

## **Independent Television Network Ltd. - 2022**

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### **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 2022 comprising the statement of financial position as at 31 December 2022 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 2022, 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
(a) According to the section 7 of Sri Lanka accounting Standard 07, fixed deposits with the maturity period of 03 months should be shown under the cash and cash equivalents. However fixed deposits valued at Rs. 98,130,274 with the maturity period of 03 months had been included in the value of other financial assets amounting to Rs. 546,426,154 for the year under review. As a result, cash and cash equivalents had been understated and other financial assets had been overstated by the same amount.	This fixed deposit held as collateral for the bank overdraft facility obtained from the Bank of Ceylon Palawatte branch and this fixed deposit has been clarified as long term fixed deposits and actions will be taken to rectify the mistake.	Actions should be taken as per the provision of the standard.

### 1.5.2 Accounting deficiencies

Audit Observation	Management Comment	Recommendation
(a) A sum of Rs. 3,232,563 had been paid on 20 January 2023 for social security contribution tax (SSCL) relating to the month of December of the year under review. However a sum of Rs. 203,802 only had been shown in the financial statements as the payable tax liability as at the end of the year under review. The sum of Rs. 3,232,563 payable relating to the month of December had been included in the paid tax amounting to Rs. 7,533,246 in the statement of cash flow.	The sum of Rs. 3,232,563 paid for social security contribution levy (SSCL) relating to the month of December of the year under review was the amount paid for the four channels ITN, VTV, Lakhanda and VFM. Only the amount of Rs. 2,761,767 relating to the ITN only was taken into accounts as ITN expenditure at the end of the year. It was informed that it was taken into accounts correctly.	The accurate cash flows should be shown in the cash flow statement.
(b) The value of current and past service cost of the retirement benefit plan for the year under review and the total value of interest cost	The value of current and past service cost of the retirement benefit plan for the year under review and the total	The accurate cash flows should be shown in the statement of

amounting to Rs. 33,516,058 had been recognized to the net profit and even though the said amount only should be adjusted to the net profit before tax when preparing statement of cash flow, a sum of Rs. 41,732,774 had been adjusted including the said value and actuarial loss of Rs. 8,216,716.

value of interest cost amounting to Rs. 33,516,058 and the actuarial loss of Rs. 8,216,716 were recognized when calculating net profit. Therefore the amount of Rs. 33,516,058 and Rs. 8,216,716 as well should be adjusted when preparing statement of cash flow. Therefore the adjustment of the total value of these two amounting to Rs. 41,732,774 to the statement of cash flow was correct and this was adjusted in previous years in the same way.

### 1.5.3 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.		
The balance of payable Value Added Tax as at the end of the year	22,550,731	17,390,493	5,160,238	The value added tax (VAT) on the air time value for the month of December 2022 was paid before 20 January 2023. However debit /credit notes was done within the first quarter of 2023. Hence details are obtained from the ledger for preparing final accounts for the year 2022 after making every relevant adjustment. Accordingly there was a difference between the balances payable and paid. Actions will be taken to rectify the necessary adjustments relating to the said	The accurate balance should be shown.

difference in the year 2023. Therefore over payment or under payment was not made. A tax audit is carried out by the Department of Inland Revenue for every year and it is informed that the payment is made for the correct amount accordingly.

#### 1.5.4 Going Concern of the Organization

Audit Observation	Management Comment	Recommendation
<p>The equity capital of the Network for the year 2015 was Rs. 3,198,499,721 and it had continuously decreased up to Rs. 654,161,058 in the year 2022. Losses had been incurred by the network continuously since the year 2016 to the year 2022 from Rs. 107,189,266 to Rs. 361,564,271. The loss of the Independent Television Network for the year under review was Rs. 284,814,228 and the losses incurred by Vasantham T.V. ITN FM, Vasantham FM under the Independent Television Network were Rs. 27,059,771, Rs. 44,592,216 and Rs. 5,098,056 respectively.</p>	<p>Not commented</p>	<p>Actions should be taken to increase income.</p>

