Telecommunications Regulatory Commission - 2023

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1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Telecommunications Regulatory Commission of Sri Lanka for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 material accounting policy information was carried out under my direction in pursuance of provisions in Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and 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 Commission as at 31 December 2023 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based on the matters described in 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 Commission'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 Commission or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Scope of Audit (Auditor’s Responsibility on the Audit of Financial Statements)

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism 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 commission’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 commission’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 Commission to cease 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 Commission and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;

- Whether the commission has performed according to its powers, functions and duties; and

- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

	Audit Observations	Comments of the Management	Recommendation
(a)	During the year under review, the land on which the head office is situated is not owned by the Commission Rs. 1,177,880,000 was revalued and accounted for but was not disclosed in the financial statements.	It is kindly informed that the land on which the Commission is located has been re-valued as disclosed under Note 4.1 of the financial statements.	The financial statements should disclose that the land on which the head office is located is not owned by the Commission.
(b)	Recoveries of bad debts recognized as income under operating activities without proceeding in terms of Sri Lanka Accounting Standard No. 07 Rs. 401,153 was again added to the net profit before tax. Also, the same value was again added to working capital variance. And the difference in payable expenses to be adjusted to the working capital variance is Rs. 247,296 were also unadjusted. Also, Rs. 410,000,000 interest income earn on the treasury bills was not recognized under investing activities even though adjustments were made under operating activities in cash flow.	This has been omitted by mistake. But, overall, at the end of the year this has not affected the cash balance.	Should be done according to Sri Lanka Accounting Standard No. 07.

(c)	Expenses of damage to the compressor unit of the vehicle and the software repairing expenses, monthly rent to the Arthur C. Clarke Institute for Modern Technologies, maintenance fees including expenses of an consulting service and expenses for establishing the human resource management system Paid by commission related to the previous years are Rs. 12,467,039 had been paid during the year under review so the net profit of the year under review was understated by that amount.	Although the Commission's approval for these 02 types of payments was received on March 9 and April 3, 2023, these payment vouchers were received to the Finance Department on 29 May 2023 and 05 July 2023, and the Finance Department made the payments on the received dates.	Expenses related to the year should be correctly identified and accounted for.
(d)	As at 31 December 2023, the Commission's financial statements showed a trade debtor balance of Rs. 372,764,954 and according to the schedule submitted with the financial statements regarding those debtors, the value was Rs. 370,622,742. Accordingly, to that there were not submitted reasons to the audit for the ddifference of Rs. 2,142,212.	Agree.	The balances in the financial statements should be reconciled with the balances in the schedule the reasons for the difference should be presented to the auditor.

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

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a)	Sections 20 (2) (c), 21 (2) (b) and 22 (2) (a) of the Sri Lanka Telecommunications (Amendment) Act No. 27 of 1996	Non-compliance with the provision, in relation to the period before the year 2018, which should have been received due to the provision of services before the receipt of money Rs. 372,764,954 as at 31 December2023 was still uncollected.	No services provided prior to receipt of payment before 2018. Due to issuance of tax invoices prior to the provision of services, it has been brought to accounts as receivable. This has been corrected since 2018.	According to the Sri Lanka Telecommunications Act No. 27 of 1996, services should not be provided before receiving money. Actions should be taken to recover the balance due.
(b)	Section 17 of the Sri Lanka	Although the cess value calculated according to the	It is kindly inform that by letters dated 05	The cess calculated should be recovered

	Telecommunications Act No. 25 of 1991 and Section 5 of the license issued to Ask Cable Vision Pvt.	annual turnover should be collected on or before 31 January after the end of an accounting year, by 30 May 2024, The amount receivable from a private company in 2023 was Rs. 3,812,242 had not been charged.	February 2024, 04 March 2023, 30 May 2023 and 07 June 2023, to pay cess along with the relevant taxes have been notified and are being collected.	on or before 31st January following the end of the accounting year.
(c)	Section 3 of Part I of the Telecommunications Tax Act No. 21 of 2011	03 private companies belonging to the Dialog Group have collected telecommunication taxes of Rs. 35,773,073, Rs. 30,000,000, Rs. 11,934,504 as a total of Rs. 77,707,577 must be charged by the Commission. However, the Dialog Group informed that the amount will not be paid as it is written off from the debtors as bad debts. Although the Commission had informed the Dialog Group and the Treasury that the amount should be paid, the amount was not recognized in the financial statements.	Amount of Rs. 77,707,577 written off on bad debts of debtors of dialog group, to be included in the financial statement as telecommunication tax receivable, due to not receiving explanation letter until preparation of financial statements for the year 2023 for the letter sent by competitive division to the treasury, it was not shown as telecommunication tax receivable.	Section 3 of Part I of the Telecommunications Tax Act No. 21 of 2011 Accordingly, arrangements should be made to collect telecommunications tax.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was Rs. 45,803,540,546 was a surplus and correspondingly the last year surplus was Rs. 31,697,157,371. Accordingly, it was observed that there was an increase of Rs. 14,106,383,175 of financial result. Increase of income of Rs. 9,821,338,734 in the year under review compared to previous year was the mainly attributed to this increase.

