The Associated Newspapers of Ceylon Limited - 2012

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 1.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Associated Newspapers of Ceylon Limited as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Accounts

1.2.1 Consolidated Financial Statements

Unaudited Financial Statements of the Lake House Property Development Company and Info Media (Private) Limited, which are fully owned subsidiaries of the Company, had been taken for preparing the consolidated financial statements while Business Lanka (Private) Limited, the fully owned subsidiary had not been consolidated in the group financial statements.

1.2.2 Sri Lanka Accounting Standards for Small And Medium-Sized Entities

Following observations are made.

(a) When preparing consolidated financial statements, the management of the Company had not ascertained the company's ability to continue, based on going concern as per Section 3.8 of the Sri Lanka Accounting Standards for SME's. Further it was observed that net assets of the Company have decreased during last five years by around 43 per cent which could be a threat to the existence of the Company.

(b) In terms of the provision in Section 10.22 of the Sri Lanka Accounting Standards for SME's, 71 errors had been restated prospectively by adjusting Rs.106,059,137 to the retained earnings as at 31 December 2011. However, nature of the 51 errors which was included in the above restatement had not been specifically identified

1.2.3 Accounting Deficiencies

Following observations are made.

(a) Adjustments at the beginning and end of the year under review had not been made for the value of the returned papers allowed to accept in circulation of the newspapers as per the accounting policy on recognition of income as stated in the notes to the consolidated financial statements . As a result, the financial results for the year under review had been overstated by Rs. 5,276,180.

(b) Expenses pertaining to 48 items of capital assets which had been produced and handed over to the other divisions by the Maintenance Department of the Company had been written off as expenditure instead of being capitalized. Further details of cost of these assets were not made available for audit.

(c) As per the practice followed by the Company ,after the material is issued from main stores to Maintenance Department based on material requisition notes, it had been treated as expenditure without considering the value of the balance stock. In view of this practice the stock balance and the recurrent expenditure had not been correctly reflected in the consolidated financial Statements. Value of the stock in the Maintenance Department was not made available for audit.

(d) The value of nine jobs amounting to Rs.4,060,794 which were completed and handed over during the year under review by the Commercial Printing Department of the Company had been inappropriately shown under work-in-progress.

(e) Assets purchased on credit basis valued at Rs. 1,919,988 at the end of the year under review had not been brought to accounts.

(f) 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 Consolidated Financial Statements.

1.2.4 Unidentified Differences

Differences aggregating Rs. 1,012,294 had been observed between the value of ledger balances and the value of physically verified balances of petrol and diesel stocks in the Fuel Filling Station of the Company as at the end of the year under review and the value of physically verified balances had been adjusted in the ledger accounts without reconciliation of the differences.

1.2.5 Accounts Receivable and payable

Following observations are made

(a) A sum of Rs.2,862,032 had been shown under commercial printing department debtors, which were outstanding for more than one year. Non moving balance included in the above amount was Rs.2,588,307.

(b) A sum of Rs.6,103,436 receivable from a media institute since 2010 had not been recovered up to date.

(c) Letters calling for confirmations, had been sent in respect of trade debtors to the value of Rs. 773,721,561 and out of that Rs. 14,213,245 had been agreed in whole. Balance to the value of Rs. 15,177,608 had not been agreed and confirmations had not been received for other balance of Rs. 744,330,707 up to30 April 2013.Further letters calling for confirmations, to the value of Rs.24,449,085 had been returned.

(d) Proper action had not been taken for 92 dishonored cheques valued at Rs.3,420,995. Out of this, cheques valued at Rs.2,540,025 had been outstanding for more than one year.

(e) No legal action had been taken other than the complaint made to the Police Station in respect of 22 dishonored cheques amounting to Rs.437,515 which were received from the suppliers for the reservation for the seats on Colombo – Jaffna passenger bus service during the year 2010.

(f) A sum of Rs.36,946,651 shown under trade debtors were outstanding for more than one year. A sum of Rs. 20,726,548 or 58 per cent of the above balance had been referred to the legal section considering as unrecoverable.

