

Sri Lanka Rupawahini Corporation - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka Rupawahini 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.
- 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 Standard

Non- compliance with reference to the relevant standard	Management comment	Recommendation
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(a)	Contrary to the Section 32 of the Sri Lanka Accounting Standard 1, the payable agency commission of Rs. 97.969,813 had been set off to the receivable agency commission of Rs. 10,687,128 during the	Both debit and credit balances are included in the agency commission control account. The debit or credit balance is shown as the net value obtained from the computer system. It was shown in the	Actions should be taken as per the Sri Lanka Accounting standard.
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year under review.

relevant schedule.

Actions will be taken to show the balances of control account in two separates accounts in future because it had been pointed out in previous years that assets and liabilities could not be set off as per the Sri Lanka Accounting standard 1.

- (b) Contrary to the Section 9 of the Sri Lanka Accounting Standard 2, the cost of stocks amounting to Rs. 201,080,934 had been shown in the financial statements by the Corporation without estimating the net realizable value.
- Although stocks should be measured at the lower of the cost or net realizable value as per the Sri Lanka Accounting standard No.2, this stock was used only for consumption and therefore it was taken into accounts at the cost.
- Stock which cannot be used and non-moving stock included in the stock has been brought forward since several years and the stocks which cannot be used are scheduled to be disposed. Activities relating to dispose of stocks which have been postponed due to the adverse health situation prevailed in the country will be done in future and actions will be taken to remove the unusable stocks and non - moving stocks .
- Value of the stock should be shown as per the Accounting Standards.

- (c) Although property, plant and equipment at the cost of Rs. 3,386,515,041 had been fully depreciated and currently in use, actions had not been taken to revalue the said assets and to show the fair value in the financial statements according to the Sri Lanka Accounting Standard 16. According to the Section 24 of the Sri Lanka Accounting Standard 13, even though property, plant and equipment which are being in operation but were fully depreciated should be revalued and shown at the fair value, it couldn't be done due to practical reasons. Therefore the purchasing value was taken into accounts. Actions should be taken as per the provisions of the Standard.
- (d) Equipment valued at Rs. 75,167,126 had been purchased by the Corporation in the year 2019 using the government grant amounting to Rs. 100 million received to the Corporation in the year 2018. When calculating amortization, instead of calculating amortization on the value of equipment purchased as per the Sri Lanka Accounting Standard 20, amortization had been calculated on the total value of the government grant of Rs. 100 million. As a result the other revenue had been overstated by Rs. 4,966,575 and the government grant had been understated by the same amount. Although the activity relating to receipt of assets in connection with the grant of Rs. 100 million mentioned here was completed in the year 2019, good received notes were issued in the year 2020. Therefore it was remained in the goods in transit account in the year 2019. The said balances were transferred to relevant accounts in the year 2020. Actions should be taken as per the provisions of the Standard.

1.5.3 Accounting Deficiencies

Audit Observation	Management comment	Recommendation
<p>The computer information system had not been maintained by the Corporation as to be obtained information relating to agency commission separately through the computer system. As a result, an age analysis relating to the payable balance of agency commission amounting to Rs. 87,282,685 as at the end of the year under review could not be presented. Therefore the current position of the said balances could not be checked.</p>	<p>The computer system which is being used in the finance section currently was not prepared as to be maintained separate entries regarding the commission payable to agencies. The possibility of making new changes should be checked due to the fact that this computer system has been in operation over number of years. However actions will be taken in future to prepare an age analysis (manual) in connection with the payable agency commission according to the information obtained from the computer system.</p>	<p>Adequate information should be maintained and an accurate age analysis should be presented.</p>

1.5.4 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.		
(a) Provision of cumulative depreciation	3,694,689,745	3,703,594,072	8,904,327	Actions will be taken to look into and rectify the the difference occurred in the value of cumulative depreciation.	Rectification should be done after checking the reasons for the difference.

