Independent Television Network Ltd. – 2015

The audit of financial statements of the Independent Television Network Ltd., comprising the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended 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 observations on the performance of the Company which I consider should be presented to Parliament in terms of Article 154 (6) of the Constitution of the Democratic Socialist Republic of Sri Lanka appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000 - 1810). Those Standards require that I comply with the ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Establishment of the Company and Ownership

Commenced on 13 April 1979 as a Company in the Private Sector the Company was acquired by the Government in accordance with the Notification Published in the Government Gazette Extraordinary. No. 39/04 dated 05 June 1979 under the Business Undertakings (Acquisition) Act, No 35 of 1971. The Government Owned Business Undertaking was converted to a Public Company in terms of the Conversion of Public Corporations or Government Owned

Business Undertakings into Public Companies Act, No. 23 of 1987 and subsequently registered under the Companies Act No. 07 of 2007. This is a Company fully owned by the Government and its share ownership rests fully with the General Treasury.

1.5 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of the report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report the financial statements give a true and fair view of the financial position of the Independent Television Network Ltd., as at 31 December 2015 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

(a) **Sri Lanka Accounting Standard 01**

Even though assets and liabilities should not be set off against each other unless otherwise required or permitted by a Standard, a debtors credit balance of Rs.28,391,924 as at 31 December 2015 had been set off, thus resulting in the understatement of the Trade Debtor balance by that amount in the financial statements for the year ended 31 December 2015.

(b) **Sri Lanka Accounting Standard 07**

(i) Even though the investment interest amounting to Rs.76,292,255 received during the year only should have been shown as a cash flow under the investment activities in the cash flow statement, the total of the investment interest for the year amounting to Rs.79,828,411 had been shown thereunder.

(ii) Even though the value of the Money invested and the withdrawal of investments in the year should have been shown separately in the cash flow statement, the investments made and the withdrawals had been set off and a sum of Rs.35,120,027 had been shown as the investment income under the Investment Activities.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) According to the accounting policy adopted for the recognition of Government Grants, the grant should be written down as the amortization during the life time of 08 years of the asset. In view of the amortization of the Government Grant of Rs.31,221,094 received in the year 2008 for the purchase of assets contrary to that method, the non-current assets had been overstated by a sum of Rs.4,977,045 whilst the profit for the year under review had been understated by a sum of Rs.638,249.

(b) The transmission tower income for the year under review had been understated by a sum of Rs.2,226,766 and the transmission tower income receivable amounting to Rs.5,599,348 had not been brought to account.

(c) Electricity income of Rs.963,054 receivable from the Private Telephone Companies for the use of transmission towers had not been brought to account.

(d) Provision for accrued expenses had not been made for the sum of Rs.2,098,686 payable for the use of the transmission towers belonging to the Sri Lanka Broadcasting Corporation.

(e) Even though a provision of Rs.946,560 made in the preceding year as compensation payable to an employee of the Company had been paid in the year under review, that amount had been brought to account in the financial statements as an accrued expense as at the end of the year.

(f) The difference between the estimated cost of the transmission and wave equipment imported by the Company in the year under review and the actual price paid for the import amounting to Rs.2,085,917 had been brought to account as a foreign exchange profit instead of being adjusted to the Fixed Assets Account.

(g) Even though the Value of the transmission and wave equipment purchased in the year under review amounted to Rs.42,288,259, that had been over computed by Rs.3,842,847 to Rs.46,131,106 in the computation of the capital allowance for the purpose of income tax. As such the 33 1/3 per cent capital allowance had been over computed by a sum of Rs.1,279,245. Accordingly, the provision for income tax for the year under review had been under computed by a sum of Rs.358,189.

(h) Even though the value of investments exceeding 3 months amounted to Rs.545,137,461, the investment interest of Rs.20,464,650 receivable as at 31 December 2015 included therein, had been shown by adding to the face value prior to maturity and brought to account under the current assets in the financial statements instead of being brought to account as an income receivable.

2.2.3 Unexplained Differences

According to the financial statements, the income for the year under review amounted to Rs.2,483,462,495 whilst a sum of Rs.2,512,654,691 had been considered as the income for the preparation of the Value Added Tax Return, and as such a difference of Rs.29,192,196 was observed between the financial statements and the Value Added Tax Return. Similarly, a sum of Rs.2,469,941,098 had been considered as income for the preparation of the Nation Building Tax Return and as such a difference of Rs.13,521,397 was observed between the financial statements and the Nation Building Tax Return.

2.3 Accounts Receivable and Payable

The following observations are made.

