

Selacine Television Institute - 2021

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Selacine Television Institute for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 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 and the Finance act No.38 of 1971. 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 Institute as at 31 December 2021, 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 Institute'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 Institute or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Institute's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute 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 Institute.

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 Institute'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 Institute'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 Institute 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute 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 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Audit observation	Management Comments	Recommendation
Accounting Software System of the Institute had not been prepared according to the requirement of the Institute.	Necessary actions were taken to fulfill the requirement since the year 2022.	Actions should be taken to prepare the accounting software system as accurate information can be obtained.

1.5.2 Non Compliance with Sri Lanka Accounting Standards

Non - compliance with reference to the particular standard	Management Comment	Recommendation
According to the Section 51 of the Sri Lanka Accounting standards 16, the useful life of all property, plant and equipment should be reviewed at least at	According to the Section 51 of the Sri Lanka Accounting standards 16, the approval of the Board of Directors was	Actions should be taken as per the provisions of the Standard.

the end of an every financial year. However actions had not been taken accordingly and fully depreciated property, plant and equipment at the cost of Rs. 19,321,400 had been in use. According to the Section 79 (b) of the said standard, the gross carrying amount of the fully depreciated property, plant and equipment which had been in use should be disclosed in the financial statements. However the said amount had not been disclosed in the financial statements.

received for revaluation of assets as the first step of taking actions to review the useful life of all property, plant and equipment. Relevant officers were informed accordingly and actions will be taken as per the Section 79 (b) of the said standard.

1.5.3 Accounting Deficiencies

Audit observation

(a) The total value of 10 debtor balances amounting to Rs.755,271 received during the year under review had been understated from the trade debtors in the financial statements

Management Comment

The debtor or the reason for receiving the amount of Rs.755,271 could not be identified and it could not be identified even at the moment of preparing these financial statements. Therefore it was deducted from the trade debtor balance of the financial statements. Actions will be taken to clarify and rectify in the year 2023.

Recommendation

Actions should be taken to identify and settle the receiving of the debtors.

(b) A sum of Rs.10,668,520 had been incurred for charity works by the Institute during the year and the accrued expenditure as at the end of the year under review was Rs.4,850,000. The said amount had not been included in the current liabilities and as a result the loss for the year had been understated by Rs.4,850,000.

A sum of Rs.10,668,520 was incurred for charity works by the Institute during the year. The administration of the institute had decided not to pay any money in this regard and Decision was taken not to pay or allocate any money in this regard.

Actions should be taken to take the correct amount paid into accounts.

1.5.4 Unreconciled Control accounts and Records

Item	Value as per the financial statements Rs.	Value as per the corresponding records Rs.	Difference Rs.	Management comment	Recommendation
(a) Savings account balance	26,817,817	27,483,194	665,337	This was found when preparing the bank statement and at that time, the cash book was reconciled. The relevant rectifications were made to the cash book in April 2022 and the correct balance was shown. And there was a relevant note.	Actions should be taken to take correct amount into accounts.
(b) Value Added Tax payable	32,300,288	28,884,905	3,415,333	According to the information obtained from the Department of Inland Revenue, A difference was observed in the balances which were brought forward in books. Actions are	Actions should be taken to take correct amount into accounts.

being taken for rectification and it was informed that actions will be taken to show the actual liability in accounts.

1.5.5 Documentary Evidences not made available for Audit

Item	Amount	Evidence not made available	Management comment	Recommendation
Bank balance	-	Bank balance confirmation	Actions will be taken in future to call bank balance confirmation as to be receiving the Government Audit Section directly.	Balance confirmation should be called as to be receiving to the Government Audit Section directly.

1.6 Accounts payable and Receivable

Audit Observation	Management Comment	Recommendation
(a) Actions had not been taken to recover the outstanding balances of 04 accounts amounting to Rs.2,739,878 which had been brought forward since 6 years and to settle the balances of 03 payable accounts amounting to Rs.218,396 even during the year under review.	Few balances of current assets and liabilities which were brought forward since a number of years were observed by us when preparing final accounts for the year 2021. It was corrected in the financial statements for the year 2022.	Actions should be taken to correct the receivable and payable balances without delay.
(b) When comparing trade receivables and trade payables shown in the financial statements of the institute with the balances of the relevant financial statements of those institutions, there were differences in	Actions were taken already to call reconciliations from relevant institutions to check the differences in trade receivables and trade payables shown in the	Actions should be taken to take receivable and payable balances accurately without delay.

