

Independent Television Network Ltd - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Independent Television Network Ltd for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, 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 on the matters described in paragraph 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, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend 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

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 Audit Observations on the preparation of Financial Statements

1.5.1 Non Compliance with Sri Lanka Accounting Standards

Non - compliance with reference to the particular standard	Management Comment	Recommendation
<p>According to the section 9 of Sri Lanka accounting Standard 02, even though inventories should be measured at the lower of the cost and the net realizable value, the net realizable value of spare parts included in the inventories had not been evaluated by the Network and it had been shown in the financial statements at the cost of Rs. 17,146,371.</p>	<p>The said inventory which maintains in the stores was not used for manufacturing or resale. This was maintained only for the consumption without having a purpose of earning profit. Purchasing makes on the requirement of the Network and the inventory was not kept for a long time in the stores. Hence it was shown at the cost.</p>	<p>The value of inventory should be reported as per the accounting standard.</p>
<p>According to the Sri Lanka accounting Standard No. 13, the carrying value of property, plant and equipment, which had been fully depreciated, but is being used for operation should be revalued and shown in the financial statements. However the assets valued at Rs. 1,652,337,093 which had been fully depreciated but is being used for operations had not been revalued and disclosed the carrying value in the financial statements by the Network.</p>	<p>According to the paragraph No. 79 (B) of the LKS 16, property, plant and equipment standard, the value of property plant and equipment which was fully depreciated but is being used for now was shown in the financial statements. A softcopy was submitted for the audit.</p>	<p>Actions should be taken as per the standard.</p>
<p>According to the Sri Lanka accounting Standard 20, government grants should be recognized as an income at the time of recognizing the cost of depreciation relevant to it. However the government grant of Rs. 5,100,000 received to the Vasantham T.V during the year under review had not been recognized as an</p>	<p>Amortization of assets which was purchased on government grants is done as per the utilization of such assets (SLAS 18) and according to the depreciation policy of the Network , depreciation is done in the year following to the year</p>	<p>Capital grants should be recognized as an income related to the cost of depreciation.</p>

income relating to the cost of depreciation.

of the assets were purchased. According to the said policy, grants received to the Vasantham T.V during the year under review (2020) will be amortized in the year 2021. Accordingly it is informed that, a common policy is being used for the accounting purpose of the Network and accordingly accounting activities were done correctly. Further all information relating to government tax grants was submitted.

1.5.2 Accounting Policies

----- Audit Issue -----	Management Comment -----	Recommendation -----
(a) Although assets had been depreciated by the Network since the month of it had been purchased, the depreciation policy had not been disclosed clearly in the financial statements.	The depreciation policy was shown under 2.8.1 of the notes to the financial statements.	Depreciation policy should be disclosed clearly in the financial statements.
(b) According to the depreciation policy of the Network even though the useful life of machinery was between 2 years to 15 years, (depreciation percentage between 6.67% and 50%), machinery at the cost of Rs. 421,567,609 of ITN T.V and telephone hybrid system at the cost of Rs. 1,058,945 of Lakhanda Radio had been depreciated contrary to the depreciation policy.	Currently, depreciation amounts are checked annually and adjustments of depreciation are made accordingly. Therefore percentages of depreciations are changed and it can be informed that this has been taken into accounts correctly.	Depreciations should be calculated according to the policy which had been disclosed in the financial statements.

- (c) According to the depreciation policy of the Network even though office equipment should be depreciated at 25 per cent of the cost, contrary to the said policy, mobile phones purchased in the year 2014 by the Independent Television channel at the cost of Rs. 85,150 had been depreciated at 12.5 per cent. As a result, the net value of those assets which should be fully depreciated as at the end of the year under review had been overstated by Rs. 13,305.
- The percentage of depreciation of mobile phones was 12.5 per cent because the mobile phones were shown under the furniture and fittings in previous years. Subsequently it was shown under the office equipment and depreciation was made according to the 25 per cent depreciation rate.
- Depreciations should be calculated according to the policy which had been disclosed in the financial statements.
- (d) According to the depreciation policy of the Network even though the useful life of buildings was 20 years, depreciation had been calculated by the Lakhanda Radio considering the life time was as 25 years. As a result, the value of depreciation had been understated by Rs. 64,683 and the value of building as at 31 December 2020 had been overstated by Rs. 1,044,263 due to the fact that depreciation rates had not been applied in correct way.
- The lifetime which was considered at the time of the Lakhanda Radio Broadcasting Corporation was not changed after it was taken over by the Independent Television Network.
- Depreciations should be calculated according to the policy which had been disclosed in the financial statements.
- (e) According to the depreciation policy of the Network even though the office equipment should be depreciated at 25 percent of the cost, different rates had been used by the Lakhanda Radio for calculation of depreciations of the office equipment. As a result, the net value as at 31 December 2020 relating to the office equipment purchased in the years 2012, 2013 and 2014 had been overstated by Rs. 260,578.
- Accounting standards were changed since the year 2012. According to the IFRS standards depreciation rate should be decided according to the lifetime of such assets. Therefore rates are different according to the lifetime of each asset.
- Depreciations should be calculated according to the policy which had been disclosed in the financial statements.

