Selasine Television Institute – 2015

The audit of financial statements of the Selasine Television Institute for the year ended 31 December 2015 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.

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 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. 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 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 judgment, 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 Institute'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 Institute'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 Institute

Even though this Institute was vested in the Ministry of Mass Media on 20 December 2001 provision had not been made by way of an Act or any other law to determine its objectives and functions and implement its powers. Even though action was being taken from the year 2008 to register this Institute under the Companies Act as a Public Company under the name "Selasine Limited" such action had not been finalized even by the end of the year under review.

1.5 Basis for Qualified Opinion

My opinion is qualified based on the matters described in Paragraph 2.2 of this 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 Selasine Television Institute 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 Public Sector Accounting Standards (S.L.P.S.A)

Non-compliance with the following Sri Lanka Public Sector Accounting Standards were observed during the course of audit.

(a) Instead of disclosing the net value of intangible assets amounting to Rs.4,511,117 separately in the financial statements in accordance with the Sri Lanka Public Sector Accounting Standard 01, that had been disclosed under the property, plant and equipment.

(b) Sri Lanka Public Sector Accounting Standard 02

(i) The journal entries valued at Rs.504,315 made for the rectification of errors relating to the payment lease rent had been shown as a cash flow in the cash flow statement.

(ii) Even though the building repair expenses amounting to Rs.1,842,062 not paid in cash in the year under review should have been shown under the adjustments in the cash flow statement, the Institute had shown that under the changes in the working capital.

(iii) Interest on investment received had been understated by a sum of Rs.3,890,834 in the cash flow statement.

(iv) The effective life of the non-current assets had not been revalued annually and as such, the fully depreciated property, plant and equipment costing Rs.7,782,363 were being further used. Action had not been taken for the revision of the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The investment interest for the year under review in respect of the fixed deposits, seven day call deposits and the Savings Accounts had been overstated by a sum of Rs.1,117,390.

(b) The deposit interest amounting to Rs.1,109,707 receivable for the year under review had been adjusted against the profit for the preceding year.

(c) (i) The Withholding Tax balance shown under the current liabilities had been overstated by a sum of Rs.770,137.

(ii) The Withholding Tax of Rs.5,917,583 shown as at 31 December 2015 under the current assets had not been recognized as expenditure during the relevant years and as such the current assets had been overstated by that amount.

(d) The provision made for doubtful assets had exceeded the amount had should be provided according to the accounting policy of the Institute by a sum of Rs.4,448,643.

(e) The Institute had spent a sum of Rs.9,210,310 in the year under review for repairing without the written approval of the landlord, the building of the National Film Corporation, taken on lease by the Institute on 15 January 2014 for a period of 5 years. That expenditure had not been recognized as an expenditure of the year and had been brought to account under the non-current assets for amortization during the lease period.

2.2.4 Unexplained Differences

According to the debtors schedule 102 debtor balances were observed. Out of those, letters for confirmation of balances had been sent to 92 debtors by the Internal Audit Division of the Institute and 15 letters of confirmation had been sent to the Internal Auditor of the Institute. Out of that 12 institutions had not agreed with the balances of the Selasine Institute and such balances not agreed amounted to Rs.5,156,363.

2.2.5 Lack of Evidence for Audit

The evidence indicated against the following items of account had not been furnished to Audit.

Item of Account		Value	Evidence not made available
		Rs.	
(a)	Payments	652,070	Three payments voucher and the related documentary evidence.
(b)	Fuel Expenses	861,068	Daily Running Charts
(c)	Debtors Balances (Not identified from years prior to the year 2006)	6,611,743	Opening ledger balances, schedules, age analysis, letters of confirmation of balances.
(d)	Payments made for the Director (Sales and Publicity)	500,000	Letters of appointment, personal file, approval of the Board of Directors.
(e)	Cost incurred on Legal Affairs	351,375	Files and payment vouchers

2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliances with the following laws, rules, regulations and management decisions were observed during the course of audit.

Reference to Laws, Rules, Regulations, etc.		Non-compliance
(a)	Financial Regulation of the Democratic Socialist Republic of Sri Lanka.	
	(i) Financial Regulations 137	Payments totalling Rs.4,158,090 made in 17 instance had not been approved.
	(ii) Financial Regulations 245(1)	Even though the certifying officer should certify all payment vouchers, 22 payment vouchers totalling Rs.7,275,457 had not been certified.
(b)	Public Finance Circular No.PF/PE/09 of 27 June 2000.	The approval of the Treasury had not been obtained for the investments of Rs.500,000 in fixed deposit as at 31 December of the year under review.

(c)	Ministry of Finance and Planning Circular No.MF/T/R/01/2003 dated 28 March 2003.	Even though the maximum monthly hire charge for the hire of motor vehicles is Rs.40,000, contrary to that, a motor vehicle for the payment of monthly hire charge of Rs.65,000 had been obtained. The overpayment made on that motor vehicle during the year under review amounted to Rs.300,000.
(d)	Paragraph 02 of the Public Administration Circular No.13/2008 (iv) of 09 February 2011 and Paragraph 3.2 of the Public Enterprises Circular No.PED01/2015 dated 25 May 2015.	The Director of the Institute had spent a sum of Rs.167,696 for 1,554 litres of fuel during the year under review without obtaining the formal approval.
(e)	Guideline 5.4.12 of the Government Procurement Guidelines	Subsequent to the payments made for covering the Value Added Tax it should be informed to the Commissioner General of Inland Revenue with a copy to the Auditor General on or before the fifteenth day of the following month. Nevertheless the returns relating to such payments made in the year under review and the preceding years had not been furnished for audit.