(b) Cash & Equivalents	103,314,232	108,676,857	5,362,625	In recent years, transactions through this savings account have been minimal. Therefore this value was shown under the investments considering as an investment value. However, transactions are being carried out through this account currently and hence actions are taken to show as cash and cash equivalent since the year 2021.	Financial statements should be prepared correctly.
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1.5.5 Going Concern of the Organization

Audit Observation

Management comment

Recommendation

(a)	The net assets of the Corporation had decreased continuously and the net assets of the Corporation for the year 2015 amounting to Rs. 1,219,290,585 had decreased up to Rs. 190,563,478 by Rs. 1,028,727,107 during the year under review. Further even	Not commented	Good financial management should be implemented and necessary actions should be taken to avoid losses.
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though profits had been earned during the year 2018 as a result of the government grant, the Corporation had incurred losses continuously over the period of 5 previous years. Further the bank overdraft as at the end of the year 2015 was Rs. 244,648,000 and it had been Rs. 482,718,683 as at the end of the year 2019 and had been Rs. 258,728,044 as at the end of the year under review. This continuous loss had affected to the net assets and the equity of the Corporation and it was observed that, the going concern of the Corporation without the financial assistance of the Treasury or Government is uncertain.

1.5.6 Documentary Evidences not made available for Audit

Item	Amount	Evidence not available	Management comments	Recommendation
(a) Although a sum of Rs. 1,104,000 had been invested by the Corporation for purchasing shares from the Lanka Puwath in the years 1985 and 1992, any dividend had not been received up to the year under review.	Rs. 1,104,000	Necessary documents for confirming the ownership, existence and the value of the investments.	Actions were taken by the Corporation in many times to claim share certificates from the Lanka Puwath Ltd. Accordingly as a reply for a request made in the year 2014, the Lanka Puwath had informed that copies of share certificates had misplaced as a result of the changes of the location of the institute time to time. The Lanka Puwath Ltd. is not in operation currently. A location of the institute	Documentary evidence should be presented to confirm the investments.

could not be found and a letter sent regarding the said matter has been failed to hand over and returned. This institute had been established in the year 1985 and the investment was done as per the instructions of the then Minister in Charge. There are few copies of share certificates as evidence in this regard.

(b)	The contra deal Rs. 3,030,564 transaction done without an agreement	Evidence to confirm that the relevant service had been obtained by the Corporation.	Not commented	Entering in to agreements should be formalized in the instances where necessary and information relating to transactions should be presented.
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1.6 Receivable and payable Accounts

1.6.1 Receivables

Audit observation	Management Comment	Recommendation
<p>The balance of the total debtors of the Corporation as at the end of the year under review was Rs. 507,789,779 and out of that a sum of Rs. 229,200,950 represents 45 per cent had been consisted with the values more than 5 million represented 10 debtors including a government institution. Although legal actions had been taken for recovering of a sum of Rs. 10 million included in it which represented a</p>	<p>It was referred for the instructions of the Department of Attorney General for recovering of Rs. 10 million which should be recovered from the National savings Bank and it was instructed to find a solution through discussions because the both institutions are the government institutions. Accordingly the matter was referred to the Ministry of Mass Media for further actions.</p>	<p>Actions should be taken to recover debtor balances without delay.</p>

receivable from the National Savings Bank was uncertain due to unavailability of a formal agreement entered into with the Bank. Further out of the debtor balance of Rs. 97,117,914 more than 5 years consisted with the balances of 170 debtors including 32 government institutions, legal actions had not been taken against 153 debtors represented a sum of Rs. 78,480,159.

There was a meeting headed by the Secretary to the Ministry of Mass Media on 09.09.2019 regarding the government receivables and at that meeting the officers of the bank were called and had a discussion regarding the said Rs. 10 million which should be recovered from the National savings Bank.

An officer in a higher rank of the National savings Bank had told that this job had been done without a written approval of the Bank and therefore the relevant payment could not be done by the National Savings Bank.