1.5.3 Accounting deficiencies

Audit Issue	Management Comment	Recommendation
(a) Payments made for promotion of programmes relating to December 2019 via social network by a bank card amounting to Rs. 202,309 had been shown as expenses for the year under review. As a result, expenditure for promotion of business had been overstated by the same amount.	A bank card is being used for promotion of programmes via social network and settlement of expenses of this card relating to the late months of the previous year is done in the following year. It is noted to make adjustments at the end of the year correctly.	Expenses relevant to the year should be shown as the expenses for the year.
(b) 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.	Two accounts had created under the same contract number on the name of David peris Motor Company and David Peris Company and it was shown as a receivable balance in one account and as a payable balance in the other. Therefore 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 balance should be shown correctly after correcting the error taken place.
(c) Actions had not been taken to write off a sum of Rs. 2,780,184 which had been over posted to a debtor account and as a result, the value of debtors shown in the financial statements had been overstated by the same amount.	It is kindly informed that actions will be taken to settle the said amount of Rs. 2,780,184 from overstated accounts in future.	Overstated debtor balances should be corrected.
(d) Depreciation of transmitters had been calculated by vasantham F.M using different depreciation rates and as a	According to the IFRS accounting standards, depreciation rates are varied as	Depreciations should be calculated according to the policy

- result, depreciation of transmitters at the cost of Rs. 8,829,701 had been understated by Rs. 534,635.
- (e) According to the information submitted by the marketing division of the Network for sample audit examination, the debtor balance of Rs. 7,193,327 which had been included in the debtor balance of Rs. 78,800,337 shown in the financial statements had been consisted with contra deal transactions and relevant services had been obtained and those transactions had been closed. However the value had been shown still in the debtor balance because the documents relating to the said transaction had not been exchanged. As a result, a value which was not relevant to debtors amounting to Rs. 7,193,321 had been shown as debtors.
- (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.
- (g) The interest income relating to short term fixed deposit valued at Rs. 5,000,000 had not been taken in to
- per the lifetime of each asset.
- Invoices and other relevant documents could not be received within the specific year because the contra deal transactions are occurred from exchange of goods and services with other trade institutes. Hence actions will be taken to post to the due accounts after completing the receiving of documents in following years.
- This amount was an advance paid for movies. These movies were purchased for telecasting in prime radio and it could not be telecasted because the said channel was suspended. Further these movies were not suitable for telecasting in other channels and as a result those movies could not be telecasted in other channels. The period of time agreed for these movies was expired.
- This deposit on demand was commenced in the year 2013 and the balance with the interest
- which had been disclosed in the financial statements.
- Documents relating to contra deal transactions should be maintained properly and account entries should be shown correctly.
- Actions should be taken to show the intangible assets accurately in the financial statements
- Income and expenditure relating to the year should be

account and as a result, the income for the year and the receivable interest income had been understated by Rs. 1,097,245.

was confirmed in the year 2020. This income of interest was the interest for the period from the year 2013 and it was not the interest relating to a year. The interest of the deposit on demand was not credited to the bank account and the interest income is received at the time of the deposit encashed. Therefore the said interest could not be taken into accounts and at the time of withdrawn the deposit interest income will be taken into accounts. Therefore it is informed that this was done correctly.

(h) Although the payable outstanding lease rent for the land located at Baudhaloka Mawatha Colombo 7 which the marketing division of the Network conducts was Rs. 42,300,000, a provision of Rs. 40,400,000 had been made as at the end of the year under review in this regard. Accordingly lease rent provision for the year under review had been understated by Rs. 1,900,000.

This lease rent was included in the opening balance of the lease rent account amounting to Rs. 8,273,200 and it can be informed that the lease rent was taken into accounts correctly.

Expenses of lease rent should be taken into accounts correctly.

1.5.4 Unreconciled Control Accounts or Records

Item	Value as per the financial statements	Value as per the corresponding records	Difference	Management comment	Recommendation
	Rs.	Rs.	Rs.		
(a) Client debtor balance of Vasantha	170,113,862	184,581,604	14,467,742	The value shown as the debtor balance of Vasantham	Schedules which can be proved the balances shown in the financial

m T.V as
per the
financial
statements

T.V. channel statements should be
amounting to submitted.

Rs.

170,113,862

was the net
value after
making
adjustments

for the
negative

balances. The
actual value of
debtors after
removing the
negative

balances was
Rs.

184,581,604

million.

Therefore the
debtor value of
Rs. 14,467,742
was a negative
balance and
accordingly it
can be
informed that
the value of
debtors was
shown in the
financial
statements
correctly.