- balances receivable from 03 financial statements. Instructions were given to relevant officers to take necessary actions based on the accurate information as soon as reconciliations are received.
- (c) The balance of client debtors as at 31 December of the year under review was Rs.347,262,234 and out of that the balance exceeding 4 years was Rs.190,011,004 representing 55 per cent of the total balance of debtors. Further legal actions had not been taken by the Institute to recover debtor balances more than one year since the commencement of the institute. Therefore according to the Anticipation Act, the ability to take legal actions against the debtor was at risk.
- A debt recovery committee was appointed to take immediate actions to recover debt and to manage it properly since 12.07. 2022. A programme was prepared already to take legal actions against the overdue debtors. The debtor balance which had been brought forward since 2006 amounting to Rs.6,611,743 was further checked and recommendation was sent to the treasury to write off the said balance from the books. However follow up actions were not taken in this regard up to now and officers were informed to take immediate actions in this regard.
- Actions should be taken to recover debtor balances without delay.
- (d) Out of the total debtor balance of Rs.347,262,234 as at the end of the year under review, a sum of Rs.243,917,857 representing 70 per cent had been consisted with debtors who had exceeded 03 months. However balance confirmations had not been received to confirm those balances.
- Confirmations were called for the debtor balance as at the end of the year under review amounting to Rs. 347,262,234 and only a few was received back.
- Balance confirmation should be called as to be receiving to the Government Audit Section directly.
- (e) The ground floor of the building located at No.224, Bauddhaloka Mawatha, Colombo 07 which had
- It had not been enter into a proper agreement since 14 January 2019 with the
- Actions should be taken to avoid issues which can be taken

been owned by the National Film Corporation had been leased out by the institute for 5 years under the agreement No. 4660 for the period of 15 January 2014 to 14 January 2019. However, after the end of the said period of lease, the institute had been remained in the said premises until 31 December 2021 and actions had not been taken to enter into a proper agreement. According to the letter of the General Manager of the National Film Corporation which had been sent to the Chairman of the Selacine Institute No. NFC/103/04/01 dated 25.05.2022, it had been informed that a sum of Rs.10,455,000 should be paid as building rent as at 31 December 2021 as per the monthly estimates issued by the Department of Valuation. However actions had not been taken to solve the said problem properly.

National Film Corporation. Institute has stayed in the premises settling rent, electricity and water bills relating to the previous period. And it was informed you that all the constructions and maintenance of the building under the agreement dated 15 January 2014 were done by the Salecine Institute using their own funds since the year 2013 to January 2014.

A sum of Rs.315,000 was entered into accounts as building rent for the period up to 14 January 2019 and it was settled to the National Film Corporation up to 31 .12.2020. Those payments were received by them. The payable amount including payable building rent, payable electricity and water was Rs.4,115,798. If the institute had entered into agreements based on the valuation report of the Department of Valuation, My opinion is that we have to take Rs. 6,349,000 into accounts and payments and provisions should be made. A sum of Rs.315,000 was received by them monthly as building rent from the Salacine Institute and water and electricity bills were settled.

place between institutes and to settle the issues legally paying attention to the period and expenses in the agreements.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Financial regulations of the Democratic Socialist Republic of Sri Lanka F.R. 371(2) (b) and Public Finance Circular No: PED/01/2020 dated 28 August 2020	(i) Although the maximum limit of ad hoc imprest which can be issued to a specific job should not be exceeded Rs.100,000, in order to avoid the said limit advances had been given for different segments of the same job. The amount given exceeding the maximum limit in 16 instances was Rs.2,432,000.	The advance of Rs.100,000 given according to the Public Finance Circular No: PED/01/2020 dated 28 August 2020 is not enough for a whole production because of the nature of the institute; we have to engage in television productions. However ad hoc imprest of Rs.100,000 was given since the year 2023 according to the relevant circular and actions were taken to fulfil production activities with the maximum effort to follow the said Financial Regulation.	Actions should be taken as per the provisions of the Circular.
	(ii) Although the ad hoc imprest should be issued only to the officers who are in staff grade, it could not be	Actions were taken to mention the full name of the officer who obtained the advance in the advance register	Actions should be taken as per the provisions of the Circular.

identified since the year
 whether it was 2023.
 the staff officer
 because the full
 name of the
 officer who had
 obtained
 advances had not
 been mentioned
 in the advance
 register. Further
 instances were
 observed that
 advances had
 been issued to the
 same officer who
 had obtained
 advances earlier,
 before settling the
 previous advance
 obtained.

- (b) Public Enterprises Circular No.03/2015 dated 15 December 2021. Although the amount of bonus which can be paid to the employees who are deployed in government institutions of which the loss had been reduced compared with the previous year is Rs.5000, a sum of Rs.812,000 had been paid to 63 employees in April 2021 contrary to the Circular instructions. It was not revealed that approval of the Board of Directors had been obtained. It is informed that bonus were not paid since the year 2022 and actions will be taken according to the Public enterprises Circular No 03/2021 dated 15.12.2021. Actions should be taken as per the provisions of the Circular.