2.2 Trend Analysis of Major Revenue and Expenditure Items

A significant variation was observed in the income and expenditure of the Commission as compared to the preceding year. Increase of license fee revenue of Rs. 10,156,878,457 equal to 54 percent telephone text messages service tax of Rs. 56,061,385 equal to 24 percent and increase of regulatory expenses of Rs. 260,359,079 equal to 124 percent was mainly attributed.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observations	Comments of the Management	Recommendation
(a)	Action had not been taken a 544 negative credit balances in the debtor balances of Rs. 2,174,406 as at 31 December 2023. In that debit balance there was 415 numbers of debtors which less than Rs. 100.	Agree.	Steps should be taken to settle the loan balance promptly.
(b)	There was a balance of Rs. 372,764,954 due from trade debtors as at 31 December 2023. Regarding this, although the total debit balance in the financial statement of 2023 has been classified as debtors existed for more than 02 years, as per audit assurance in that debit balance included a balance of Rs. 15,103,410 which was existed since the year 1976. Due to not introducing a formal system to recover arrears frequency income this debtor could not be recover. And also, there were Rs. 174,800,000 of debtor balance more than 46 percent from Electronics (PVT) Ltd since 1993, Rs. 145,254,449 which more than 40 percent from Sri Lanka Radio Corporation since 1976 should have been received.	At the end of 2023 Rs. 372,764,954 balances are over 20 years. It is shown as balance more than 02 years in time classification. It is informed that the balances due for more than 20 years.	A formal system should be introduced to recover the shortfall frequency revenue.
(c)	In the account payable balance of the year under review, the cumulative value of Rs. 1,947,254 had been accrued continuously without payment.	Unsettled payee value of Rs. 56,537 since previous years, Rs. 12,657 additional amounts collected from distress loan from officer of Commission and amount of Rs. 1,878,060 due from officer work in Commission were included.	Reasons for non-payment should be identified and necessary adjustments should be made in the accounts.

3.2 Procurement Management

	Audit Observations	Comments of the Management	Recommendation
(a)	Although the construction works of the new building should be completed on 15 February 2020 in terms of the construction contract agreement for which the contract value was Rs. 209,093,034 the construction had not been completed even by 30 May 2024. There was no extension of time for this project. And also the fee of Rs. 10,057,910 paid on 25 January 2015 for consultancy service for the work of prepare estimates of bill of quantity of renovation work of new building had been paid to University of Moratuwa, Although the said expenses had been accounted in work in progress account, the renovation work of the building had not been done as at 30 May 2024	Since it has been decided that this project needs the approval of the Cabinet of Ministers, efforts are being made to obtain the approval of the Cabinet of Ministers. Therefore, the construction work was stopped and the construction work has been started again according to the commission decision dated 10 May 2023. Currently, the construction work of the project is in the final stage and the contractor has made a related request to extend the project period. The request is being evaluated by the project consultancy unit of the University of Moratuwa.	Steps should be taken to complete the construction work as per the contract agreement.
(b)	Even thoughts value-added tax-free value of Rs. 139,882,281 had been awarded to private institution on 31 January 2019 for modernization and renovation of Kadirana Frequency Monitoring Center, The expenditure incurred was Rs. 102,662,861 as at 31 December 2023. Although the completion date of contract was 11 November 2019 contract was not completed as at 22 May 2024.	Currently, the contractor has started work on the site and a proper estimate for the remaining work has been prepared by project consultancy unit of University of Moratuwa and the construction work of the project is continuing. The project period for this project has been extended till 31 August 2024. A contract extension (Addendum) has been reached for that.	As per the contract agreement, the construction work should be completed within the stipulated time and late charges should be charged as per the agreement.
(c)	According to the agreement entered with the commission and the contractor for the construction of Telecommunication Media Centre in Hambanthota Information Technology Park, the contract was to be completed on	Due to non-start of related projects which should be implement in addition to this project started by government decision, the expected goals had not been achieved and expressions of interest (EOI)	Steps should be made to recover the expended amount.

10 August 2016, only 33 percent of the contract had been completed on the time of end the agreement date of 10 August 2016. Accordingly, this contract had become a abended contract as at audited date of 30 May 2024. Also in working progress of the statement of financial position there was a Rs. 711,268,796 of idle expenses as at 31 December 2023.

had been called to give this premises for investors in its current form.