(a) The value of dishonoured cheques as at the end of the year under review amounted to Rs.8,891,820. Instead of taking action on those cheques in terms of the Financial Regulations, impairment adjustments had been made for cheques valued at Rs.7,039,708 dishonoured during the years 2008 to 2011.

(b) According to the policy of the Company for allowing credit to its clients, such debts should be recovered within a period of 03 months. Nevertheless, out of the client debtors amounting to Rs.1,113,955,478 as at the that date of the year under review, the debtors between 03 months and 06 months amounted to Rs.115,883,732, the debtors over 06 months and less than 01 year amounted to Rs.184,922,168 and the debtors older than 01 year amounted to Rs.194,041,803.

(c) The Contra Trade Debtor balance as at the last date of the year under review amounted to Rs.14,641,723 and it was observed that it is a balance existing from the year 2004 and that the Company had not taken action to obtain the service for that as agreed. Impairment adjustment had been made for a sum of Rs.14,623,989 out of that balance.

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

The following instances of non-compliance were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
(a) Public Enterprises Circular No.PED/50 of 28 July 2008, Public Administration Circular No.14/2008 of 26 June 2008, Public Administration Circular No.22/99 of 08 October 1999 and Public Enterprises Circular No.PED/01/2015 of 25 May 2015.	(i) Transport and fuel allowances amounting to Rs.21,493,707 had been paid in the year under review to 302 officers not entitled to the Transport and Fuel Allowances contrary to the circular provision and without the approval of the Treasury.

		(ii) Even though the approval of the Secretary to the Ministry should be obtained for obtaining fuel exceeding one's entitled quantity of fuel, two officers had obtained 3,177 litres of fuel valued at Rs.406,656 without obtaining such approval.
(b)	Public Enterprises Circular No.PED/12 of 02 June 2003 Section 9.3	Even though there should be a very clearly and distinctly prescribed Scheme of Recruitment and Promotion for each post of the staff, such scheme was not available with the Company.

3. Financial Review

3.1 Financial Result

According to the financial statements presented, the after tax profit of the Company for the year ended 31 December 2015 amounted to Rs.433,021,231 as compared with the corresponding after tax profit of Rs.424,733,393 for the preceding year, thus indicating an improvement of Rs.8,287,838 or 2 per cent as compared with the preceding year. Even though the expenditure for the year under review had increased corresponding with the increase of the income, the decrease of the expenditure on income tax for the year by 28 per cent approximately had been the main reason for the above improvement.

An analysis of the financial results for the year under review and 04 preceding years indicated that the financial results had regularly improved from the year 2011 to the year 2013 whilst the financial results for the years 2014 and 2015 had deteriorated as compared with the year 2013. Taking into consideration the employees remuneration, Government Taxes and the depreciation on the non-current assets the contribution of the Company for the year 2013 amounting to Rs.1,791,757,850 had decreased by 9.2 per cent Rs.1,627,426,528 by the year 2015.

3.2 Legal Action instituted against or by the Institution

The following observations are made.

(a) External parties had filed 07 cases against the Company as at 31 December of the year under review for slanderous statements made in the news telecasts of the Company and unauthorized telecasting of their films whilst one case had been field by an interdicted employee. A sum of Rs.3,105,720 had been paid as lawyers' fees for these cases. The compensation claimed in relation to 07 cases filed by the external parties amounted to Rs.2,564,225,000.

(b) Eight cases had been filed against external parties for the recovery of a sum of Rs.13,588,727 in connection with the air time provided by the Company by 31 December 2015 and 02 of those cases could not be maintained due to the inability to trace the permanent places of residence of the accused parties.

4. Operating Review

4.1 Performance

The main objective of the Company is to deliver high quality, creative content, using the state-of-the art technology and exceeding stakeholder expectation, whilst safeguarding the value of all Sri Lankans through dedicated team work within the framework of a prosperous enterprise and presenting Sri Lankan perspective to the world.

The Independent Television Service under the Independent Television Network only had earned profits in the year 2014 and 2015 and the Vasantham TV, the Vasantham FM and the Lakhanda Radio had incurred losses in the years 2014 and 2015. The losses of the Vasantham FM and the Lakhanda Radio as compared with the preceding year had increased by Rs.9,009,480 and Rs.24,398,029 or 123 per cent and 55 per cent respectively. The losses of the Vasantham TV had decreased by Rs.20,245,492 or 69.4 per cent whilst the profit of the Independent Television Service had increased only by Rs.24,365,295 or 4.8 per cent.

4.2 Management Activities

The officer who functioned as the Working Director of the Company from August 2010 to July 2014 had in addition to obtaining the monthly Transport Allowance of Rs.40,000 and 140 litres of fuel, utilized the pool motor vehicles of the Company. The sum of Rs.755,950 recoverable for 46,237 kilometres so run, had not been recovered.