1.2.6 Non compliance with Laws, Rules and Regulations

Following instances of non compliance were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
(a) Finance Act No.38 of 1971	
(i.) 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 consolidated financial statements.
(ii.) 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 Section 8.7 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.	The Company had paid the PAYE tax for bonus of the employees without deducting from employees. A sum of Rs. 3,108,082 had been paid as PAYE tax for the year 2011/2012.
(c) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Section 9.2 (b) and (d)	Even though the approval of the Department of Public Enterprises should be obtained for the Organization Chart and the 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.
(iii.) Section 9.3.1	Every public enterprise should have schemes of recruitment and promotion for each post and the schemes should be approved by the Board and the appropriate Ministry with the concurrence of the Department of Public Enterprise and General Treasury. However, the Company did not have a scheme of recruitment and promotion procedure so approved. Hence, in recruitment for the post of higher management other than the post needed special professional qualification. Attention had not been paid to the specific educational and professional qualification.
(d) Section 2.5of the Public Enterprises Circular No.58(2) of 15 September 2011	Concurrence of the Finance Ministry had not been obtained to determine the transport allowance, fuel allowance and driving allowance and providing vehicles on hire basis to accommodate the transport

facilities for the officers of the Company. A sum of Rs.32,384,822 had been spent by the Company for the above purpose.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

According to the consolidated financial statements presented, the operations of the Company for the year ended 31 December 2012 had resulted in a net profit of Rs.57,429,215 before tax & fair value adjustment as compared with the corresponding- net profit of Rs. 17,456,855 before tax and fair value adjustment for the preceding year, thus indicating an increase in financial results by Rs.39,972,360. Increase of net revenue of the Commercial Printing Department and decrease of the cost of sale of newspapers and periodicals were the main reasons attributed for the 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 decreased by 0.05 per cent and 0.15 per cent respectively. Certain matters revealed at an analytical review of the financial statements as compared with the preceding year are given below.

	2012	2011
	%	%
Gross Profit Margin	46.12	46.17
Profit Mark up(Gross Profit on cost of sale)	85.59	85.74
Administration Cost on Turnover	34.84	36.56
Selling and distribution Cost on Turnover	8.74	9.29
Finance Cost on Turnover	3.84	3.31
Liquidity Ratio	1.41	1.50
Acid Test Ratio	1.00	0.96

3. Operating Review

3.1 Performance

Following observations are made.

(a) The Company had published 6 newspapers, 16 periodicals and 2 annual publications during the year under review while 6 newspapers, 12 periodicals and 02 annual publications had been published during the preceding year. The net contribution of the newspapers, periodicals and annual publications had increased by Rs. 141.90 million during the year under review.

(b) Six newspapers published by the Company had made a favorable contribution to the financial results of the Company. Following observations are made in this regard.

(i) The overall advertisement income of the newspapers of the Company had increased by Rs. 9.37 million or 0.42 per cent as compared with the preceding year whereas the charges for advertisement had increased by 2.02 per cent with effect from 01 July 2012.

(ii) Overall newspaper sales income of the Company had decreased from Rs. 496.5 million in the preceding year to Rs. 421.4 million by 15.13 per cent whereas the prices of the two newspapers had increased by 11 per cent with effect from 01 August 2012.

3.2 Management Inefficiencies

Following observations are made

(a) A sum of Rs.285,531,157 or 26 per cent of the total advertisement income up to 30 June 2012 had been received from advertisements provided for the public sector. Out of that, a sum of Rs.119,035,642 or 42 per cent of the income were from the advertisements received through the advertising agents and a sum of Rs.21,005,936 had been paid as agent commission for these advertisements during this period .The Company had not taken necessary steps to follow a proper procedure to attract the advertisements directly.

(b) Although 15% agent commission was paid for the advertisements received through the advertising agents, it was observed that they had not taken an obligation to recover the debtor balances. Under this context recoverability of this debtor balances are doubtful.

(c) 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 recovered, even though the above officer is in the service of the Company even at present.

(d) 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.

(e) Advertisement income on newspapers and periodicals of the Company during the year 2007 was Rs. 2,363.18 Million. Although charges for the advertisement income had been increased in several instances, the advertisement income for the years 2011 and 2012 was only Rs. 2,274.69 Million and Rs. 2,296 Million respectively. Accordingly it had not reached the income level earned in 2007.

3.3 <u>Items of Contentious nature</u>

Following observations are made.

(a) Eighteen printing activities valued at Rs.6,693,850 had been completed by the Commercial Printing Department of the Company without obtaining formal orders from the organizations or persons. Further action had not been taken by the Company to recover the charges for the works amounting to Rs.2,665,300 out of the above work and cost of another seven works amounting to Rs. 4,028,550 had been debited to the publicity account without any basis.