#### 1.6 Accounts Receivable and Payable

##### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
<p>(a) The total balance consisted with 22 contra deal debtors as at 31 December of the year under review was Rs. 28,824,030 and the total of balances of contra deal debtors more than 5 years was Rs 17,288,168 as a result of non-obtaining the relevant service by the Network. Without taking actions to recover those balances, an adjustment of impairment had been</p>	<p>This balance has been in the books for a long period of time because the invoices and other relevant documents were not received as scheduled to confirm the obtaining of services relevant to the contra deals. Actions will be taken to write off those long lasting balances as per the circulars in future.</p>	<p>Actions should be taken to recover the debtor balances without delay.</p>

done in the financial year for Rs. 14,641,728 representing 51 per cent of the whole amount of contra deal debtors.

- (b) The debtor balance more than 5 years which had been included in the balance of client debtors of the Independent Television Network was Rs. 182,444,875 and the balance of Rs. 108,928,257 included in the balance of trade debtors had been consisted with amounts over than 5 million of which represented by 06 government organizations. Further the total of balances more than one million and more than 05 years was Rs. 113,797,981 which had been represented by 47 debtors including 14 government institutes. Out of the said amount legal actions had been taken against 46 debtors who had represented the total of Rs. 112,439,341.
- Including the above government institutions, actions were taken to recover all money which could be recovered. A part of outstanding balances was created due to the absence of exchanging documents. Further in connection with receivables from main agencies, we were informed that they will pay after recovering money. Balances receivable from government institutions as well were included in it. Actions are being taken already to recover balances with some government institutions. Out of the above balance legal actions were completed to recover around Rs. 6.5 million. Although it was referred to the legal division to take legal actions for amount of Rs. 26 million, there were some legal issues and relevant actions are being taken to solve the matters out. Legal actions are being taken against the debtors who were not main clients and the documents were completed. It could not be able to take legal actions against receivables from main agencies because they have been giving advertisements to the Network continuously. Out of the income of the Network, around 80 per cent is given by those agencies. The amount of credit transactions which had been done by the Network more than a period of 5 years was Rs. 21,200 million. Out of the said amount 99.1 per cent was recovered by the Network during this period of time and 0.9 per cent was rejected as described as above. Further actions will be taken to recover the money recoverable and a credit policy was introduced by the Network and it is implemented. Accordingly, it could be able to maintain a proper documentation procedure, to obtain advertisements under a
- Actions should be taken to recover the balances which had been brought forward over a long time period without delay.

proper supervision and to solve the issues out without delay. It was merely a small amount which should be received from the government institutes for the last two years. Actions are being taken to recover those too.

## 1.6.2 Payables

Audit Observation	Management Comment	Recommendation
(a) A balance of Rs. 19,472,000 less than 5 years, a balance between 05 to 10 years was Rs. 15,869,506 and a balance of Rs. 34,360,725 more than 10 years were included in the differed income of Rs. 69,702,230 shown in the financial statements. However actions had not been taken to settle those balances even during the year under review.	Actions will be taken to write off from the accounts subject to the approval of the Board of Directors and the recommendation of the Audit and Management Committee.	Actions should be taken to settle the balances which had been brought forward over a long time period without delay.
(b) The balance of the cancelled cheques shown in the financial statements was Rs. 9,758,581 and the value of 672 cheques more than a year included in it was Rs. 7,037,394. However actions had not been taken to settle the said balances even during the year under review.	Actions will be taken to settle the value of cancelled cheques more than 3 years in the final accounts for the year 2023.	Actions should be taken to settle the balances of the cancelled cheques without delay.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Paragraph 02 of the Public Enterprises Circular No. PED/1 /2015 dated 25 May 2015.	Contrary to the circular instructions a sum of Rs. 6,524,899 had been paid during the year under review as transport allowances for 41 officers in the middle management who had not entitled to official vehicles.	This allowance was paid according to the article of association and the approval of the Board of Directors considering the lack of public transport.	Actions should be taken as per the circular instructions.
(b) Amended Financial Regulations 371(2) (b) of the Public Finance Circular No:03/2015 dated 14 July 2015	Although the maximum limit of ad hoc imprest which can be issued in an instance is Rs. 100,000, a sum of Rs. 22,790,397 had been issued as ad hoc imprest in 77 instances	The advances are given to the staff and external parties as per the nature of the Institute according to the limit decided based on a decision given by a committee in addition to the	Actions should be taken as per the circular instructions.

exceeding the said limit as advances given to the staff and advances issued to external parties for purchasing.

