances stated in debtors schedule.

**2.2.5 Lack of Evidence for Audit**

The following observations are made.

(a) The following items shown in the financial statements could not be satisfactorily vouched or accepted due to non-submission of evidence for audit indicated against each item.

| | **Item** | **Value**<br>**Rs.** | **Documentary Evidence not made Available** |
|---|---|---|---|
| (i) | Expenditure | 18,219,536 | 45 paid vouchers and details relating there to . |
| (ii) | Trade Creditors | 142,712,254 | Ledgers denoting individual creditors , schedules and certificates of confirmation of balances. |
| (iii) | Action Files | 3,832,038 | 03 files related to the activities accepted to be fulfilled. |
| (iv) | Journal Entries | 517,693,567 | Journal Vouchers and Supporting Documents |
| (v) | Bad Debts | 1,436,924 | Information relevant to the calculations and documents with the approval |
| (vi) | Adjustments made to the prior year profit | 47,512,113 | Relevant Subsidiary Documents |
| (vii) | Withholding Taxes Receivable | 4,556,283 | Certificates of withholding Tax. |
| | Total | 735,962,715 | |

(b) Even though , a sum totalling Rs.17,438,107 had been deducted by 17 credit notes from the debtor balance at the end of the year ,the reasons for that deduction or the approval thereof had not been presented to audit.

## 2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non compliances were observed.

| Reference to Laws, Rules, Regulations and Management Decisions | Non compliance |
| --- | --- |
| (a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka | |
| (i) Financial Regulations 137 and 245(1) | Approval and the certification of 265 paid vouchers totalling Rs.51,820,329 and 123 paid vouchers totalling Rs.47,941,620 had not been made by the authorized officer . |
| (ii) Financial Regulations 156(5) | Certification had not been done, initiated by a responsible officer for the deletions , changes made in the books of accounts and related documents totalling Rs.26,202,237 relevant to 30 instances. |
| (iii) Financial Regulation 395(b) | Bank Reconciliation Statements had not been certified by the authorized officer. |
| (iv) Financial Regulations 395(c) | Bank reconciliation statements of the year 2014 had been prepared and presented to audit in February 2015. |
| (v) Financial Regulations 395(h) | The officer maintained the cash book of the Institute had prepared the Bank Reconciliations as well. |
| (b) Treasury Circular No.842 of 19 December 1978 | The Register of Fixed Assets had not been updated and maintained. |
| (c) Public Finance Circular No.PF/PE/09 of 27 June 2000 | A sum of Rs.10,500,000 had been invested in fixed deposits without the approval of the Treasury. |

## 3. Financial Review

### 3.1 Financial Results

According to the financial statements presented, the financial results of the Institute for the year ended 31 December 2014 had been a net loss of Rs.686,947 as against the net profit of Rs.13,210,742 for the preceding year thus showing a deterioration in the financial result by Rs.13,897,689 or 105 per cent. Although the income of various activities in the year under review had decreased by 62 per cent , the increase in the administrative expenses by 32 per cent had mainly attributed to this deterioration.

**3.2 Legal Actions Instituted against the Institute**

Two external institutions had filed two cases for obtaining their payments relating to creative work and 4 ex-employees had filed 8 cases against interdiction of those officers and the expenditure incurred on these cases as at 31 December 2014 amounted to Rs.285,000.

**4. Operating Review**

**4.1 Management Inefficiencies**

The following observations are made.

(a) The value of the seven day's call investment brought forward from the year 2012 had been Rs.65 million as at the end of the year under review representing 83 per cent of the total investment. As those investments were not maintained as fixed deposit investments, interest on investments receivable to the institute had decreased.

(b) Even though the institute had obtained money for the 03 publicity programmes amounting to Rs.8,348,372 conducted in a Government Institution, due to the activities assumed to be performed had been carried out by giving sub contract and any follow up actions had not been done. Therefore ,the task had not been completed as yet.

(c) Offering discounts for the activities accepted to be performed ,determination of profit percentage had been decided by the Head of the Institution and a standard basis thereon had not been determined by the Institute.

**4.2 Transaction of Contentious Nature**

A sum of Rs.135,000 had been paid by the institute without an approval during the year under review for the foreign travels of the Personal Secretary to the Minster of Mass Media and Information.

**4.3 Apparent Irregularities**

A cash fraud of Rs.11,988,000 had been occurred by the officers of the Institution due to the weak financial management ,weakness of the internal control and non –implementation of the internal audit properly .A formal investigation had not been done in respect of the officers responsible for that.

**4.4 Utilization of Vehicles**

The following observations are made .

(a) In terms of the letter No.MF/TR/01/2003 dated 28 March 2003 of the Secretary to the Ministry of Finance and Planning, the maximum rent payable for a hired motor vehicle amounts to Rs.40,000 per month. But, a motor vehicle had been obtained on the basis of a monthly rental of Rs.65,000 contravening the requirement and without following the Government Procurement Guidelines, and the amount paid in excess of that limit in the year under review was Rs.300,000.

(b) Details relating to the quantity of litres of fuel consumed by each motor vehicle (including hired motor vehicles) during each month of the year under review, value of fuel, details of repairs and maintenance, motor vehicles of other State institutions in the custody of the Institute and the details of motor vehicles of the Institute/ hired motor vehicle made available to other State institutions/ Ministries were not made available to audit.

## 5. Accountability and Good Governance

### 5.1 Establishment of the Institute

This Institute had been taken over by the Ministry of Mass Media on 20 December 2001. However, provisions had not been made by an Act or by any other laws to determine and enforce its powers with regard to its objectives and functions. Although action had been initiated since the year 2009 to register this Institute as a public company named as "Selacine Limited" under the Companies Act, such action had not been finalised even by the end of the year under review.

### 5.2 Presentation of Financial Statements

Even though in terms of paragraph 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003, draft annual report and the financial statements should be presented within 60 days after the closure of the financial year, the financial statements for the year ended 31 December 2014 had been submitted to audit on 01 September 2015 after a delay of 183 days.

## 6. Systems and Controls

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

(a) Assets Control
(b) Accounting
(c) Financial Control