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

Reference to laws, rules, regulations etc.	Non – compliance	Management comment	Recommendation
(a) Sections 371 (2) (b) and 371 (5) of the Financial Regulations amended by the Public Finance Circular 3/2015 dated 14 July 2015	(i) Although the maximum limit of ad hoc imprest which can be given in one instance is Rs. 100,000, a sum of Rs. 40,406,563 had been given in 46 instances exceeding the limit for programmes, accommodation and purchasing.	Although the maximum amount of imprest which can be given in one instance is Rs. 100,000 according to the Public Circular, advances had to be given exceeding the said limit in the production process according to the nature of the work of this Corporation.	Actions should be taken according to the Circular.

(ii)	Although the ad hoc imprest advances obtained should be settled within 10 days after the completion of the relevant work, the balance of the advance given in 09 instances as at the end of the year under review, exceeding a year was Rs. 6,606,962.	Although advances should be settled within 10 days after completion of the relevant work, in the instances in which practically cannot be done accordingly due to the nature of the programme production process of the Corporation, an additional time is given for the settlement of advances with the approval of the top management. In the instances of non-settlement of advances, actions are taken to take disciplinary steps against the relevant officers.	Actions should be taken according to the provisions of the Circular
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(b) Public Enterprises
Circulars

Circular no. PED 3/2015 dated 16 June 2015.	In addition to the allowance which should be paid to the Chairman of the Corporation according to the circular a sum of Rs. 548,388 had been paid as special allowances and other allowances during the year under review.	It was observed that the monthly allowance of the chairman was not sufficient. Therefore an additional allowance of Rs. 30,000 was paid with the approval of the	Actions should be taken according to the provisions of the Circular
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Board of
Directors, since
01/10/2010
because there was
no impediment to
the payment of
such an additional
allowance as per
the Public
Enterprises
Circular 02/58.

According to the
provisions of the
section 2.8 of the
amended Public
Enterprises
Circular 2015/03,
the said additional
allowance was
referred to the
Ministry of
Finance and Mass
Media then line
ministry for
approval on
08.07.2018.

The entertainment
allowance was
reduced up to
Rs. 20,000 in the
year 2020 and an
additional
allowance was not
obtained by the
Chairman
currently.

(c) Circular no. PED
01/2015 dated 25
May 2015.

(i) Paragraph
2.3

A sum of Rs. 8,203,940 had been paid as transport and fuel allowance during the year under review to 99 officers who had not entitled for the transport and fuel allowance.

At the commencement of the Corporation a fuel allowance has been paid to the executive officers and a transport allowance of Rs.2,000 has been paid to the non-executive officers who promoted to the IV grade according to the existing grading system with the approval of the Board of Directors. The final revision was made in the year 2010 and it has been presented to the approval of the General Treasury with the recommendation of the Ministry. The relevant allowance has been paid continuously as it was a privilege which has been given since the commencement of the Corporation.

Actions should be taken according to the provisions of the Circular

1.8 Financial Management

Audit Observation	Management comment	Recommendation
(a) The approved overdraft limit for two bank current accounts maintained by the Corporation had been exceeded by the Corporation in every month except only one month in the year under review and a sum of Rs. 29,085,302 had been spent had been paid as interests during the year under review.	The income of the Corporation had decreased due to the COVID pandemic spread throughout the year under review and it had affected to the adverse situation of the financial position of the Corporation. Hence overdraft facilities had to be obtained for day to day needs. Accordingly interests had to be paid.	Bank overdraft should be maintained as not to be exceeded the relevant limit.

2 Financial Review

2.1 Financial Result

The operating result of the year under review was a loss of Rs.234,300,093 and the corresponding loss for the preceding year was Rs. 461,039,399. Therefore an improvement of Rs. 226,739,306 in the financial result was observed. The government grant received for recurrent expenditure amounting to Rs. 310,000,000 during the financial year 2020 had mainly affected to this improvement.

2.2 Trend Analysis of major Income and Expenditure items

Comparing the air time sales revenue of Rs.1,049,126,350 for the year under review with the air time sales revenue of Rs 1,742,947,899 for the previous year, the air time sales revenue had decreased by 40 per cent compared to the previous year. The programme and distribution expenditure and tax expenditure had decreased by 28 per cent and 62 per cent respectively compared with the previous year.

