The Associated Newspapers of Ceylon Limited

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1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the Associated Newspapers of Ceylon Limited as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments of Accounts

1.2.1 Sri Lanka Accounting Standed

Action had not been taken to revalue and account for fully depreciated motor vehicles, machinery, computers and electrical installations which were in use in terms of Section 30 of the SLAS – 18.

1.2.2 Accounting Deficiencies

Following observations are made

(a) Although the payment of installment amounting to Rs.4,167,848 had been completed for the computers purchased under Finance Leases, it had not been transferred as freehold assets.

(b) Balances aggregating Rs.1,522,392, out of the deposits made by the foreign debtors to publish advertisements had been set off against the trade debtors instead of being shown as advances under the liabilities.

(c) An advance amounting to Rs.1,331,868 made by the Sri Lanka Army to Commercial Printing Department of the Company for a printing work had been shown as a credit balance under the debtors instead of being shown as payable advances under the liability.

(d) Credit balances aggregating Rs.19,863,773 included in the advertisement debtors had been set off against the total debit balance of that account instead of being shown it under liability.

(e) In computation of the cost of external work of the commercial printing department shown in the detailed income and expenditure account, revenue for the internal work including the profit margin had been deducted from the overall cost of production of the department.

(f) Investment in Housing Development Finance Corporation amounting to Rs.300,000 had been inappropriately categorized under the unquoted companies

(g) The Associated Newspapers of Ceylon Limited had paid an advance of Rs.1.2million to the "Lanka Puwath" Company in the year 2008 for the purchase of 2,400 shares to the value of Rs. 1,000 each. That amount had been shown as an Advance instead of being shown under the Investments in the Financial Statements.

(h) The Good in Transit amounting to Rs. 8,652,936 relating to the year 1999, had been continuously shown under sundry debtors without making necessary adjustments.

(l) A sum of Rs.2,364,780 payable for the Goss Magnum Four Expansion machine as at 31 December 2011 had not been brought to accounts. Hence, assets and liability accounts had been understated by that amount.

(j) Value of two fixed deposits totalling to Rs.309,627 which were in favour of the Company had not been shown in the financial statements.

1.2.3 **Unreconciled Control Accounts**

According to the financial statements, balance of the subscription debtors as at 31 December 2011 was Rs.15,861,472. As per the detailed schedules it was Rs.11,110,942. Hence, the difference of Rs.4,750,530 had not been reconciled.

1.2.4 **Unidentified Differences**

Excess amounting to Rs. 85,020 and shortages amounting to Rs.137,854 observed between the daily receipts accounted through Adpro system and cash deposited in the bank, had been shown as credit and debit outstanding respectively in the bank reconciliation statement for the month of December 2011 without being taken action to clear.

1.2.5 **Accounts Receivable and payable**

Following observations are made

(a) Advances aggregating to Rs. 2,105,423 granted for the purchase of goods and services had been outstanding for the period ranging from 01years to 7 years.

(b) Suspended debtors included in the newspaper agency debtors as at 31 December 2011 was Rs.2,631,559.

(c) Terminated debtors included in the newspaper agency debtors as at 31 December 2011 amounted to Rs.9,661,338 and a balance of Rs.5,324,376 or 55% of the above debtors had been terminated before one year .However, legal action had not been taken by the Company in this regard.

(d) A sum of Rs.654,758 shown under commercial printing department debtors were outstanding for more than two years. Non moving balance included in the above amount was Rs.135,735.

(e) Letters calling for confirmation, to the value of Rs. 515,777,384 had been sent in respect of trade debtors balance over Rs.50,000. Balances to the value of Rs. 20,884,706 had been agreed in whole. Balance to the value of Rs. 6,738,388 had not been agreed and confirmations had not been received for Rs. 488,154,290 up to 29 June 2012.

(f) Even though the credit period for advertisement debtors was 50 days, 4% of the total net debit balance of the advertisement debtors were over one year and a sum of Rs.2,580,486 were from Government Departments and Ministries .Further debit balances over 720 days from both Government and private sector amounted to Rs.5,421,207.

(g) An unidentified deposit amounting to Rs.982,363 relating to the year 2008 had been included in the sundry creditors balance. It had been brought to account as creditors without being identified and adjusted in the accounts.

(h) A sum of Rs.20,472,394 receivable as at 31 December 2011 in respect of printing papers granted to Rivira Company on credit basis was outstanding for more than 2 years.

