

Sri Lanka Broadcasting Corporation -2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Broadcasting Corporation 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 and the Finance Act No 30 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 Corporation 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 Corporation'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

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

1.4 Audit Scope (Auditor's Responsibility for 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 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 Corporation'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 Corporation'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 Corporation to cease to continue as a going concern.
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- 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 Corporation and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit observations for 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.

1.5.2 Non -compliance with Sri Lanka Accounting Standards

Non – compliance with reference to the relevant standard	Management Comment	Recommendation
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(a) According to the paragraph 40 (a) and 40 (b) of the Sri Lanka Accounting Standard 01, when the financial statements retrospectively restated, three financial position statements had not been presented for the current period and two previous periods.	The differed tax adjustment relevant to the prior period was made in the financial position statement prepared for the year ended 31 December 2020 and the effect of the balances of differed tax which was made to the opening balances of the years	Actions should be taken as per the provisions of the standard.

2020,2019 and 2018 on the said adjustment was shown under the note number 8.1. Further the statement of changes in equity was shown from the opening balance of 2018 and 2019. The balance sheet also was shown from the closing balance of 2018. Accordingly balances were disclose in the financial statements as per the paragraphs 40 A, and 40 B of the standard 01.

- (b) According to the paragraph 81 (a) of the Sri Lanka Accounting Standard 01, the statement of comprehensive income had not been prepared as to be shown the profit or loss after tax separately.
- The other comprehensive income was not shown in the financial statements separately. Actions will be taken to show this in future accounts.
- Actions should be taken as per the provisions of the standard.
- (c) According to the paragraph 26 (a) of the Sri Lanka Accounting Standard 12, the temporary difference exists between the carrying amount of retirement benefit obligation and its tax base should be a differed tax asset. However according to the differed tax schedules presented to audit, a differed tax liability had been recognized on the retirement benefit liability of Rs. 65,079,965 and Rs. 79,018,332 as at the end of the years 2019 and 2020 respectively. As a result, the net tax liability as at the end of the year had been overestimated by Rs. 130,159,930 and Rs. 158,036,664 for the years 2019 and 2020 respectively.
- When considering the effect of the temporary difference exists between the carrying amount of retirement benefit obligation and its tax base as a differed tax liability, the tax liability shown in the accounts is decreased by the said amount and the tax asset is increased by the same amount. Therefore any affect was not made on the net tax liability as at the end of the years 2019 and 2020 as pointed out by audit.
- Actions should be taken as per the provisions of the standard.

(d)	According to the paragraph 61 (a) of the Sri Lanka Accounting Standard 12, the value of differed tax relating to the items recognized as other comprehensive income should be shown under the other comprehensive income. However the value of differed tax amounting to Rs. 17,281,668 on the actuarial loss of Rs. 61,720,242 for the year under review had not been shown under the other comprehensive income.	Agreed with the matters pointed out by audit. It is due to be corrected in future accounts.	Actions should be taken as per the provisions of the standard.
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1.5.3 Accounting Policies

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
Although the financial statements of the Corporation had been prepared on the basis of Sri Lanka Accounting Standards, it had been shown in the accounting policies No. 3.1.1 that the financial statements had been prepared on the basis of Accounting Standards for Small and Medium size Enterprises.	Observation is correct. Actions will be taken to present the financial statements for the year 2021 accurately.	The policy followed should be disclosed accurately.

1.5.4 Accounting Deficiencies

----- Audit observation -----	----- Management comment -----	----- Recommendation -----
(a) According to the financial statements, even though the retirement benefit obligation as at 31 December 2020 was Rs. 282,412,178, according to the schedule presented to audit, it was Rs. 282,208,329. Hence the value of differed tax which had not been recognized on the difference of Rs. 203,849 was Rs. 57,078.	Agreed with the tax matter pointed out by audit. The value of net tax as at the end of the year was understated by Rs. 57,348.00.	Calculation of tax should be done accurately and should be taken in to accounts properly.