4.3 Operating Activities

The following observations are made.

(a) All scheduled trade advertisements and all other programmes valued at Rs.8,227,333 scheduled after 7.30 in the night of 05 January 2015 had been cancelled and a Presidential Election Publicity Rally had been televised for free from 7.30 to 9.50 pm that night.

(b) All scheduled election publicity advertisements valued at Rs.25,645,481 received from one Presidential Candidate to the Media Institutions under the Independent Television Network had not been broadcast and as such a sum of Rs.11,026,498 had to be refunded to the candidate.

(c) In the case of another Presidential Candidate, number of publicity advertisement more than the number scheduled and money obtained, had been telecast. As such the sum of Rs.19,091,862 receivable from that candidate in that connection had not been obtained even by the end of the year under review.

(d) The Independent Television Service of the Independent Television Network had classified advertisements in the nature of trade valued at Rs. 101,773,058 as previous telecast clips and telecast them for free for the promotion of a particular candidate. In addition to that, advertisements in the nature of trade for periods of 55,317 seconds not priced according to the Rate Cards as well had been telecast with the objective of promoting that candidate.

4.4 Identified Losses

Instead of recovering a further sum of Rs.1,210,620 recoverable from the money defrauded by an employee of the Company in the year 2011, impairment adjustment had been made for the full amount.

4.5 Idle and Underutilized Assets

A UHF Antenna System had been purchased on 29 November 2012 at a cost of Rs.5,791,748 without considering the possibility of obtaining the Land for the construction of the Madolisima Transmission Station. The construction work thereof had not been commenced even by the end of the year under review and the guarantee period of the Antenna System purchased had expired. In view of the non – installation of the Antenna System, the operation of the activities of the Madolisima Transmission Station during the period from September 2013 to September 2015 had been done by obtaining the transmission equipment of a private institution on hire. Sums of Rs.5,875,737, Rs.4,648,934 and Rs.2,432,640 had been paid to that institution for electricity, hire charges for the Antenna and rent of the Transmission Station respectively.

4.6 Staff Administration

The Treasury approval for the staff required for the Company had not been obtained even by the end of the under review. The total Staff of the Company of the as at the end of year under review had been 751 and comprised permanent staff of 656, contract staff of 46, relief staff of 17 and 32 Sales Executives.

4.7 Market Share

According to the Survey on viewing television and listening to radio by the spectators conducted by Lanka Market Research Bureau by co – opting 15 Television channels, the market share of 18.8 per cent achieved by the Company in the year 2009 had retrogressed to 14.4 per cent by the end of the year under review. The market share of 6.2 per cent of the Lakhanda Radio Service in the year 2010 had retrogressed to 01 per cent by the end of the year under review. Nevertheless, the Company had not taken action to identify the reason for the retrogression of the market share and for raising the market share.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to Section 6.5.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the financial statements and the draft Annual Report for the year under review should have been presented to the Auditor General within 60 days after the close of the financial year. Nevertheless, a draft Annual Report had not been presented whilst the financial statements had been presented only on 26 May 2016.

5.2 Corporate Plan

Even though a Corporate Plan for the years 2014 to 2018 had been prepared in terms of Section 5 of the Public Enterprises Circular No. PED/12 of 02 June 2003, the very important matters that should have been included therein, such as the information on the resources of the Company, and the review of the operating results of the three preceding years had not been reviewed and updated for the year 2015 and presented to the Auditor General.

5.3 Action Plan

Even though an Action Plan had been prepared for the year under review, the activities identified for implementation in the year under review included in the Corporate Plan had not been included in the Action Plan. Further, certain activities included in the Action Plan had not been implemented during the year under review.

5.4 Internal Audit

Even though the Company had prepared an Internal Audit Plan, the concurrence of the Auditor General for that had not been obtained.

6. Systems and Controls

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

Areas of Systems and Controls	Observation
(a) Accounting Deficiencies	Failure to account for income and expenditure relating to rent of Transmission Towers.
(b) Accounting Receivable	(i) Failure to take action in terms of the Financial Regulation on dishonoured cheques.
	(ii) Delays in the recovery of client debtors.
	(iii) Loans had been given to clients exceeding the credit period.
	(iv) Failure to obtain service for contra trade transactions.
(c) Non – compliance with Laws, Rules and Regulations	Payment of Transport Allowance contrary to circular provisions and without approval of the Treasury.
(d) Staff Administration	(i) Lack of a Scheme of Recruitment and Promotion of Staff.
	(ii) Absence of Treasury approval for the staff.
(e) Market Share	Failure to take adequate steps for the control of the retrogression of the market share.