1.8 Non - compliance with Tax Regulations

Audit observation	Management comment	Recommendation
(a) According to the Section 2 (1) (a) of the Inland Revenue act No.24 of 2017, Income tax should be paid for each year by individuals who earned taxable income for an estimated year. However actions had not been taken by the Selacine Institute of which commenced on 01 February 1982 to pay income tax as per the provisions of the Inland Revenue Act.	The institute had been registered in the Department of Inland Revenue as a partnership. There was an issue with the clarification of the category for paying income tax and as a result, income tax had not been paid. As soon as the institute is registered as a government owned company, action will be taken to pay income tax under the category of companies.	Actions should be taken as per the provisions of the Act.
(b) According to the Section 3 (1) of the Economic Service Charges Act No.13 of 2006, the economic service charges paid by an individual can be set off from the income tax payable by the same individual for the relevant quarter of the relevant year. In a ground of non-paying of income tax since the year 1982 of which the Institute was commenced , a balance of Rs.3,599,744 had been shown under the current assets of the financial position statement as economic service charges receivable during a period of 10 years approximately.	As the economic service charges paid can be set off from the income tax, it was shown under the current assets.	Actions should be taken as per the provisions of the Act and the current assets should be shown accurately.

2. Financial Review

2.1 Financial Result

The operating result of the year under review was a deficit of Rs.6,841,002 and the corresponding deficit for the preceding year was Rs.29,339,593. Therefore an improvement of the financial result by Rs.22,498,591 was observed. Increase of income by Rs.229,314,272 representing 98 per cent had mainly affected to the said improvement.

2.2 Trend Analysis of major Income and Expenditure items

The income of the year under review had increased by Rs.229,314,272 representing 98 per cent and increase of scheduling income by Rs.101,790,630, production income by Rs.77,715,097 and graphic and printing income by Rs.58,683,407 had mainly affected to the said improvement.

Administration and establishment expenses for the year under review had increased by 53 per cent compared with the previous year. Expenses of which had not occurred in the previous year such as building expenses, vehicle rent, building rent, welfare expenses, telephone expenses and bonus amounting to Rs.22,892,452 had to be incurred during the year under review and increase of over time expenses, office maintenance expenses, printing expenses, allowances for the chairman had mainly affected for this. Sales and distribution expenses compared to the previous year had increased by 50 per cent and financial expenses by 100 per cent and other expenses by 850 per cent had increased. Incurring of Rs.5,818,520 during the year under review which was not in the previous year for charity services, increase of legal charges by Rs.925,403 representing 411 per cent compared with the previous year had mainly affected to the increase of other expenses.

2.3 Ratio Analysis

The current ratio and quick ratio for the previous year was 1.45 and it had decreased up to 1.28 in the year under review and increase of current liabilities exceeding the amount of increase of current assets had affected to this decrease.

The gross profit ratio for the previous year was 19 per cent and it had increased up to 26.5 by 7.5 per cent in the year under review. The net profit ratio for the previous year was – 12.5 per cent (negative) and it had increased up to -1.5 per cent (negative) during the year under review. Further the working capital for the previous year was Rs.106,755,154 and it had decreased to Rs.92,181,282 during the year under review.

Debt equity ratio of the previous year was 0.17 per cent and it had increased up to 0.19 per cent during the year under review. Decrease of retain earnings due to the continuous losses had affected to the said increase.

3. Operational review

3.1 Identified losses

Audit observation	Management comment	Recommendation
Although 9 years had lapsed for the money fraud of Rs.11,988,000 taken place in the institute in the year 2014, legal actions had not been proceeded against the case even up to the end of the year under review. In a ground of having only an investigation report of the Financial Crime Investigation Division,	Legal actions had not been proceeded by the Attorney General against the financial fraud of Rs.11,988,000 taken place in the year 2014 and the lawyer appeared on behalf of the Institute had informed that it is going to	Actions should be taken to take assets into accounts accurately.

the said balance had been shown under the trade and receivables in the financial statements for the year under review.

take legal actions in the year 2023. Primary actions were taken to appoint a lawyer on behalf of the Selacine Institute.

3.2 Management Inefficiencies

Audit observation

According to the Cabinet Decision no. 10/1682/407/014 dated 12 August 2010, the power had been given to government institutions to get all advertising done by the Selacine Institute. Although 10 years had been lapsed for the said power proper attention had not been paid by the management to fulfill the requirement of human and physical resources required for the said task.