Financial Regulations and subject to the approval of delegation of financial authority. Advances are given within the limit approved by the Board of Directors and subject to the approval of the top management.

Amended Financial Regulations 371(2) (b) and 371 (5) of the Public Finance Circular No:03/2015 dated 14 July 2015

Although the impressed obtained should be settled within 10 days after completing the relevant job, the balance of advance as at the end of the year which had been given to the staff and external parties and had exceeded 03 months was Rs. 7,614,016.

When staying out of Colombo almost a time period of a month for production of programmes and return to the institute, it could be taken a different time to settle the advances. The said time depends on the nature of the programme. It was done subject to the approval of the Board of Directors.

Actions should be taken as per the circular instructions.

Warning letters are issued for people who do not settle the advances on due date and actions are taken to suspend the attendance allowance.



<p>(c) Paragraph A.2.1 of the Best Practices of Corporate Governance 2017 of the Institute of Chartered Accountants</p>	<p>According to the Board of Directors meeting minutes No.363/09 held on 22 September 2022, the Board of Directors had decided to abolish the post of Chief Executive Officer of the Independent Television Network Ltd. However as a justification of the matter of fulfilling duties in connection with the power and responsibilities of the both post of the Chairman and the Chief Executive Officer, information should be mentioned in the annual report of the Company for the year under review. Nevertheless no information had been included in the annual report in this regard.</p>	<p>According to the decision of the Board of Directors, a letter was referred to the Department of Management Services through the Secretary to the Ministry of Mass Media on 25.10. 2022 in order to obtain the approval for abolishing the post of Chief Executive Officer. However a reply was not received by us up to now. After receiving the approval of the Department of Management Services to abolish the post of Chief Executive Officer action will be taken to delegate the authority and the responsibilities of the post of Chief Executive Officer to the Chairman and the General Manager as appropriate on the approval of the Board of Directors. After receiving the said approval actions will be taken to submit the information in the annual report.</p>	<p>Information should be submitted in the annual report.</p>
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**a. Cash Management**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The bank overdraft relating to a bank current account maintained by the Network as at the end of the year under review was Rs.92,763,071 and a sum of Rs. 9,399,978 had been paid as interests for the said overdraft during the year under review.</p>	<p>Because of the severe effect of the economic crisis of the year 2022, the bank overdraft facility had to be used and actions will be taken to reduce it in future.</p>	<p>Actions should be taken to minimize the expenses.</p>
<p>(b) The working capital of the Network for the year 2020 was Rs.620,761,280 and it had reduced up to Rs.399,833,265 in the year 2021. Further it had decreased up to Rs.117,049,242 during the year under review.</p>	<p>Not commented</p>	<p>Actions should be taken to increase the income.</p>

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review was a deficit of Rs.361,564,271 and the corresponding deficit for the preceding year was Rs. 315,974,401. Therefore an increase of the loss for the previous year by Rs. 45,589,870 was observed in the financial result. Decrease of air time income compared with the previous year and increase of programme expenses and marketing expenses had mainly affected to the said increase of the loss.

### 2.2 Trend Analysis of major Income and Expenditure items

The air time sales income of the year 2021 was Rs.1,407,648,212 and it was Rs.1,394,668,739 for the year under review. It was a 1 per cent decrease compared with the previous year. The net financial revenue for the year under review was Rs.54,907,485 and it was Rs. 30,410,661 in the year 2021 representing 45 per cent increase. And the programme expenditure for the year 2021 was Rs.579,015,447 and it was Rs. 503,971,809 for the year under review. The programme expenses had increased by 15 per cent. The sales expense for the year under review was Rs.97,326,223 and it had increased by 11 per cent compared with the sales expenses for the previous year amounting to Rs.87,284,911. Administration and operating expenses for the year 2021 was Rs.1,300,923,871 and it was Rs.1,282,361,160 representing 1 per cent decrease compared with the previous year.