- (b) According to the information presented to audit, even though the provision for doubtful debts for airtime debtors as at the end of the year under review should be Rs.4, 214,919, it had been shown in the financial statements as Rs. 5,027,070. As a result, the loss for the year under review had been overstated by Rs. 812,151. Actions will be taken to present in the financial statements for the year 2021 accurately. Calculations should be shown in the accounts accurately.
- (c) The depreciation expenses of computer and accessories at the cost of Rs. 31,078,837 and transmitters valued at Rs. 1,521,908,873 for the year under review had been overstated in the accounts by Rs. 8,789,591. It was corrected in October 2021. Calculations should be shown in the accounts accurately.
- (d) According to the records of the recovering unit of default tax of the Department of Inland Revenue and the accounts of the Corporation relating to payment of tax the total tax liability as at 31 December 2020 should be Rs. 204,824,632 (without penalties). However it had been shown as Rs. 112,099,096 under the non-financial liabilities of the financial position statement and accordingly the outstanding amount of payable tax had been understated by Rs. 92,725,535. The audit observation is correct. Actions will be taken to present correctly in the financial statements for the year 2021. Calculations should be shown in the accounts accurately.
- (e) Total of lease rent of Rs. 127,149,208 consisted with the tax rent since the year 1995 to the year 2017 relating to a land 0.3194 hectare in extent which was belonged to the State Plantation Corporation and had been leased for conducting a transmission station and the lease rent relating to the year 2017 for a land 119.5309 hectare in Rs. The audit observation is correct. A discussion is being conducted with the General Treasury to remove the lease rent for the land belonged to Kuchchaweli Divisional Secretariat Division. Expenses relating to the year should be taken into accounts correctly.

extent belonged to the Kuchchaweli Divisional Secretariat Division had not been taken into accounts.

1.5.5. Unreconciled Control accounts or Records

Item	Amount according to the financial statements	Amount according to the subsidiary records	Difference	Management Comment	Recommendation
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	Rs.	Rs.	Rs.		
Receivable deposits	9,762,842	9,343,162	419,680	The audit observation is correct. These balances are very old and currently legal actions are proceeded for confirming these balances. Legal actions are being in process currently.	Balances shown in the financial statements should be match with the subsidiary records.

1.5.6 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
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A sum of Rs. 248,514 spent on granting goods for employees of the Corporation on concessionary price on the basis of recovering had not been recovered during the year under review.	The approval of the former Chairman was granted to facilitate the employees who were employed in the Corporation for buying essential goods paying money due to the lockdown of the country as a result of the outbreak of COVID pandemic. Such money obtained was paid properly and all the bills were settled.	Relevant money should be recovered.

1.5.7 Documentary Evidences not made available for Audit

Item	Amount	Audit evidence not submitted	Management comment	Recommendation
	Rs.			
(a) Lands	7,574,763	Title Deeds, documents to confirm the value, Fixed assets register and physical verification reports.	The audit observation is correct	Documents and registers to confirm the ownership and existence of assets should be presented.
(b) Buildings	430,110,257	Fixed assets register, documents to confirm the value and physical verification reports.	The audit observation is correct.	Documents and registers to confirm the ownership and existence of assets should be presented.
(c) Trade debtors	282,086,956	Balance confirmations, file details and detailed schedules.	The audit observation is correct.	Relevant evidence should be presented.
(d) Expenditure	650,388	Approved payment vouchers	Were sent to the audit division on 14.12.2021.	Approved payment vouchers should be submitted for confirming expenses.
(e) (i) Balances of 4 current accounts of Bank of Ceylon.	1,802,445	Balance confirmations, Bank statements, detailed cash books	All branches of banks were informed on 05.01.2021 to send all balance confirmation letters to the Superintendent of Audit of Sri Lanka	Relevant evidence should be presented to confirm the balances.

				Broadcasting Corporation	
(ii)	Overdraft Bank of Ceylon	(52,000)	The detailed cash book maintained by Kandurata Sewaya	Submitted to audit on 09.08.2021.	Relevant evidence should be presented to confirm the balances.
(f)	Investment	1,000,000	Stock certificates	Records available in the Corporation were submitted for share certificates.	Relevant evidence should be presented to confirm the balances.
(g)	Sundry stocks	21,632,280	Detailed schedules mentioned each items of stocks and the values.	Not commented	Relevant evidence to confirm the existence and the accuracy of the stock should be submitted.

1.6 Receivable and Payable Accounts

1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) A balance of Rs. 6,774,855 which had been brought forward within a period from 2 to 20 years had been included in the balance of sundry debtors amounting to Rs. 20,508,760 shown in the financial statements. However an unreimbursed amount of Rs. 2,117,912 paid to the employees of the Corporation who had been released to external institutions had been included in the said balance.	Agreed with the audit observation.	Actions should be taken to recover the receivable balances.
(b) Actions had not been taken by the Corporation even in the year under review to recover 7 balances of	Not replied	Actions should be taken to recover the receivable

receivable income amounting to Rs. 10,635,965 relating to a period of 2 to 8 years.

balances.