2.4 Transactions not supported by Adequate Authority

Nineteen debtor balancers totalling Rs.4,719,806 and 17 creditors balances totalling Rs.50,073,707 had been adjusted in the year under review to the profit of the preceding year without being examined properly.

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 2015 had been a deficit of Rs.28,537,464 as compared with the corresponding deficit of Rs.686,947 for the preceding year, thus indicating a deterioration of Rs.27,850,517 in the financial results for the year under review as compared with the preceding year. Even though the direct expenditure had decreased by a sum of Rs.173,792,564, the decrease of income by a sum of Rs.182,451,420 and the increase of selling and distribution expenditure by a sum of Rs.12,061,372 had been the reasons for the deterioration.

An analysis of the financial results for the year under review and the 4 preceding years revealed that despite there being financial surpluses from the year 2011 to the year 2013, there were financial deficits in the years 2014 and 2015. Taking into consideration the employees remuneration, the taxes paid to the Government and the depreciation, the contribution in the year 2011 amounting to Rs.69,406,706 had continuously improved to Rs.148,832,121 in the year 2013 whilst the contribution in the years 2014 and 2015 amounted to Rs.122,176,359 and Rs.42,223,469 respectively.

3.2 Working Capital Management

An analysis of important accounting ratios is given below.

Rates		**2015**	**2014**
Liquidity Ratios			
(i)	Current Ratio	1.5:1	1.25:1
(ii)	Quick Ratio	1.5:1	1.25:1

As compared with the preceding years, according to the quantitative values appearing in the accounts of the year under review, an improvement in the current ratio and the quick ratio was observed. Nevertheless, in view of the inclusion of unidentified debtor balances amounting to Rs.6,611,743 older than 09 years in the sundry debtors in the current assets and the inclusion of Withholding Tax amounting to Rs.5,917,583, the actual liquidity could be less than this.

4. Operating Review

4.1 Performance

The Institute does not have objective specifically identified by an Act or any other legal documents and objectives such as human resources development, utilization of resources, client reach out and profit motive had been included in the Corporate Plan. The following observations are made in this connection.

(a) Even though the Board of Directors should periodically review the Corporate Plan, the Budget and the performance to ensure that the actual performance differs with the plan in terms of Section 4.2.2 of the Public Enterpriser Circular No.PED/12 of 02 June 2003 and revise the Corporate Plan and Budget accordingly, such action had not been taken.

(b) According to the Action Plan 14 programme had been identified for the achievement of the objectives and 2 of those had been completed. Seven programmes had not been implemented adequately and 5 had not been commenced. The performance had not been evaluated on quarterly basis.

4.2 Apparent Irregularities

The officers of the Institute had committed a financial fraud of Rs.11,988,000 in the year 2014 due to the weak financial management, weaknesses in the internal control and the failure if the Internal Audit to function Property. Even though the Institute should have taken action in terms of Financial Regulations 103 and 104 to conduct a formal inquiry in this connection and take disciplinary action against the officers responsible, it had not been so done.

4.3 Staff Administration

The excess cadre in the Tertiary and Primary Levels as at 31 December 2015 had been 16 and action had not been taken to obtain the formal approval in that connection. Further, action had not been taken to fill 15 vacancies in the Senior Level and the Secondary Level.

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 should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the financial statements had been presented to the Auditor General on 13 July 2016, that is after a delay of 135 days.

5.2 Corporate Plan

Even though a Corporate Plan for the years 2014 to 2016 had been prepared in terms of Section 5.1.2 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the resources of the Institute, the organization structure of the Institute and the review of the operating results of three preceding years which should be included therein had not been included. It had not been reviewed and updated for the year 2015.

5.3 Action Plan

The following observation are made.

(a) Even though the Action Plan for the year under review had been prepared the activities for implementation in the year under review identified in the Corporate Plan had not been included the Action Plan.

(b) The Annual Budget, the proposed major investments, expansion of capacity, the Annual Procurement Plan including the major procurements, the Human Resources Development Plan, the Loan Repayment Plan and the Internal Audit Plan of the Institute which should be included in the Action Plan in terms of provisions in the Public Finance Circular No.01/2014 dated 17 February 2014 had not been included in the Plan.

5.4 Internal Audit

The Internal Audit Plan, the Register of Internal Audit Queries and the copies of the Internal Audit Queries had not been furnished to Audit.

5.5 Audit Committee

Even though Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003 requires that the Audit Committee should meet at least once in three months, only one meeting had been held during the year under review.

5.6 Procurement Plan

The Institute had not prepared a Procurement Plan for the year under review.

5.7 Tabling of Annual Reports in Parliament

According to Section 6.5.3 of the Public Enterprises Circular No.PED/12 of 02 June 2003, action should be taken to table the Annual Report in Parliament within 150 days after the close of the year of accounts. Nevertheless, action had not been taken for tabling the Annual Report for the years 2012 to 2014 in Paliament.

6. Systems and Controls

Deficiencies in systems and control 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.

Areas of Systems and Controls	Observations
(a) Accounting	Failure to furnish relevant ledger Accounts and the related information to enable obtaining the particulars of transactions.
(b) Planning	The Annual Action Plan and the Procurement Plan had not been prepared to enable the identification of variances the actual position and the planned position.
(c) Internal Audit	Failure to strengthen the Internal Audit by attaching suitable staff to enable the identification of weaknesses in the internal control and the changes to be made.
(d) Debtors Control	Failure to maintenance records to enable obtaining correct information on specific dates in the manner required.