2.3 Ratio Analysis

The gross profit and the net profit had been decreased for previous three years and it had decreased up to a minus value during the year under review and it was observed that the current ratio had been decreasing regularly.

3 Operational review

3.1 Management inefficiencies

Audit observation	Management comment	Recommendation
(a) According to the paragraph 7 (1) of the Finance Act No. 38 of 1971, the responsibility of the Board of Directors of the Corporation to maintain the activities of the Corporation as to be sufficient to settle the extreme deficit of the income account within a period of 5 years or any period of time decided by the Minister of Finance by the extreme surplus of that account. However the net loss of the nearest five years of the Corporation was Rs. 943,832,028 and it was observed that the expected level had not been achieved by the function of the Corporation.	Not Commented	Necessary actions should be taken to avoid losses.
(b) Actions had not been taken by the Corporation to transfer the legal right of the land 8 acers in extent located in Colombo 07, Baudhdhaloka Mawatha and the building complex of which the head	For the Memorandum presented to the Cabinet by the Minister of Mass Media and Information on 11.03.2014 for transferring the legal right of the land of the Rupawahini	Legal right of the property should be transferred and the value should be taken into accounts.

office of the Corporation has been conducted since the year of the Corporation established 1982 and to take the value to the financial statements.

Corporation, a decision had been taken by the Cabinet on 20.05.2014 to have a discussion together with the Secretary to the Ministry of Mass Media and the Secretary to the Ministry of Urban Development to settle the matter.

Accordingly the Governor of the Western Province had agreed to transfer the legal right of the land currently occupied by the Rupavahini Corporation to the Corporation. An action was taken to send a letter on 30.10.2021 to the Land Commissioner General for further actions with the said agreement.

- (c) The Cabinet approval had been received in December 2014 to maintain a television channel through satellite technology in a studio established in Italy or Europe in order to introduce the Sri Lankan identification to the world and to improve the knowledge and enjoyment of Sri Lankans who lived in abroad and to obtain the necessary equipment on temporary lease base subject to the approval of the Ministry of Finance. Accordingly a sum of Rs. 3,454,279 had been paid
- A law suit had been filed and is being proceeded against the payment of Rs. 3,454,279 made on 02/01/2015 as an advance for maintaining a television channel through satellite technology in other country of Europe.
- It should be entered into agreements in the instances where necessary and actions should be taken to recover the advances paid.

to a private Company on 02 January 2015 as an advance without obtaining the approval of the Ministry of Finance. However the said task had been completely abandoned after the year 2015 and actions had not been taken to recover the said advance even up the year under review.

3.2 Operating inefficiencies

 Audit observation

An air time revenue of Rs. 30,250,006 had missed to the Corporation for 119 air time hours and 37 minutes in connection with 80 programmes which had been telecasted during the year 2020 without recovering the charges even though it should be charged.

 Management comment

As the government television channel there were some instances where events of national importance are telecasted without recovering charges. For example, there are occasions when a funeral of a Mahanayake Thera or any other religious priest, religious ceremonies and other programs of national importance have to be telecasted without recovering charges.

 Recommendation

Actions should be taken to avoid losses.

3.2.1 Human Resources Management

Audit observation	Management Comment	Recommendation
There were vacancies in 182 permanent posts and 28 acting posts and 27 permanent employees for 14 posts which was not included in the approved Cadre and 12 employees on contract basis and 2 employees on assignment basis had been recruited.	The approved cadre for the Corporation was 1041 permanent posts and 08 on contract basis. As at the 31 .12.2020 there were 867 permanent employees and 27 contract and assignment employees. Accordingly the total cadre was 894. Even though it had been mentioned that there were 25 appointments on acting basis as at 31.12.2020, it was wrong and the appointments on acting basis as at that date were 08 only.	Actions should be taken to recruit the approved cadre.