(i) The Lakbima Company had been granted 199,798 kilograms of printing papers on Exchange basis of Goods in January and February 2010. Nevertheless, only 104,388 kilograms out of the above had been returned up to 31 December 2011.

Accordingly, 95,410 kilograms of Printing papers valued at Rs.6,821,487 had not been returned up to 29 June 2012

(j) Proper action had not been taken for 130 dishonored cheques valued at Rs.18,343,239. Out of this, 67 cheques valued at Rs.1,814,872 had been outstanding for more than one year.

1.2.6 **Lack of Evidence for Audit**

Seven vehicles valued at to Rs.6,374,634 shown in the accounts could not be satisfactory vouched in audit due to absent of physical verification reports.

1.2.7 **Non compliance with Laws, Rules and Regulations**

Following instances of non compliance with Laws, Rules, Regulations and Management Decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
(a) Finance Act No.38 of 1971 (i.) Section 13(8)	The Company had not furnished a reply indicating the steps taken or proposed to be taken on the Auditor General's report issued for the year 2010 in terms of Section 13(7) (a)of the Act.

	(ii.) Section 14(1)	A copy of the Draft Annual Report for the year under review had not been submitted to the Auditor General, together with the financial statements.
	(iii.) Section 13(5)(d)	Half – yearly internal audit reports had not been submitted to the Auditor General
(b)	Section 114 (1) of the Inland Revenue Act No.10 of 2006 and Public Enterprises Circular No. PED/12 of 02 June 2003 Section 8.7	The Company had paid the PAYE tax for bonuses of the employees without being deducted from employees. A sum of Rs. 12,481,683 had been paid for the year 2010/2011.
(c)	Public Enterprises Circular No. PED/12 of June 2003 (i) Sections 9.2 (b) and (d)	Even though the approval of the Department of Public Enterprises should be obtained for the Organization Chart and the Approved cadre, it had not been done so.
	(ii) Section 9.2 (a)	The approved cadre of the company should be included in the Corporate Plan. Nevertheless, the actual cadre as at 31 July 2006 had been included in the Corporate Plan prepared for the period from 2006 to 2015.

1.2.8 **Items in Contentions nature**

Ten printing works valued at Rs.15,054,600 had been completed by the Commercial Printing Department of the Company without obtaining formal orders from the respective organizations or persons. Further, action had not been taken by the Company to recover the charges for the works amounting to Rs.6,074,600, out of the above works and another three works amounting to Rs. 7,980,000 had been written off against Sales promotion account without any basis.

2. **Financial Review**

2.1 **Financial Results**

According to the financial statements presented, the operations of the Company for the year ended 31 December 2011 had resulted in a pre tax net profit of Rs.14,036,475 as against the pre tax net loss of Rs. 359,781,998 for the preceding year , thus indicating an increase in financial results by Rs. 373,818,473.Decrease of expenditure by Rs.228,489,987 and increase of income by Rs.145,328,486 were the main reasons for increase in financial results for the year under review.

2.2 **Analytical Financial Review**

The gross profit margin and the profit mark up of the Company for the year under review, as compared with the preceding year had increased by 1.95 per cent and 7.63 per cent respectively and the cost on voluntary Retirement Scheme had decreased by Rs.176 million .As a result, the pre tax net loss for the preceding year had converted into a pre tax net profit of Rs.14 million for the year under review .Certain matters revealed at an analytical review of the financial statements as compared with the preceding year are given below.

	2011	2010
	%	%
Gross Profit Margin	50.42	48.47
Profit Mark up(Gross Profit on cost of sale)	101.69	94.06
Administration Cost on Turnover	40.00	45.19
Selling and distribution Cost on Turnover	10.14	10.95
Finance Cost on Turnover	3.63	2.42
Liquidity Ratio	1.44:1.00	1.46:1.00
Acid Test Ratio	0.95:1.00	1.04:1.00

3. **Operating Review**

3.1 **Performance**

Following observations are made.

(a) The Company had published 6 newspapers, 12 periodicals and 2 annual publications during the year under review while 6 newspapers,7 periodicals and 11 annual publications had been published during the preceding year. The net contribution of the newspapers, periodicals and annual publications had increased by Rs.179,311,948 during the year under review.

(b) Six newspapers published by the Company had made a favorable contribution to the financial result of the Company. Details were as follows.