### 2.3 Ratio Analysis

It was observed that there were adverse variations of the liquidity ratios and the profitability ratio of the Network for the year under review.

	<b>2022</b>	<b>2021</b>
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Current Assets Ratio	1.10	1.44
Quick Assets Ratio	1.07	1.43
Net profit Ratio	-26 %	-23%
Return on equity ratio	-54%	-32%

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
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	Two cases against telecasting news by the Network and a case against infringement of rights of film screening were filled by a third party and actions will be taken to come to a settlement in this regard.	Actions should be taken to minimize the expenses.

intellectual property had been filed against to the Network and the compensation demanded were Rs. 490,000,000 and Rs. 20,325,000 respectively. Four law suits had been filed against to the Network for other matters and a sum of Rs. 1,350,052 had been incurred for those cases during the year under review.

However, according to the agreement we have entered in to with the film suppliers, they are bound to pay all the damages occurred to the Network including the legal charges as indemnity when a third party files a law suit against to the Network.

### 3.2 Operational Inefficiencies

#### Audit Observation

As at the end of the year under review, 28 marketing executives had been deployed in the Network and out of that, even 50 per cent of sales targets which had been given to them monthly had not been achieved by 12 officers of ITN channel in most of months. Even 20 per cent had not been achieved by one female officer in Lakhanda Radio during the year and even 50 per cent had not been achieved by other officers in some months.

#### Management Comment

These marketing targets could not be achieved due to the power cut, struggle and economic crisis prevailed in the country and advertising had been cut by the clients. However action will be taken to evaluate the performance of the Marketing Executives through an interview and to renew contract agreements and they will be informed in writing to avoid weaknesses after identifying the weaknesses. Actions will be taken to consider cancellation of contract agreements of the Marketing executives who had not achieved their targets regularly in 2023.

#### Recommendation

Actions should be taken to achieve the marketing targets.

### 3.3 Idle or underutilized Property, Plant and Equipment

#### Audit Observation

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 4 years had been remained idle without using.

#### Management Comment

Regarding the Although Hot Swappable Power Distribution Rack had been installed the other relevant equipment it could not be operated due to the reasons of which the import restriction policy of the government and the finance crisis of the institute.

The 30 KVA UPS system was inactive due to a thunder storm and it took time more than 1 ½ year to get the insurance compensation. Further a period of almost a year lapsed due to the import restrictions. However due to the current dollar crisis, required spare parts could not be obtained.

#### Recommendation

Actions should be taken to utilize assets properly.

### 3.4 Procurement Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The validity period of the contract agreement signed with the Rakna Arakshaka Lanka Company Ltd. in order to supply of the security of the Network had expired from the date 31 January 2015 and actions had not been taken to renew the agreement up to the year under review. The service had been obtained only obtaining the approval by the board papers.	The approval of the Board of Directors was obtained for purchasing the security service of the Rakna Arakshaka Lanka Company Ltd. Actions were not taken to renew the agreement because the approval of the Board of Directors was received. However actions will be taken to renew the agreement in the year 2023.	It should be entered in to agreements properly for obtaining services.

### 3.5 Human Resources Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Four employees on contract basis and two employees on daily basis had been recruited by the Network during the year under review and 49 employees had been deployed exceeding the approved cadre. Further 102 permanent employees and 02 employees on daily basis who had not included in the approved cadre had been deployed on the basis of personal to holder. And 66 employees had been deployed on contract basis for the vacant posts of the permanent cadre which had been included in the approved cadre as at the end of the year under review.	It is informed that, cadre details are given according to the format submitted by the Superintendent of Audit dated 03.01.2023.	Actions should be taken to fill the vacancies of the permanent cadre.
(b) According to the paragraph 3.3 of the Chapter IV of the Establishment Code, it should be refrained from recruiting an officer on casual basis for a post which had been included in the approved permanent cadre until it fills on permanent basis. However 33 officers had been recruited on casual basis by the Network as at the end of the year under review.	Within the cadre approved by the Department of Management Services and based on the scheme of recruitment, service of these employees was obtained on the requirement of service.	Actions should be taken to fill the vacancies of the approved cadre.