1.6.2. Payable Accounts

----- Audit Observation -----	----- Management comment -----	----- Recommendation -----
(a) Actions had not been taken to settle the total sum of Rs. 149,420,035 shown in the financial statements as at 31 December of the year under review which should be paid to the Telecommunication regulatory Commission over a period of 39 years from the year 1981 to 2016 even during the year under review.	The audit observation is correct.	Actions should be taken to look for the reasons relating to accrued expenditure lasts a long time and to settle.
(b) Actions had not been taken even up to December 2021 to settle the payable lease rent of Rs. 31,905,000 which had been taken in to accounts in the years 2018, 2019 and 2020 for the lands conducted transmission stations in Hunnasgiriya and Trincomalee.	The audit observation is correct.	Actions should be taken to settle the payable balances of expenditure.

1.6.3. Advances

----- Audit Observation -----	----- Management comment -----	----- Recommendation -----
(a) According to the F.R. 371 (2) (a) and 371 (5) amended by the section 9.1 of the Public Finance Circular No. 01/2020 dated 28 August 2020, the imprest obtained should be settled within 10 days once the relevant work was completed. However actions had not been taken to settle sub imprests totaling Rs. 1,016,027 even up to the end of the year under review.	Actions were taken correctly in December 2021 for the advance exceeding 15 years.	Actions should be taken as per the Financial Regulations.

- (b) According to the section 04 of the Staff Notices of the Sri Lanka Broadcasting Corporation No.S.L.B.C/3142 dated 17 September 2014, even though advances should not be issued before settling the prior advance obtained, a sum of Rs. 6,289,418 had been given to 24 officers as advances during the year under review.
- Actions were taken to correct the said situation at present.
- Actions should be taken as public funds are not to be misused.

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

Non- compliance with reference to the Standard	Non- compliance	Management comment	Recommendation
(a) Public Enterprises Circular No. PED 01/2015 (i) dated 27 October 2015.	Although the official vehicle or a transport allowance of Rs. 50,000 and the monthly fuel allowance entitled to the relevant post can be obtained to an officer who is entitled to an official vehicle, a sum of Rs. 659,610 had been paid to the former Chairman as monthly transport and fuel allowance during the year under review in a ground of reserving a vehicle for the former chairman since 30 January 2020.	Agreed with the audit observation.	Actions should be taken as per the provisions of the Circular.
(b) Section 6.2 of the part II of the Public Finance Circular No. 01/2020 dated 28 August 2020.	When obtaining services on assignment basis, payments should be made on the personal approval of the Secretary to the line Ministry once the relevant service obtained. However a sum of Rs. 3,519,117 had been paid during the year	Agreed with audit observations.	Actions should be taken as per the provisions of the Circular.

2020 for 7 recipients before the assignment completes without obtaining the approval.

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| (c) | Paragraph 3.2.1 of the Public Enterprises Circular No. PED 01/2015 dated 25 May 2015 and the paragraph 1.2 of the Public Enterprises Circular No. PED 01/2020 dated 27 January 2020. | If the monthly allowance of fuel is not sufficient, approval of the Secretary to the line Ministry with the recommendation of the board of Directors should be obtained and the Secretary to the General Treasury should be informed. However 1011 liters of fuel had been issued to the former Chairman during the year under review without obtaining the approval. | According to the 3.1 of the Public Enterprises Circular No. PED 01/2020 dated 27 January 2020, monthly allowance of fuel entitled to the Chairman was 170 liters. Therefore, not agreed with this observation. | Actions should be taken as per the provisions of the Circular. |
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2. Financial Review

2.1 Financial Result

The operating result (before tax) of the year under review was a loss of Rs.14, 126,752 and the corresponding loss for the preceding year was Rs. 25,505,571. Therefore an improvement of Rs. 11,378,819 in the financial result was observed. The improvement of government grant compared with the preceding year by Rs. 75,000,000 had mainly affected to this improvement.

2.2 Trend Analysis of major Income and Expenditure items

- (a) The loss for the year had increased by Rs. 63,621,181 due to decrease of sales comparing with the previous year by Rs.114, 766,208. According to the financial statements the Corporation had incurred losses since the year 1996 and in certain years losses had been incurred even though government grants were received. A sum of Rs. 75,000,000 had been paid during the year under review more than the grant received for the previous year and it was represented an increase of government grant by 20.55 per cent compared with the previous year. Accordingly it was observed that going concern of the Corporation without the financial assistance of the Treasury or other government financial assistance is uncertain.