(i) The overall advertisement income of the newspapers of the Company had increased by Rs.253,503,962 or 12.7 per cent as compared with the preceding year whereas the charges for advertisement had increased by 31.5 per cent from 01 October 2011.

(ii) Overall newspaper sales income of the Company had increased from Rs. 474,808,907 in the preceding year to Rs. 496,505,606 by 4.57 per cent whereas the prices of the three newspapers had increased by 25 per cent during the year under review.

(iii) When compared with preceding year, net contribution of Silumina had decreased by Rs.34,731,985 due to the decrease of advertisement income and newspaper sale income.

3.2 **Management Inefficiencies**

Following observations are made

(a) A sum of Rs.250,000 had been granted as an advance to an officer of the Company for the implementation of Drought Relief Programme in September 2004.However, the advance had not been settled , even though the above officer is in the service even at present.

(b) No return whatsoever had been received up to the year under review from an investment of Rs.7,500,000 made in 1985 in the Lake House Property Development Company Limited.

3.3 **Operational Inefficiencies**

As per the action plan for the year 2011,the main purpose of the Commercial printing department is to improve the income and it had been planned to earn 55% of the income from external and 45% from internal income. However, when compared with the budgeted income for the year under review with the actual income ,it was observed that only 71% of the total budgeted income had been achieved and 70% of the total earned income was from internal and 30% was from external income .Accordingly the Company had not achieved the external income target.

3.4 **Assets Management**

Following observations are made.

(a) Board of Directors of the Company had decided to dispose seven unusable vehicles during the year 2011 and only three vehicles had been disposed. Balance 4 vehicles remained as unusable assets as at 31 December 2011 .Cost of these vehicles were Rs.3,737,812.

(b) Stock of unusable exercise books valued at Rs.71,991 had been observed in the book shop of the Kandy Branch office.

(c) 147 items of camera and other equipment had remained in Photo Services Department without being taken action to dispose. Value of the equipments was not made available for audit.

3.5 **Uneconomic Transactions**

Following observations are made.

(a) A sum of Rs.1,070,242 had been paid as penalty during the year under review due to delay and lower quality of the work relating to the printing 24 Text books amounting to Rs. 203,421,900 for the Educational Publication Department for the year 2010.Penalty paid in this manner for the previous years amounted to Rs.4,799,532.

(b) The Company accept the return on newspapers distributed by the Dispatch division on special and general reasons and in addition to that, acceptance of returns for the newspapers circulated to the agents in excess for the purpose of trade promotion had been done without any limit. Audit test check on News Agents Special Returns Advice Summary during January to May 2011 revealed that 90% of returns were due to increase of supply by the Company for the purpose of trade promotion.

3.6 **Cash Management**

As per the analysis of adjustments shown in the bank reconciliation statements prepared for December 2011 by the Company, unidentified debit and credit balances which had not been adjusted for more than six months were Rs.1,822,226 and Rs.803,287 respectively.

3.7 **Identified Losses**

Following observations are made.

(a) 2,506,449 copies of newspapers and periodicals had been printed by the Company during the year under review exceeding the amount shown in print orders prepared for each newspapers and periodical. Further, percentage permitted by the Company for the spoiled papers in printing publication is only 5% of the good papers. However, when compared with the good papers and spoiled papers during the year under review, it was observed that this permitted percentage had been exceeded in some instances .The balance copies of the newspapers and periodicals retained in the company after supplying the good copies during the year under review was 858,813. Cost of these copies was approximately Rs.18,403,595.

(b) A sum of Rs. 5,432,000 shown as recoverable from the National Savings Bank had been transferred to the sales promotion account as an expenditure during the year under review without any basis.

3.8 Utilization of Resources of the Company by Others

Five officers of the Company had been released to the external institutions contrary to Section 8.3.9 of the Public Enterprises Circular No.PED/12 of 02 June 2003, and the Company had spent a sum of Rs.1,103,112 for their salaries during the year under review.

4. Accountability and Good Governance

4.1 Tabling of Annual Report

Annual Report for the year 2010 had not been tabled in Parliament by the Company .

5. Systems and Controls

Deficiencies observed in System and Controls during the course of audit were brought to the notice of the Chairman of the Company from time to time. Special attention is needed in respect of the following areas of Control.

(a) Settlement of Advances

(b) Financial control of the Branches

(c) Maintenance job register of the Commercial Printing Department