Independent Television Network including - 2019

1.1 Qualified Opinion

The audit of the financial statements of the Independent Television Network ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 reported to the Parliament appear in this report.
In my opinion, except for the effects of the matters described in the paragraph 1.5 of this report, the financial statements give a true and fair view of the financial position of the Independent Television Network as at 31 December 2019, 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 based on the matters described in the paragraphs 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 matters related to going concern and using the going concern basis of accounting unless management either intends 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 (Auditor's Responsibility on the Financial Statements)

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 Financial Statements

1.5.1 Non - compliance with Sri Lanka Accounting Standards

Non Compliance with reference to the Particular standard	Management Comment	Recommendation
(a) According to the paragraph 79, 80 and 81 of the Sri Lanka Accounting Standard 12 information relating to calculation of income tax should be disclosed. However the tax note disclosed by the Institute relating to calculation of income tax had not been stated correctly.	Tax note was shown as it was as previous years and actions will be taken to disclose necessary notes in connection with calculation of income tax in future.	Actions should be taken as per the provisions of the Sri Lanka Accounting standard.
(b) According to the paragraph 51 of the Sri Lanka Accounting Standard 16, effective lifetime of non-current assets should be reviewed annually. However even though property plant and equipment at the cost of Rs. 1,393,185,840 of which the depreciation charge is zero is being in the active use, actions had not been taken to correct the estimated error as per the Sri Lanka Accounting Standard 08 and to show the correct carrying value in the financial statements.	According to the paragraph 79 (B) of the LKAS 16, the value of property, plant and equipment which are in active use but totally depreciated was shown in the financial statements. Further depreciation amounts are examined annually at present and adjustment of depreciation is made annually. The report of fully depreciated property, plant and equipment can be submitted for observation.	Actions should be taken as per the provisions of the Sri Lanka Accounting standard.

1.5.2 Accounting Deficiencies

Audit Issue		Management Comment	Recommendation
(a)	Although a sum of Rs. 110,405,433 had been received as interest income, only a sum of Rs. 99,109,678 had been shown in the cash flow statement as the interest income relating to the year under review. Thus the cash flow had been understated by Rs. 11,295,755.	The interest income was adjusted to the cash flow statement as it was as previous years. When calculating interest income, income of fixed deposits and the interests of employee's debts as well were taken into the calculation.	Cash flow relating to the year should be shown correctly.
(b)	Although fixed deposits valued at Rs. 394,252,692 had been encashed by the Network during the year under review, a sum of Rs. 331,930,705 had been shown as the cash flow from investments under the investing activities of the cash flow statement. As a result, a cash flow of Rs. 62,321,987 had been understated .	After adjusting total of the interest income for fixed deposits, adjustments were made to the cash flow statement as it was done in previous years.	Cash flow relating to the year should be shown correctly.
(c)	The provision of impairment of Rs. 3,380,610 which had been adjusted to the income statement for other receivables relating to the year under review had not been adjusted under the operating activities of the cash flow statement.	The adjustment was made for the impairment provision in the cash flow statement.	Relevant adjustments should be made correctly to the cash flow statement
(d)	Two ledger accounts had been maintained by the Network for the same transaction of the same debtor and a sum of Rs. 2,427,600 paid by the said debtor had been entered into one account. As a result the debtor balance and the retained profit had been overstated in the financial statement by the same amount.	The said amount was not affected to the balance of total debtor control account and it is informed that actions will be taken to settle the said amount in future.	Debtor balances relating to the year should be shown in the financial statements after recognizing correctly.