(b) Expenses on Employees Provident	62,072,681	61,022,297	1,050,384	The value obtained from the employees provident fund	Schedules which can be proved the balances shown in the financial
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Fund as
per the
financial
statements.

register statements should be
amounting to submitted.
Rs. 61,022,297
was the value
of salaries paid
up to 31
December as
per the salaries
software
system .When
obtaining the
expenses of
employees
provident fund
according to
the financial
statements
contribution
for employees
provident fund
is paid for
outstanding
salaries and
holyday pays
for the year
2020 which
was paid in the
year 2021 and
adjustments
are made for
the relevant
year.
Therefore it
can be a
difference
between the
expenses of
employees'

provident fund and the value of the employees provident fund contribution register. The expenses of employees provident fund was shown in the financial statements after making adjustments correctly.

(c) Payable amount of employees' provident fund as per the financial statements.	8,732,149	According to the calculation made by audit Rs. 7,797,848	934,301	Payment of employees' provident fund is made for outstanding salaries and holyday pays for the year 2020 and therefore it is informed that payable employee's provident fund was calculated correctly.	Schedules which can be proved the balances shown in the financial statements should be submitted.
(d) Expenses for the employees Trust fund	12,341,561	12,204,460	139,101	The value obtained from the employees Trust fund	Schedules which can be proved the balances shown in the financial

as per the
financial
statements

register statements should be
amounting to submitted
Rs. 12,204,460
was the value
of salaries
paid up to 31
December as
per the salaries
software
system . When
obtaining the
expenses of
employees
trust fund
according to
the financial
statements
contribution
for employees
trust fund is
paid for
outstanding
salaries and
holyday pays
for the year
2020 which
was paid in the
year 2021 and
adjustments
are made for
the relevant
year.
Therefore it
can be a
difference
between the
expenses of
employees'

trust fund and the value of the employees trust fund contribution register.

(e) Payable amount of Employees Trust Fund as per the financial statements	1,056,896	According to the calculation made by audit Rs.947,134	109,762	Payment of employees' trust fund is made for outstanding salaries and holyday pays for the year 2020 and therefore it is informed that payable employees' trust fund was calculated correctly.	Schedules which can be proved the balances shown in the financial statements should be submitted.
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1.5.5 Going Concern of the Organization

----- Audit Issue -----	----- Management Comment -----	----- Recommendation -----
The equity capital of the Network was Rs. 3,198,499,721 and it had continuously decreased up to the year 2020. Losses had been incurred continuously since the year 2016 to the year 2020 from Rs. 107,189,266 to Rs. 226,860,960. The loss of the Independent Television Network for the year under review was Rs. 210,623,700 and the losses incurred by ITN FM, Vasantham FM under the Independent Television Network were Rs. 52,557,304 and Rs. 13,177,729 respectively. However the profit earned by Vasantham TV was Rs. 62,384,227. Accordingly the total loss of the Company for the year 2020 was Rs. 213,974,507.	Not commented	Actions should be taken to avoid the losses.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount	Evidence not supplied	Management Comment	Recommendation
Details relating to the age analysis for debtor balances more than two years amounting to Rs. 226,926,032 had not been submitted to audit.	226,926,032	Detailed information to recognize the period of time of which the balance had been brought forward had not been submitted to audit.	Balances outstanding more than two years has been coming from the year 2001. It is kindly informed that those balances have been remained over a period of 17 years since the year 2001 to the end of year 2018.	Actions should be taken to maintain an age analysis of debtors.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
(a) Seven cases had been filed by the Company as at 31 December 2020 against to the client debtors for recovering a sum of Rs. 9,869,852 which should be recovered for the sale of air time and out of that, 4 cases valued at Rs. 6,652,442 had been terminated due to inability of handing over the summons. According to the information made available to audit even though the debtor balance exceeding two years of time as at the end of the financial year was Rs. 266,926,032 , out of that legal actions had been taken to recover only 4 per cent.	Legal actions are taken for the outstanding amounts which could not be recovered in other ways and not for the outstanding amounts relating to the advertisements received from agencies and from the customers who have been dealing with us for a long time. Actions are taken to recover money having discussions with such agencies and such money had been remained as a result of issues occurred from telecasting. Actions are being taken to recover almost 98 per cent from debt offered by	Actions should be taken to recover the balances of client debtors.

our institution and rest of the cases which can be recovered through legal proceedings are referred to the legal section. Further balances remained since the year 2001 and kindly informed that this amount was in a range of 1 per cent to 2 per cent.

- (b) The balance of contra deal debtors as at 31 December of the year under review was Rs. 26,102,280 and the total of balances of contra deal debtors more than 5 years was Rs. 14,641,728 as a result of non-obtaining the relevant service by the Network and adjustment of impairment had been done in the financial year for the whole amount.
- There was an issue to take these amounts to accounts and for other further actions due to non-availability of invoices and documents relating to contra deal transactions.
- Immediate actions should be taken to maintain proper documents and to obtain relevant services in connection with contra deal transactions.