- (b) Other operation expenditure and the administration expenditure of the year under review had increased by 3.33 per cent or Rs. 11,970,192 and 8.08 per cent or Rs. 31,708,704 respectively compared with the preceding year.

2.3 Ratio Analysis

- (a) Depreciation of the current ratio and quick ratio is shown during the year under review compared with the previous year and balances of local debtors amounting to Rs. 50,491,280 and balances of foreign debtors amounting to Rs. 62,971,953 older than 2 to 45 years had been included in the debtors included in the current assets.
- (b) The gross profit ratio had decreased from 2.31 per cent to 1.37 per cent compared with the previous year and the decrease of sales revenue by Rs. 114,766,208 had mainly affected to the said decrease.
- (c) The operation profit ratio had decreased from 58.56 to 82.21 compared with the previous year and decrease of revenue, increase of other operating expenditure and distribution expenditure had affected to the said decrease. As a result of incurring such losses, provision of Rs. 440,000,000 had to be obtained from the Treasury for operating and other expenditure for the year under review.

3. Operational Review

3.1 Identified Losses

Audit Observation -----	Management Comment -----	Recommendation -----
A penalty of Rs. 30,902 had to be paid by the Corporation during the year under review as a result of the payable expenses of Rs. 4,045,399 had not been paid on due date.	Necessary actions were taken to avoid such situations in future.	Actions should be taken to pay for expenses on due date.

3.2 Management Inefficiencies

Audit Observation -----	Management Comment -----	Recommendation -----
A sum of Rs. 1,000,000 had been invested by the Corporation in the year 1993 on the request made by the Ministry of Mass Media for purchasing shares of the Lanka Puvath. However any income of dividend had not been received up to the year 2020.	The audit observation is correct	Actions should be taken to look into investments and to obtain benefits.

3.3 Procurement Management

Audit Observation	Management Comment	Recommendation
<p>(a) The approval of the procurement committee had been granted on 6 November 2019 for repairing transmission tower and the microwave tower located in the head office which should be repaired immediately for Rs. 4,605,256. However the relevant work had not been commenced even up to February 2021.</p>	<p>The implementation of the relevant project was temporarily suspended due to unavailability of provisions for the new price.</p>	<p>Actions should be taken to safeguard the assets of the institute.</p>
<p>(b) According to the Section (d) of the Procurement Guideline, a detailed procurement plan had not been prepared and even though 18 procurement activities had been planned according to the procurement plan prepared by the Corporation for the year under review, out of the said activities planned, even only a one procurement activity could not be completed during the year under review.</p>	<p>The provision made by the General Treasury in the year 2020 was reduced by few times . The activities prioritized accordingly and were carried out. The following activities presented in the action plan for the year 2020 were completed. Purchasing of 02 transmitters for Jaffna channel, purchasing of spare parts and accessories for other broadcasting stations, construction of a fence between the broadcasting stations Puttlam and the Karabewatta land.</p>	<p>Actions should be taken according to the Procurement Guideline.</p>

3.4 Human Resources Management

Audit Observation	Management Comment	Recommendation
<p>According to the approved cadre of the Corporation, there were 371 vacancies in 35 posts and a surplus of 364 in 42 posts. Recruitments had been made for 102 posts which are not included in the approved cadre and the number of surplus of employees recruited in 6</p>	<p>Agreed with the audit observation</p>	<p>Recruitments should be made only for the approved cadre.</p>

instances exceeding the approved number of posts was 35.

3.5 Management of Vehicle fleet

Audit Observation

Six vehicles belonged to the Corporation which had been recommended to dispose on 09 September 2020 had been remained idle without taking actions to dispose.

Management Comment

The new Chairman had recommended to call estimates for two vehicles and to repair if it is economically effective.

Recommendation

Actions should be taken to dispose vehicles which were recommended to dispose without delay.

4. Accountability and Good Governance

4.1 Tabling of Annual Report in Parliament

Audit Observation

Annual reports for the years 2018 and 2019 had not been tabled in parliament even up to November 2021 and the draft annual report for the year 2021 had not been submitted to audit even up to 31 December 2021.

Management Comment

Not replied

Recommendation

Actions should be taken to table annual reports without delay.