(e)	Actions had not been taken to write off a sum of Rs. 2,780,184 which had been over posted to a debtor account from the accounts and a sum of Rs. 878,870 which should be deducted as commission relating to the Wasantham TV had been posted as a debtor balance. Hence the debtor balance had been overstated by Rs. 3,659,054.	Actions will be taken to settle the sum of Rs. 2,780,184 from the accounts over posted and actions were taken already to correct the sum of Rs. 878,870.	The correct balances as at the end date of the financial year should be shown in the financial year.
(f)	Instead of being accounted 12 English movies purchased in the year 2011 at Rs. 1,037,763 as intangible assets , it had been accounted as a pre-payment.	Out of those movies, 4 had been telecasted in the years 2015, 2016 and 2017 and actions will be taken to telecast the other movies in future after checking the telecasting right.	Actions should be taken to show the intangible assets accurately in the financial statements.
(g)	The depreciation policy followed by the Network had not been disclosed in the financial statements clearly and depreciation expense had been overstated by Rs. 1,789,202 and the value of assets had been understated by Rs. 900,941 as at 31 December due to the fact that shown rates not being followed correctly.	(i) Accounting of depreciation relating to furniture and fittings was correct and depreciation could not be done more than the cost. (ii) Actions will be taken to correct the said amount when calculating depreciation for buildings for the year 2020. (iii) The accurate amount of depreciation was taken into accounts as it was in the previous year's relating to the depreciation of the buildings of Lakhanda Radio.	Depreciation should be calculated according to the depreciation policy disclosed in the financial statements.

		(iv) It can be mentioned that depreciation of office equipment was taken into accounts accurately. (v) Actions were taken correctly as per the Accounting Standards following recommendations of the Engineering Section in connection with plant and machinery and Trans meters.	
(h)	A sum of Rs. 7,193,321 included in the debtor balance shown in the financial statements was consisted with contra deals and even though those transactions had been completed after obtaining relevant services, proper accounting records had not been maintained. As a result, debtors had been overstated by the same amount.	Kindly informed that actions will be taken in future to write off and to settle the accounts after finding out in this regard.	After obtaining the contra deal services, accounts treatments should be done correctly.

1.5.3 Unreconciled Control accounts or Records

Audit Issue	Management comment	Recommendation
According to the financial statements, the balance of client debtors of Wasantham TV was Rs. 82,896,053 and according to the schedules it was Rs. 95, 481, 160.Thus a difference of Rs. 12,612, 107 was observed.	The debtor balance and the debtor balance according to the schedules was Rs. 95,481,160 and removing minus balances included in the debtor schedules in preparing imparement report was the reason for the difference of Rs. 12,612,107.	Schedules which can be proved the balances shown in the financial statements should be submitted.

1.5.4 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
The net assets of the Company had continuously decreased since the year 2015 to the year 2019 and continuous losses had been reported since the year 2016 to the year 2019. Accordingly the total loss of the Company for the year was Rs. 582,560,996.	According to the ratings of air time, the rating of the institute was in a very low level. Hence the loss condition was occurred.	Actions should be taken to avoid the loss condition increasing the sale income of air time.

1.6 Receivable and payable accounts

1.6.1 Receivable Accounts

Audit Issue	Management Comment	Recommendation
(a) A balance of Rs. 18,248,325 less than 5 years, a balance between 05 to 10 years was Rs. 20,859,250 and a balance of Rs. 22,290,655 more than 10 years were included in the differed income of Rs. 61,398,230 shown in the financial statements. However actions had not been taken to settle those balances even during the year under review.	During this year, on the recommendations of the Audit and Management Committee, actions were taken to take into accounts of this year.	Actions should be taken to settle the balances.
(b) A contra deal balance more than 5 years amounting to Rs. 14,641,728 had been included in the contra deal debtor balance of Rs. 26,102,278 shown in the financial statements as at 31 December of the year under review. Adjustments of impairment had been done for the said amount without obtaining the relevant services.	Relevant invoices and other documents in connection with this contra deal transactions were not received to the finance division. Hence there was a problematic situation for taking such values into accounts and other further actions.	Actions should be taken to obtain the relevant services and to settle the contra deal debtor balances.