1.6.2 Payables

Audit Issue -----	Management Comment -----	Recommendation -----
<p>(a) A balance of Rs. 18,866,794 less than 5 years, a balance between 05 to 10 years was Rs. 16,108,606 and a balance of Rs. 28,954,081 more than 10 years were included in the differed income of Rs. 63,929,480 shown in the financial statements. However actions had not been taken to settle those balances even during the year under review.</p>	<p>During this year, on the recommendations of the Audit and Management Committee, actions will be taken to take into accounts of this year. It will be resulted to decrease the loss or increase the profit by the same amount.</p>	<p>Actions should be taken to settle the balances of differed income.</p>
<p>(b) The balance of Rs. 33,620,223 exceeding 10 years had been included in the balance of client advances of Rs. 137,772,746 which had been</p>	<p>Actions will be taken to obtain information relating to the said payable amount and to take into accounts after getting confirmed</p>	<p>Actions should be taken to settle the balances of client advances.</p>

shown in the financial position in this year. statements as at 31 December 2020 and actions had not been taken to recover the said balance even during the year under review.

- (c) The value of 554 cheques amounting to Rs.4, 541,250 which had been brought forward over a period more than 05 years and the value of 570 cheques amounting to Rs. 6,602,258 between 02 to 05 years had been included in the balance of cancelled cheques amounting to Rs. 11,898,232 shown in the financial statements. However actions had not been taken to settle the said balances even during the year under review.
- This amount was consisted with the cheques which was issued to the customers but not taken by them and even though cheques were taken, but those were not presented to the bank by the customers. Actions will be taken to take the value of cancelled cheques more than 5 years into accounts in the year 2021 after the matter presents to the audit and management committee meeting and receiving recommendations.
- Actions should be taken to settle the balances of the cancelled cheques account.
- (d) Out of the unclaimed payment of Rs. 2,268,386 shown under the balances of other payables, actions had not been taken to refund or to take other proper accounting treatment regarding the unclaimed balance of Rs. 1,208,728 older than 3 years after getting confirmed the right.
- These amounts were not paid due to different reasons and after getting information actions will be taken to take into accounts on the recommendation of the audit and management committee.
- Actions should be taken to settle unclaimed balances.
- (e) Actions had not been taken to recognize or settle the balance brought forward since the year 2012 amounting to Rs. 50,628,651 which had been included in the balance of payable account of Rs. 54,208,495 shown in the financial statements as at 31 December 2020.
- These amounts were not paid due to different reasons and actions will be taken to take into accounts on the recommendation of the audit and management committee.
- Actions should be taken to settle the balances of payable accounts.

Although 3 years had been lapsed, No possibility to take actions by Actions should be taken to settle the balances of refundable deposits. actions had not been taken to refund or the finance division and services are being obtained by other divisions. Therefore actions are refundable deposits amounting to Rs. 855,707 which had been included in the balance of refundable deposits of Rs. 1,687,956 as at the end of the year under review

- (g) The unidentified credit balance as at 31 December of the year under review was Rs. 1,253,409 and it had been included in the unidentified creditors account without taking actions to identify the client and settle.
- In some instances, deposits were made directly to the bank by some clients who are not main clients and there some instances which the client could not be find due to not being presented the details relating to the particular deposit. The issue is being solved searching for such clients through marketing executives.
- Actions should be taken to identify and settle the credit balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Public Enterprises Circular No. PED/1 /2015 dated 25 May 2015.			
(i) Paragraph 02	Contrary to the circular instructions, a hired vehicle had been deployed during the year 2020 in addition to the official vehicle allocated for the private and official use of the Chairman. It had been entered	The Independent Television Network is a network of ITN, Lakhanda, Vasantham FM and Vasantham TV. Accordingly the Chairman has to travel to different areas of the Island for various programmes and	Actions should be taken as per the circular instructions.

into an agreement functions. In addition with a private party to that, it is necessary for a period of a year to go to the Ministry, from 29 October 2020 to go to the Ministry, Prime minister's office, to 29 October 2021 president office etc. for hiring the said Hence it has to run vehicle and the more kilometers vehicle had been monthly and taken into use before mechanical errors are receiving the approval occurred regularly in of the procurement the official vehicle No: committee. KV 6110 reserved for Accordingly a total the Chairman. sum of Rs. 1,434,991 Therefore according to had been incurred as the service requirement Rs. 291,249 for fuel a jeep suitable for the and Rs. 1,143,742 for Chairmen was taken on the rent for the period the approval of Board from September to of Directors. December 2020. Accordingly relevant amount was spent as fuel and rent

- (ii) Paragraph 02 and 3.1 A vehicle belonged to the Institute had been given without a driver to an officer recruited improper way to a post which had not been included in the approved cadre and had not been entitled to the right of official vehicle. Further a monthly allowance of 140 liters of fuel had been issued to the said officer.
- This officer was appointed to act as a coordinating officer of the Independent Television Network for the programme "Asidisi Peramaga Saubhagyaye Punarudaya" implemented in the Ministry on the notice of the Minister. This official vehicle and the fuel are given to fulfil the said duties.
- Actions should be taken as per the circular instructions.