Management comment

Due to the losses incurred during the period of which commenced the institute and the recent times, the institute had failed to fulfill the requirement of human and physical resources in order to act according to the Cabinet Decision no. 10/1682/407/014 dated 12 August 2010. However actions will be taken to fulfill human and physical resources.

Recommendation

Proper attention should be paid by the management to fulfill human and physical resources.

3.3 Operating Inefficiencies

Audit observation

In order to suppress the COVID 19 third wave, a sum of Rs.10,668,520 had been incurred for production of TV commercials and printing of medals and badges as awareness programme for the public and as an encouragement to the parties contributed directly relating to the “Ratawasi Yuthukama” Coporate Social Responsibility programme. However 2043 medals and badges had not been distributed even up to the date of this report. The loss incurred by the institute for the year under review was Rs.6,841,002 and under this situation the ability to earn profit of Rs.3,827,518 had been missed to the institute as a result of implementing charity works without a proper plan.

Management comment

Due to the COVID pandemic prevailed throughout the country in the year 2021, a lot of duties implemented in the institute had to be stopped. The ‘Ratawasi Yuthukama’ Coporate Social Responsibility programme had been done as an encouragement to the parties contributed directly to suppress the COVID 19 third wave. The approval of the Ministry of Health was granted in this regard. Although it had been decided to cover the expenditure incurred on this programme through the profit on the production cost of the series of propaganda campaign done by the Ministry of Health, it could

Recommendation

Actions should be taken to implement charity works according to a proper plan, with maximum frugality and as to be minimizing the expenses.

not be settled because the said production was not done. Further approval of the Board of directors was granted for the said Corporate Social Responsibility programme.. The administration of the institute will take actions in future to avoid every losses to the institute in such charity works.

3.4 Procurement management

Audit observation	Management comment	Recommendation
<p>Instead of selecting an appropriate building matched with the requirement through a proper procurement procedure, a building 6850 square feet in extent had been leased out by the institute for 10 years to the monthly rent of Rs. 675,000 even though the building needed a lot of renovations. According to the agreement entered in between the owner of the building and the institute, without examining completed works and without identifying whether the building was needed further renovations, a sum of Rs.21 million and amount exceeding Rs.8 million in addition to that had been incurred for renovations of the building. Further the total amount of building rent for 6 months of Rs.4,050,000 had been paid to the owner of the building as a refundable deposit and three fixed deposits of Rs.23,000,000 had been encashed by the institute to get the required money in this regard. As a result, interest income of Rs.1,066,424 approximately had been lost to the institute.</p>	<p>A sum of Rs. 21 million was incurred for the said renovation of the building and in addition to that, a sum of Rs. 8,750,141 was incurred for further renovations. As per the requirement of that moment, institutional money was incurred for renovations from time to time. An investigation was being carried out by the Ministry of Mass Media in this regard and the administration of the institute had decided to avoid such hasty decisions in the future.</p> <p>According to the agreement entered in between the owner of the building and the administration of the institute, when the building was purchased, a sum of Rs.4,050,000 of which total of 6 months building rent was paid as a refundable deposit.</p>	<p>Actions should be taken in a way that losses do not cause to the organization.</p>

3.5 Human Resources management

Audit observation	Management comment	Recommendation
<p>(a) There were 39 vacancies in the cadre as at the end of the year</p>	<p>The approval of the Board of Directors was</p>	<p>Actions should be taken to fill the vacancies in</p>

under review and recruitments had been made for 34 posts which did not included in the approved cadre as 06 permeant employees, 26 employees on contract basis, 01 employee on casual basis and 01 trainee. granted already for preparing cadre requirement for the year 2023 and action will be taken to obtain the approval of the Department of Management Services to deploy the permanent staff and the contract staff appropriately. From now on actions will be taken to deploy the staff according to the approved cadre.

- (b) When entering into agreement with clients and external parties, service from external lawyers had been obtained by the institute for preparing legal documents, consultancy services and affairs relating to administration of employees and a sum of Rs.1,150,403 had been incurred during the year under review in this regard. There was not a post of legal officer in the approved cadre since the commencement of the institute and as a result, activities relating to legal affairs such as entering into agreements with clients, legal actions for recovering debts could not be fulfilled and it was affected to the efficiency of the operations , favorability of financial position and to increase the legal risk. A post of legal officer is not in the approved cadre of the institute and even though a legal officer is recruited , they don't appear in courts. Then the service of an external lawyer has to be obtained. However if we get the service of an external lawyer, payment can be made only for that. It was planned to obtain the service of the legal officer of the Ministry of Mass Media in the year 2023 and necessary instructions were given to the officers to avoid such issues. It was informed that actions will be taken to prevent such weaknesses. Actions should be taken to obtain legal service as to be matched with the requirement of the institute and minimize risk.