1.6.2 Payable Accounts

Audit Issue	Management Comment	Recommendation
(a) The balance exceeded 10 years amounting to Rs. 24,347,719 had	It was informed to the credit control section to	Actions should be taken to settle the

	been included in the balance of client advances of Rs. 118,338,166 shown in the financial position statement as at 31 December 2019. Actions had not been taken to settle the said balance even during the year under review.	make adjustments in this year after recognizing those clients correctly.	balances which had been brought forward over a long period.
(b)	The value of 433 cheques issued but not presented for payment over a period more than 5 years as at 31 December 2019 amounting to Rs. 3,888,051 and the value of 550 cheques between 2 to 5 years amounting to Rs. 5,494,358 had not been settled and taken into accounts as cancelled cheques.	Actions will be taken in future, after obtaining the approval of the Audit and Management Committee to write off the cancelled cheques mentioned above and to take in to the revenue again.	Adjustments should be made in the accounts relating to the cancelled cheques and should be settled.
(c)	Actions had not been taken to settle the unclaimed payable balance of Rs. 974,653 older than 3 years and other payables amounting to Rs. 37,538,476 which had been brought forward from the year 2012.	Actions will be taken to take into accounts after obtaining information relating to the said payable amount and having a correct confirmation regarding such payments.	Actions should be taken to settle the balances which had been brought forward over a long period.
(d)	Actions had not been taken even during the year under review to settle the unrecognized credit balance which had been carried forward since the year 2016 amounting to Rs. 1,416,677 and total of 86 refundable deposits exceeded 3 years amounting to Rs. 639,600	It was informed to the credit control division about the said balances and actions will be taken to settle after recognizing those creditors correctly.	Actions should be taken to make adjustments in the accounts after making payments.

1.7 Non- compliance with Laws Rules Regulations and Management Decisions etc.

	Reference to the Laws, Rules, Regulations etc.	Non-Compliance	Management Comments	Recommendations
(a)	Public Enterprises Circular			
	(i) Section 6.5.1 of the Circular No.	Although the draft annual report for the year under	A delay of a few days was occurred	The draft annual report should be

	PED/12 dated 02 June 2003	review should be submitted to the Auditor General within 60 days after the close of the financial year, it had not been presented even up to the date of this report.	because the draft annual report should be submitted after obtaining the approval of the Board of Directors and it was sent to the Auditor General on 12 March 2020.	submitted within the due period of time as per the provisions.
(ii)	Circular No. 01/2015 dated 25 May 2015	Three individuals had been served for the post of Chairman of the Network from time to time and even though the fuel allowance entitled for the post was 170 litters 455 litters of fuel had been issued exceeding the said limit. In addition, 1518 litters, 1716 litters and 1640 litters of fuel had been issued to the Chief Executive Officer,Deputy General Manager Marketing (Covering) and the Deputy General Manager (News and Current Affeairs)exceeding the approved limit.	Fuel was issued for official duties.	Actions should be taken as per the Circular instructions.
(iii)	Circular No. 03/2019 dated 09 December 2019	Contrary to the provisions of the Circular, a sum of Rs. 7,986,000 had been paid to the employees of the Network during the year under review as bonus	These allowances were paid according to the Corporate Constitution and on the approval of the Board of Directors. Further it was intended to motivate the staff through such methods.	Actions should be taken as per the Circular instructions.

(b) Public Finance Circulars

(i) Circular No. 02/2013 dated 31 January 2013	Although according to the E policy of the Government a pre-paid bank card can be obtained, a credit card from the Bank of Ceylon had been obtained by the Network and even though the maximum limit of the bank pre-paid card was Rs. 100,000, the maximum limit of the credit card obtained was Rs. 900,000. Further according to the paragraph 06 of the Circular, even though accounting treatments which should be followed in connection with the payments made through the pre-paid card had been mentioned, it had not been disclosed in the financial statements regarding this card.	Because of these payments could not be paid by a pre-paid card. Considering the timely need, that card was cancelled and a credit card was obtained on the approval of the Board of Directors. Since this was not a pre-paid card, the maximum limit was obtained on the approval of the Board of Directors and on the decision of the nature of expenses. All these expenses are referred to the Internal Audit Section to examine.	This Institute is a public Company. Hence actions should be taken as per the Circular instructions.