- (iii) Paragraph 3.1 Contrary to the As a state media Actions should be circular instructions a channel consisted with taken as per the sum of Rs. 21,639,349 two television channels circular instructions. had been paid during and two radio channels, the year 2020 as the independent transport and fuel Television Network allowances for 337 carries out operations officers who had not 365 days 24 hours. entitled to transport These allowances were and fuel allowances given as a motivation factor for employees in order to carry out this service continuously and effectively on the approval of the Board of Directors in accordance with the Article of Association of the Company. These criteria are applied for the welfare and motivation of the employees.
- (ii) As per the Circular According to the Board Actions should be instruction even Paper 334/33, approval taken as per the though the monthly was obtained up to 700 circular instructions. fuel limit entitled for liters per month for the the post of Chairman Chairman in addition to was 170 liters, 6,651 that it was presented to liters more than the the approval of the approved limit valued Secretary to the at Rs. 1,070,811 had Ministry of Mass been issued to the media for the actual vehicle supplied by usage in those months. the Network. During Approval of the Board the financial year, of Directors was 1,833 liters valued at obtained for the over

Rs. 241,955 and 954 usage of fuel by liters valued at general Managers. The Rs. 125,928 had been above usage of fuel obtained by the was the fuel expenses General Manager incurred for operation (News) and General of 4 media channels in Manager (Marketing) 24 hours efficiently. respectively exceeding the approved fuel limit.

(iv) Paragraph 3.3 Contrary to the This is a payment Actions should be circular instructions, implemented in taken as per the approval had been accordance with a circular instructions. given by the Decision decision taken by the of the Board of Board of Directors in Directors No. 337/13 order to conduct the dated 26 June 2020 service as per the for supplying of requirement of the transport allowances institute. for Deputy General managers of the Network who are entitled for the HM 1-2 category and take transport allowances.

(b) Circular No. PED Although a sum of Rs. A performance Actions should be 03/2020 dated 18 5000 can be paid per allowance was paid by taken as per the December 2020. person in government the Network in order to circular instructions. owned companies motivate the employees which had been subject to evaluation of reduced the loss the performance of the compared with the staff and according to a financial year 2018 methodology. even though it had Allowances for the been reported a loss in staff were paid after the year 2019, having approval of the contrary to the said Board of Directors as

requirement a sum of per the Article of Rs 9,046,000 as Rs. Association of the 13,000 per person had institute. This been paid by the allowance was paid Network in December according to the 2020 for 696 percentage of the profit employees. for the previous year. This allowance is paid to improve the welfare of the employees.

(C) Public Finance Circular
No. 02/2013 dated 31
January 2013.

(i) Introduction
paragraph

According to the circular instructions even though bank pre-paid card can be obtained, a credit card from the Bank of Ceylon had been obtained by the Network. A bank credit card was obtained on the approval of the Board of Directors due to inability to make these payments by a pre-paid card on the requirement of the institute. (Approval of the Board of Directors No.324/12) It is informed that approval was requested from the General Treasury through the Ministry for using of credit cards.

Actions should be taken as per the circular instructions.

(ii) Paragraph 03

Although the maximum limit which can be obtained for the pre-paid card is Rs.100, 000, the maximum limit of the

As this is a bank credit card and not a pre-paid card, the maximum limit was decided on the approval of the Board of Directors. Actions should be taken as per the circular instructions.

credit card obtained according to the nature
by the Network was of the expenses of the
Rs. 900,000. institute.

(iii) Paragraph 05

Although facility of The bank had informed Actions should be
receiving short that when making taken as per the
message for payment from the circular instructions.
confirming the credit card, the
payment should be message is given to the
obtained to the phone officer who the card
of the officer who was issued
does the direct
supervision of the
officer in charge of
the bank card at the
instance of making
payment through a
bank pre- paid card,
such a facility had not
been obtained to
confirm the payments
made by using the
credit card which had
been obtained by the
Network.

(iv) Paragraph06

Although accounting The methodology Actions should be
steps which should be followed for the pre- taken as per the
followed had been paid card cannot be circular instructions.
pointed out for the applied for this credit
payments through pre- card and all the
paid card, disclosers expenses done by this
had not been made in card is referred to the
the financial internal audit section
statements regarding for audit. Debiting to
this card. the expenditure
accounts is done at the
time of reimbursement
of expenses.

1.8 Cash Management

Audit Issue	Management Comment	Recommendation
(a) Only a sum of Rs. 25,000,000 had been deposited in a fixed deposit by the Network during the period of previous 4 years and fixed deposits valued at Rs. 1,428,973,398 had been withdrawn during the said period. Although the responsibility of the financial management is to take actions to increase the cash inflows and investment of funds as well for the management of working capital, a practical, proper and efficient methodology had not been followed by the Network for recovering balances of client debtors as the main cash inflow of the Network.	Not commented	Actions should be taken to increase the financial position of the Network.
(b) 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.	Not commented	Actions should be taken to increase the financial position of the Network.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs.213, 974,507 and the corresponding deficit for the preceding year was Rs. 571,884,034. Therefore an improvement of Rs. 357,909,528 in the financial result was observed. The government grant received for recurrent expenditure amounting to Rs. 280,000,000 during the year 2020 had mainly affected to this improvement.

