

## **Selacine Television Institute - 2019**

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### **1.1 Qualified Opinion**

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The audit of the financial statements of the Selacine Television Institute for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of comprehensive income 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 reported 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 financial statements give a true and fair view of the financial position of the Institute as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

### **1.2 Basis for Qualified Opinion**

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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**

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Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determines 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 matters related to going concern and using the going concern basis of accounting unless management either intends 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 Sub-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 Scope of Audit

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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, 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 Financial Statements

### 1.5.1 Non-compliance with Sri Lanka Public Sector Accounting Standards

Non-compliance with reference to the relevant Standard	Comments of the Management	Recommendation
<p>In terms of paragraph 65 of Sri Lanka Public Sector Accounting Standard 7, the residual value and the useful life of an asset shall be reviewed at least at each annual reporting date and, if expectations differ from previous estimates, the change/changes shall be accounted for as a change in an accounting estimate in accordance with SLPSAS 3, "Accounting Policies, Changes in Accounting Estimates and Errors". However, action had not been taken accordingly in respect of property, plant and equipment costing Rs. 15,272,938 indicated in the financial statements.</p>	<p>Necessary action will be taken further for rectifying the residual values of property, plant and equipment.</p>	<p>Action should be taken in terms of Accounting Standards.</p>

### 1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
<p>Building rental of Rs. 315,000 payable relating to the month of December of the year under review, had not been adjusted as an accrued expenditure in the financial statements, thus profit of the year had been overstated in the financial statements by the same amount.</p>	<p>Action is being taken to account the building rental and further action will be taken to avoid such problems.</p>	<p>Action should be taken to account them correctly.</p>

### 1.5.3 Unreconciled Control Accounts or Records

Item	Value as per Financial Statements	Value as per Corresponding Records	Difference	New Observation/ Observation made	Disclosure on Risk Control	Comments of the Management	Recommendation
	Rs.	Rs.	Rs.				
Staff Loan	3,233,910	3,822,321	588,411	It is a new observation.	System should be introduced.	The Management had not commented.	Correct schedules relating to balances should be made available.

### 1.5.4 Lack of Documentary Evidence for Audit

Item	Amount	Audit Evidence not made available	Comments of the Management	Recommendation
(a) Property, plant and equipment	Rs.3,052,278	Detailed schedules	The Management had not commented.	Detailed schedules relating to balances mentioned in the financial statements should be made available.
(b) Balances receivable and payable	Rs.82,109,385	Debtors/creditors schedules, analysis and confirmation of balances	The Management had not commented.	Detailed schedules, age analyses and confirmation of balances relating to balances mentioned in the financial statements, should be made available.

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

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Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Section 2 (1) (a) of Inland Revenue Act, No.24 of 2017	Even though income tax shall be payable for each year of assessment by a person who has taxable income for that year, the Selacine Television Institute which had been initiated on 01 February 1982, had not taken action even by the date of Audit to pay income tax. However, the Institute had earned profits of Rs.1,210,436, Rs.29,704,436 and Rs.8,300,209 in the years 2017, 2018 and 2019 respectively.	Our Institute is not liable to pay income tax.	Income tax should be paid in terms of the Act.
(b) Letter No.DMS/1595 of 15 October 2014 issued by the Department of Management Services	<p>(i) It had been mentioned that the approval of the Department of Management Services should be obtained after approval of 18 posts on contract basis through the relevant letter and preparing Schemes of Recruitment relating thereto. However, action had not been taken to obtain approval for Schemes of Recruitment relating to posts except for the post of Manager (Finance).</p> <p>(ii) As per the aforementioned letter, it had been notified to "Take action to inform the Department of Management Services on</p>	Action will be taken to obtain approval for the Scheme of Recruitment.	Recruitments should be made after obtaining approval for the Scheme of Recruitment.

the relevant qualifications and experience for recruitment to the post as the salary should be decided on qualifications” by approving 6 posts of Marketing Executive on contract basis. However, action had been taken to pay salaries relating to the said posts without submitting relevant information and obtaining approval therefor.

Recruitments should be made after obtaining approval for the Scheme of Recruitment.

- (c) Section 7.4.1 of Public Enterprises Circular No.PED/12 of 02 June 2003 In terms of the Circular, the Audit and Management Committee should meet at least once in three months. However, only one meeting had been held in the year under review. The Audit Committee could not be met as the Internal Audit Unit was inoperative for most of the year 2019. Action should be taken in terms of circulars.

## 2. Financial Review

### 2.1 Financial Result

The operations of the year under review resulted in a profit of Rs.8,300,209 as compared with the corresponding profit of Rs.29,704,437 of the preceding year, thus observing a decline of Rs.21,404,228 in the financial result. The decrease in the operating income by Rs.30,416,306 and increase in the operating expenditure by Rs.51,848,535 had mainly attributed to this decline.

## 3. Financial Review

### 3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A building belonging to the National Film Corporation had been obtained during the period from 15 January 2014 up to 14 January 2019 on lease basis for operating the office. Nevertheless,	The Institute has been shifted to another building and action is being taken to hand over the building to the National Film Corporation.	Action should be taken to settle relevant monies and to make disclosures in the financial statements.

action had not been taken to vacate the building after the relevant date. As such, a Letter of Demand had been forwarded on 12 March 2021 by the National Film Corporation relating thereto and notified to vacate the building within 14 days from that date. However, action had not been taken to renew the agreement or to enter into a new agreement and moreover, action had not been taken to vacate the relevant building even by 30 December 2021, the date of audit.

Moreover, it had been indicated in the aforementioned Letter of Demand that a sum of Rs.758,764 was payable as expenses on water and electricity relating to the years 2014, 2017 and year 2018. However, action had not been taken to pay the relevant monies and disclosures thereon had not been made in the financial statements as well.

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| (b) | Action had not been taken to recover the sum of Rs. 11,988,000 receivable relating to the financial fraud committed by an employee of the Institute revealed in the year 2014, despite having elapsed for 05 years. | Investigations in this regard has been concluded by the <b>Financial Crimes Investigation Commission</b> and forwarded the instructions of the Attorney General for instituting a lawsuit. | Relevant monies should be recovered. |
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### 3.2 Human Resource Management

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
The approved cadre of the Institute stood at 70 as at 31 December 2019 and 31 and 39 of them were permanent employees and employees recruited on contract basis respectively. The actual cadre as at that date stood at 67 and 15 and 52 of them were permanent	Action will be taken to maintain the staff in the approved manner after obtaining approval for the Schemes of Recruitment.	The staff should be maintained in the approved manner.

employees and employees recruited on contract basis respectively. Accordingly, there were 21 vacancies in the permanent cadre and 05 excess and 7 vacancies and 20 excess in the staff recruited on contract basis.