1.8 Non-compliance with Tax Regulations

Audit Issue	Management comment	Recommendation
According to the financial statements, even though the value of value added tax as at 31 December 2019 was Rs. 9,914,876 , according to the value added tax reports , it was 4,532,296 . As a result, value added tax had been overstated by Rs. 5,382,580.	Tax payments is made during the year as per the income and the adjustments occurred when preparing financial statements are paid in coming months. Further it is informed that necessary adjustments were made accurately in time periods according to the reports received from the Department of Inland Revenue.	Value added tax should be calculated accurately.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs. 571,884,034 and the corresponding deficit for the preceding year was Rs. 627,610,711. Therefore an improvement of Rs. 55,726,677 in the financial result was observed. Increase of other income by Rs. 16,001,972 represents 41 per cent and decrease of programme expenditure by Rs. 97,509,232 represents 16 percent compared with the previous year had mainly affected to the financial result of the year under review.

2.2 Ratio Analysis

Profit ratios and liquidity ratios for the year under review and the previous year are given below.

Profit Ratios	**2019**	**2018**
	%	%
Gross profit Ratio	55	49
Net profit/(loss) Ratio	(0.5)	(52)

Liquidity Ratios	2019	2018
Current Ratio (times)	02	03
Quick Ratio (times)	02	03

The gross profit ratio for the year under review had increased by 06 per cent compared with the year 2018 and the deficit had decreased by 51.5 per cent. Current ratio and quick ratio had decreased by 01 time.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	**Management comment**	**Recommendation**
(a) Eighteen law suites had been filed by external parties against to the Network as at 31 December 2019 demanding Rs. 615,325,000 as compensation and a sum of Rs. 3,502,115 had been incurred for those cases as at the end of the year under review.	News telecasting, film telecasting and even the employees had filed law suites in their problematic situations. Actions is being taken regarding all suites	Actions should be taken as to be minimized losses to the Network
(b) Nine cases had been filed by the	For maintaining successful	Proper actions

Company as at 31 December 2019 against to the client debtors for recovering a sum of Rs. 14,951,343 and out of that, a debtor of Rs. 3,075,357 could not be find out . Hence the proceedings had been terminated.	business, it is necessary to maintain the cordiality as well as expenses on legal activities. Therefore every possible action is taken before referring to legal actions. Out of the credits given by the Institute, actions are taken to recover only 98 per cent. The rest is referred to the legal section to proceed legal actions for recovering. Further this value consisted with balances from the year 2001 and it is kindly informed that this amount is between 1 to 2 per cent of the total credit sales. Strick behaviour for taking legal actions may result to reduce the income rapidly.	should be taken to recover credits without delay.

3.2 Operating Inefficiencies

Audit Issue		Management comment	Recommendation
(a)	Short term and long term fixed deposits deposited in the period from the year 2013 to the year 2017 had been encashed by the Network in the years 2018 and 2019 as Rs. 326,513,275 and Rs. 604,748,994 respectively. As a result, fixed deposits by 14 per cent and 39 per cent respectively and interest income by 15 per cent and 31 per cent respectively had decreased.	Due to the unfavourable situation of cash flow of the Institute, those fixed deposits had to be encashed.	Actions should be taken to improve the financial position of the Institute.
(b)	Twenty one tele dramas had been purchased by the ITN channel during the year under review and out of that a sum of Rs. 51,967,769 had lost from 13 tele dramas.	On the competition of tele dramas private channels play a major role. Therefore profit cannot be earned for every tele drama.	Losses should be avoided by telecasting dramas which can be expected high response from the

	However as a State institute we are responsible for higher taste to the audience. Hence higher standard tele dramas should be telecasted, losses are occurred though.	audience