2.2 Trend Analysis of major Income and Expenditure items

Comparing the other income of Rs.345, 490,014 for the year under review with the other income of Rs 55,171,578 for the previous year, other income had increased by 526 per cent and the government grant received for recurrent expenditure amounting to Rs. 280,000,000 had mainly affected to this improvement. The net loss for the year under review was Rs. 213,974,507 and the loss for the previous year was Rs. 571,884,034 thus the net loss had decreased by Rs. 357,909,527 representing 63 per cent compared with the previous year. Programme expenses and marketing expenses had decreased by 20 per cent and 22 per cent respectively. Tax expenses had increase by 40 per cent for the financial year and the net financial income had decreased by 49 per cent compared with the previous year. Decrease of interest income as a result of encashment of fixed deposits had mainly affected to this decrease.

2.3 Ratio Analysis

	2020	2019
Current Assets Ratio (times)	1.7	2
Quick Assets Ratio (times)	1.6	1.98
Gross profit Ratio	94%	60%

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
(a) Impairment provision had been made for the whole value of Rs. 1,210,620 which should be further recovered from a fraud done by a former employee of the Network during the year 2011 without taking actions to recover.	The total value of the fraud done by a former employee of the institute was Rs. 2,009,620. A law suit had been filed in courts in the year 2007 for recovering the said amount. Accordingly he was punished imprisoned for 3 years and out of the total amount a sum of Rs. 799,000 was paid. The rest of Rs. 1,210,620	Actions should be taken to make recovering without delay.

should be recovered. Although the court had ordered to recover the balance, it could not be implemented because there is no any property belonged to him. Therefore impairment provision was made for the whole amount.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Although tele dramas had been selected to telecast based on the recommendations of Pre view Committee , there were instances of which dramas had not been telecasted during the period recommended by the said committee and instances of not being recommended the suitable time by the pre view committee for certain tele dramas to telecast. Therefore the opportunities to be earned profit had been missed as a result of tele dramas purchased not being telecasted during the suitable time.	The tele drama pre view committee is merely an independent committee and they give an independent opinion regarding the tele drama only. It was informed that the authority of purchasing tele dramas and deciding the air time belongs to the programme purchasing committee which represents the management. The competition of private channels and the COVID 19 situation prevailed in the country had resulted to the loss occurred.	Actions should be taken to avoid losses.
(b) Although tele dramas had been categorized under the C category by the pre view committee when selecting tele dramas to telecast, an approved payment scheme for C category had not been included into the tele drama purchasing method. Out of 25 tele dramas telecasted	It is informed that the authority for deciding the price of an episode of a drama has given to the programme purchasing committee and the authority had been given to the committee by the report of the Board of Directors No. 331/15	The Method of purchasing tele drama should be formalized and purchasing should be made according to it.

during the year 2020, 378 episodes of 07 tele dramas had been purchased under the C category and a sum of Rs. 76,500,000 had been paid under different rates in this regard. (2019/11/05). When deciding the price of a tele drama the committee considers the production cost of the said drama, quality, income which can be received etc.

- (c) Three law suits for insult compensation had been filed against the Network as at 31 December of the year under review and the compensation demanded was Rs. 105,000,000. Further 06 cases against infringement of rights of film screening, distribution and sales via medias in Sri Lanka and 06 cases for film intellectual property had been filed against to the Network and the compensation demanded was Rs. 510,325,000. Eight cases for dismiss of the service, terminating the service and mandatory retirement and three cases for other matters had been filed against the Network. A sum of Rs. 3,321,250 had been incurred as at the end of the year under review.
- The legal officer had confirmed that the matters and values mentioned here are correct. Actions should be taken as not to cause damage to the Network.

3.3 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Twenty tele dramas had been purchased by the ITN channel during the year under review and out of that, the loss incurred from 13 tele dramas was Rs. 60,965,986. Further when purchasing tele dramas payments had been made exceeding the approved rates payable for an episode and the amount overpaid for 6 dramas during	When estimating the total income of the institute, estimate as a percentage of tele dramas, newscasts, movies, and other programs. Out of that, a limited air time was allocated for tele dramas and hence tele dramas make up a very small percentage of the	Proper and transparent way should be followed for purchasing of tele dramas.

the year 2020 was Rs. 15,565,000.

total revenue. As a government owned institute it does not have the capacity to broadcast low-quality tele dramas and generate revenue apart from culture and morals as other private channels do. Profit could not be earned from all tele dramas in the situation of prevailing competition.

A prior approved rate was not for deciding the price of tele dramas. Prices are decided according to the rates approved for each drama by the programme purchasing committee. Price approved by the committee was paid for these 6 dramas as well. Therefore there is not an over payment.

(b) Attention had not been paid by the Network to pay electricity bills within due time and as a result a sum of Rs. 348,279 had been paid as fines during the year under review as late charges.

The analysis of the said fines as follows.

Electricity bills should be paid within due time.

Yatyanthota
Rs. 230,797
Nayabadda Rs. 6,592
Hunnasgiriya Rs. 4041
WickramasinghapurRs.