3.3 Procurement Management

Audit Issue	Management comment	Recommendation
(a) According to the Section 4.2.1 (c) of the Government Procurement Guideline 2006, a detailed procurement plan should be prepared for the coming year. However the procurement plan for the year 2019 had been approved by the Network on 28 May 2019 with a delay of 5 months and procurement at the total value of Rs. 8.84 million had been made within the said period of time.	Submission of procurement plan for the year 2019 was delayed up to May 2019 due to the failure of referring necessary information to the supplies division within the due period of time by relevant sections. Procurement had to be made within the said period under the provision approved by the Board of Directors for the year 2019 for the requirement of the Institute.	Actions should be taken as per the Government Procurement Guideline.
(b) According to the delayed procurement plan, 45 procurement activities valued at Rs. 232 million had been planned to fulfil during the year. However procurement activities valued at Rs. 20 million representing 10 per cent out of the said procurement activities only had been fulfilled up to 30 August 2019.	Procurement was done in low level due to the financial difficulties of the Institute.	Procurement plans should be prepared considering the financial position and the priority of the requirement of the Institute.
(c) It was observed in sample audit examination that procurement activities valued at Rs. 3,549,580 had been made before appointing the Technical Evaluation Committee contrary to the Section	In some instances it was difficult to follow the method when calling sealed quotations for urgent requirements of the institute operations. However	Actions should be taken as per the Government Procurement Guideline.

	2.3.2 (c) of the Government Procurement Guideline 2006.	actions were taken to make procurements under competitive quotations, securing transparency, recommendation of the bid evaluation committees and approvals of the procurement committee.	

3.4 Human Resources Management

	Audit Issue	Management comment	Recommendation
(a)	According to the letter of the Director General of the Management Services No. DMS/1590/VOL II dated 8 May 2018, even though the cadre had been approved for the Independent Television Network, actions had not been taken to get the scheme of recruitment thereon approved even up to 31 December 2019.	The final draft was submitted to the Department of Management Services on 14.07.2020 for approval.	Actions should be taken to get the scheme of recruitment approved.
(b)	A recruitment had been made to a post of Working Director which had not been included into the approved cadre and a sum of Rs. 550,000 had been paid during the year as salaries and allowances. Further recruitments had been made to 7 posts without having an approved scheme of recruitment and promotions had been made for two posts.	This appointment was made by the Minister of Mass Media by the letter No. MM/MS/ Staff/2019 dated 27.05.2019 and monthly allowance of Rs. 75,000 is paid to the Working Director as per the Public Enterprises Circular No. PED 03/2015 dated 17.06.2015. Further a sum of Rs. 25,000 as entertainment allowances and Rs. 10,000 as telephone allowances are paid monthly as per the Board Decision No. 327/09.	Recruitment should be made to the posts included in the approved cadre according to an approved scheme of recruitment.
(c)	An officer had been recruited to the post of Manager Marketing on	An officer was recruited to this post on contract basis on	Recruitments should be made on

	contract basis without recruiting on permanent basis.	the instructions of the Chairperson then and the approval of the Board of Directors.	permanent basis for the posts of the permanent cadre
(d)	Without having a proper appointment, the female officer who held the post of Accountant of the Network has worked for the post of Manager Finance since 07 November 2018. The post of the Deputy General Manager Finance of the Network has been vacant since July 2017 and the above said officer had been appointed for covering duties of the said post since 21 June 2019. A sum of Rs. 477,086 had been paid for the period of 07 November 2018 to 31 July 2019 as acting allowance and fuel allowance for working for the both posts. Nevertheless an approval had been made by the Board Decision No. 328/35 dated 30 July 2019 that she has been promoted to the post of Manager Finance and until coming into a final decision to pay a salary of Rs. 61,809 and other allowances and to pay a monthly allowance of Rs. 9,635 for acting duties of the post of Deputy General Manager. However the Decision of the Board of Directors No. 329/14 dated 03 September 2019, it was mentioned that this appointment was not approved by the Board of Directors and all allowances obtained in this regard is illegal. Accordingly this appointment was problematic.	The accountant was appointed for covering duties of the post of Deputy General Manager (Finance) since 07.11.2018. A monthly allowance of Rs.9635.83 is paid to her for covering duties of the post of General Manager (Finance) as per the section 12.5.4 of Chapter VII of the Establishment Code. Payment of this allowance continuously had been approved by the Board Decision No. 328/35. The approval of the Board of Directors had been granted to appoint her for covering duties of the post of General Manager (Finance) by the Board Decision No. 332/25.	Recruitments should be made properly.