106,849
Rs. 348,279
=====

Out of these arrears, a sum of Rs. 230,797 is relevant to the fine for the electricity bill of Yatyanthota station. This fine is incurred in connection with

an outstanding electricity bill and this amount of Rs.230, 797 was not paid because it is included in the monthly bill and the penalty is deducted from the next month's bill. Similarly, fines related to Nayabedda and Hunnasgiriya were not paid.

However, the fine applicable to the Wickramasinghapura head office was Rs. 51,757 for May 2020 and Rs. 55,092 for June. Payments were delayed for few days due to covid situation spread out in the country in this period of time and the financial crisis in the institute and hence penalty is charged. Accordingly fines had to be paid for May and June

3.4 Idle or underutilized Property, Plant and Equipment

Audit Issue -----	Management Comment -----	Recommendation -----
Hot Swappable Power Distribution Rack purchased at Rs. 1,588,500 by the Network during the year 2015 since the date of purchased and Aros Flexus FT- 30, 30KVA UPS Systems purchased at Rs. 1,218,274 in the year 2010 since a period of 3 years had been remained idle without using.	Regarding the Hot Swappable Power Distribution Rack Although this distribution board was received to the institute in the year 2015, purchasing was done in the year 2014. This purchasing was made for preparing infrastructure facilities according to a project commenced during that period and according to the policies of the new government elected in the year 2015, approval was not received for most of	Assets should be utilized properly.

projects commenced during that period and provisions was not made. Hence this Disaster Recovery server room project was abandoned and the engineers who had commenced and implemented the project left the institute. After that the said project was remained idle over number of years and equipment fixed that time was installed in temporary basis are remained same. The new administration had agreed to install the server room in a part of the main building and the said premises was prepared as fit for a server room and all civil work was completed and the Hot Swappable Power Distribution Rack was installed. An investigation was carried out by some officers of the Ministry. It can be connected to the electricity as soon as the relevant equipment received. The financial condition of the institute was not in a favorable position due to covid pandemic and therefore all non-essential purchasing and projects were suspended for now.

3.5 Procurement Management

Audit Issue	Management Comment	Recommendation
<p>(a) The following observations are made in the examination in connection with supplying of a hired vehicle for the use of the Chairman of the Network.</p> <p>(i) According to the guideline 3.4.3 of the Government Procurement Guideline 2006 quotations should be called from suppliers who had registered in the institute when calling quotations under</p>	<p>Due to the fact that, suppliers were not registered in the institute for calling quotations for the above subject,</p>	<p>Actions should be taken as per the Government Procurement Guideline.</p>

the shopping method. However quotations had not been called from the suppliers registered in the institute and quotations had been call from other 9 external institutions.

Quotations were called under the shopping method after obtaining recommendations from the Evaluation Committee and the approval of the Procurement Committee from 8 institutes recommended by the head of the transport division. Under the guideline 3.4.5 of the Government Procurement Guideline 2006 provisions are made for calling quotations from institutes which are registered in the yellow pages and rainbow pages of the telephone directory. Most of institutes recommended by the head of the transport division were registered in the rainbow pages.

- (ii) Out of the 9 institutes of which the quotations were called, acceptance of the quotation had been rejected by one institute. After 11 days from the first proposal had been made about suppliers another institute had been proposed on 22 September 2020 instead of the above institute which the quotation had been rejected and the approval had been requested by the head of the transport division to call quotations from the said institute. In a ground of accepting quotations by 8 institutes out of 9
- The quotation had been rejected by an institute out of 8 which the quotations were submitted on 18 September 2020 and another institute was proposed by the letter of the head of the transport division dated 22 September 2020 for calling quotations instead of the above institute with the approval of the Chief
- The procurement procedure should be consisted with the transparency.

quotations submitted, the matter of that Executive officer. instead of considering quotations Therefore quotations received from those institutes, another were called from that institute was proposed and institute on 22 September recommended after 11 days from the 2020. Quotation was called first quotation were made is a matter within 2 days because 19 of controversy about the transparency and 20 September 2020 of this procurement process. were weekends. Hence it is incorrect to state that the bid was made 11 days later.

- (iii) Although the proposal of supplying A photocopy of the first The procurement service from the said institute had been letter was taken by the procedure should presented by the head of the transport subject clerk and submitted be consisted with division on 22 September 2020, the bid to the said institute which the transparency. invitation had been handed over to the was proposed later according to the letter of the head of the transport division dated 22 September 2020. Therefore the date of that letter was mentioned as 18 September 2020.
- (iv) This institute had been registered as a The quotation was The procurement private company on 21 September 2020 approved because the said procedure should and the proposal had been made and institute was a registered be consisted with recommended on following day viz 22 institute as at the date of the transparency. calling quotations 22 September 2020.
- (v) In checking in the website it was They are supplying The procurement observed that this institute was not an vehicles as a business and procedure should institute which supplies transport they were allowed to be consisted with services but engaging in photographic submit quotations the transparency. with studios, camera equipment and considering the possibility of having most favorable price to the institute.

- (vi) Bids had been submitted by 6 bidders and out of that the lowest bid had been rejected mentioning that the bid was not comply with the requirement. The vehicle expected to supply by the second lowest bidder had met with an accident and hence the approval had been given by the procurement committee on 23 October 2020 to award the contract to the third lowest bidder.
- Approval was given by the procurement committee on 23 October 2020 to award the contract on the recommendations of the evaluation committee.
- The procurement procedure should be consisted with the transparency.
- (vii) Although the approval had been given by the procurement committee on 23 October 2020 to award the contract to the said institute as the third lowest bidder, a letter had been sent by the said institute on 09 October 2020 to the Chief Executive Officer of the Network to thank for selecting their institute. Before granting the approval by the procurement committee for awarding the contract, the decision made by the contractor that he was qualified for the contract was controversy in audit
- This letter was submitted by the supplier on 09.10.2020 and evaluation of the said tender was being carried out at that moment and hence any decision was not taken to award the tender. Accordingly, it is observed that this clause has been included in the letter by this supplier due to misunderstanding.
- The procurement procedure should be consisted with the transparency.
- (viii) Further even though bids had been submitted by the second and third bidders as two institutes, the third lowest bidder had informed by the above letter that another vehicle had been allocated instead of the vehicle met with an accident. Accordingly the identification of the institutes which had been submitted the second and third lowest bids were controversy in audit.
- According to the report of the evaluation committee recommendations were not given for the institute of which the lowest bid supplied because it was not match with the specifications. The vehicle of the second lowest bidder had met with an accident and it was
- The procurement procedure should be consisted with the transparency.

informed that it took a time to give the vehicle. Hence that bid also was not recommended. It was proved by photographs. Accordingly the institute which the third lowest bid was submitted was recommended by the evaluation committee to award the tender.

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|------|---|--|--|
| (ix) | The vehicle had been deployed in the service before granting the approval of the procurement committee and before awarding the contract, a sum of Rs. 123,662 had been incurred by the Network for the service obtained for the period from 15 October 2020 to 28 October 2020. | The service was obtained for emergency requirement as a direct procurement for limited time because it was getting delay for completing the procurement process and obtaining service of a vehicle. Actions were taken to obtain competitive bids as to keep the maximum transparency in calling above quotations and sealed quotations were opened in front of a bid opening committee which was attended by suppliers. | The procurement procedure should be consisted with the transparency. |
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3.6 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, the cadre had been approved for the Independent Television Network and as per the said	All necessary steps were taken by the institute to get approved the recruitment schemes and it is kindly informed that	Immediate actions should be taken to get approved the scheme of recruitment.

- approval even though proposed scheme of recruitment had been prepared, actions had not been taken to get it approved even up to 31 December 2020.
- actions had not been taken by the Department of Management Services to grant the approval in this regard.
- (b) According to the paragraph 05 of the letter of the Director General of the Management Services No. DMS/1590/VOL II dated 8 May 2018, when making new recruitment, procedures relating to recruitment and promotion of those posts should be revised and the approval of the Department of Management Services should be obtained before making recruitments. However without taking actions accordingly, recruitment had been done by the Network for 3 new posts which had not been included in the approved cadre.
- According to the Article of Association of the Network authority has given to the Board of Directors to recruit employees on the service requirement and these appointments were made on the requirement of service.
- Actions should be taken as per the instructions of the Director General Management Services.
- (c) Only 5 people had been called for the interview based on the applications received privately for the post of Deputy General Manager (Marketing) which had been included in the approved cadre for the Network and a person out of that had been recruited on contract basis. However evidence to prove the qualifications and experiences fulfilled by the officer recruited had not been included into the personal file. Actions had not been taken to recruit the most suitable person to the post on permanent basis giving a big advertising by the media and the transparency of this recruitment was controversy in audit.
- According to the Article of Association of the Network authority has given to the Board of Directors to recruit employees on the service requirement and these appointment were made on the requirement of service
- Recruitments should be done with transparency and actions should be taken to recruit the most suitable person to the post and the personal files should be maintained properly.
- (d) According to the paragraph 06 of the letter of the Director General of the Management Services No. DMS/1590/VOL II dated 8 May
- As the recruitment schemes have not been approved by the
- Actions should be taken as per the instructions of the

2018, for employees who are not qualified to be absorbed under the new recruitment schemes; they will be required to maintain their existing position privately. The post should be abolished after promotion to another post or retirement. However, contrary to that requirement 56 officers had been recruited by the Network for these posts in the year 2020.

Department of Director General Management Services, the Management Services. Employees were not properly absorbed for the respective posts. Employees were not recruited contrary to the paragraph 06 of the letter of the Director General of the Management Services No. DMS/1590/VOL II dated 8 May 2018.

- (e) Thirty four officers had been recruited on contract basis for the posts included in the approved cadre of the Network without taking actions to recruit on permanent basis and recruitments had been made for 4 posts which are not approved on contract basis.
- Replies given for the no. 7 Permanent officers should be recruited for the posts of permanent carder.
- (a) and (b) of the audit query No MED/B/ITN/2020/B/A.Q. 4 are relevant in this regard.