(b) A sum of Rs.3,660,000 had been paid by the Company as rent for the vehicles taken on rent and given to the Department of Public Trustee for the period from 31 August 2007 to 31 December 2012. However, as per the information provided by the Department of Public Trustee ,no vehicle had been received from the Company for the period from 01 March 2012 to 31 October 2012.

(c) The advertising division of the Company had purchased a motor vehicle valued at Rs.1,885,000 for its own use from a private Company by paying Rs.942,500 as an advance during the year under review without following the procedure of the Company, laid down for the purchase of capital items. Arrangement had been made to publish an advertisement for Rs.1,000,000 on contra agreement to set off the balance of Rs.942,500. In the meantime a sum of Rs.195,369 had been paid as agent commission for this arrangement. Accordingly, a loss of Rs.252,869 from this transaction had been occurred to the Company.

(d) Providing fuel for vehicles, used to distribute the newspapers without any difficulty is the primary objective of maintaining the fuel station. However, a considerable amount of fuel had been issued for the vehicles allocated to provide transport facilities to the staff. It was further observed in audit that, out of the total fuel consumption of Rs.24,874,475 during January to July 2012, fuel valued at Rs. 10,512,083 or 42 per cent had been provided for the vehicles used for the transport facilities of the staff.

(e) The Company had granted special discount facilities to the selected advertising agents for the specific periods or occasionally on the discretion of the Chairman and two other officers of the Company without obtaining the approval of the Board of Management. In a test check carried out on the debit notes pertaining to special discount so approved, it was observed that reduction of the income to the Company through special discount by three newspapers within one month period was approximately Rs. 4,294,175. Under this context, income deprived to the Company within a period of one year was Rs. 51,530,100.

(f) There were instances in issuing the additional tax invoices to the clients also by the accounts division of the Company, utilizing the Company letter head for the total value including agent commission in addition to the official tax invoices (debits notes) issued for the advertising agents for recovery of charges and VAT for the newspaper advertisements . The advertising agents might have a chance to default VAT on their income by this incorrect practice followed by the Company.

(g) As per the analysis of collecting the income by the advertising agents of the Company only one advertising agent had contributed to the advertisement income over Rs. 50 million and advertisement income of another 26 agents had remained in the range of Rs. 1 million to Rs. 40 million. 133 advertising agents had contributed to less than Rs.1 million of advertisement income.

3.4 Assets Management

Following observations are made.

(a) Fourteen spare parts of the printing machines and seven vehicles scheduled to be disposed had remained idle at the K.V. Yard as at 31 December 2012. Value of the spare parts and vehicles was not made available for audit.

(b) The Plate Making machine scheduled to be disposed, had been remained underutilized and kept in the premises of Commercial Printing Department for more than one year. Value of the machine was not made available for audit.

(c) One hundred and forty seven items of cameras and other equipment had remained in Photo Services Department without action being taken to dispose of them. Value of the equipment was not made available for audit.

3.5 Uneconomic Transactions

Following observations are made.

(a) A loss of Rs.13,624,603 had occurred to the Company from two buses used for the Colombo – Jaffna passenger transport service from the year 2010 to August 2012. These two buses had been taken on rent without a Board approval or following procurement guidelines. It was revealed in audit that the Bus services of the Company had been running at a loss when considering direct and other indirect costs relating to the service.

(b) The Company had paid a sum of Rs.31,500 as penalty, due to violation of the conditions in the passenger service permits issued by the National Transport Service Commission.

3.6 Identified Losses

Following observations are made.

(a) The Company had to incur an additional cost due to republishing the advertisement free of charge, on the complaint received due to minor errors in the advertisements . The cost of the advertisement republished free of charge in four newspapers in order to correct the error at the end of June of the year under review was Rs.1,803,189. The Chairman of the Company had stated as follows in this regard.

‘‘In the newspaper industry it is inevitable that some advertisements are printed with lesser quality due to some technical issues. In such cases on the complains of customers, a free insertion is undertaken following company procedures. Hence this is a normal loss in the industry.’’

(b) Fully owned subsidiary Company had been incorporated for the purpose of circulating a newspaper for the Tamil people in the Jaffna area and commenced the operation during the year under review by utilizing part of the building of the Surabi Press and printing machine acquired by the Department of Police. However, the Company had to occur a loss of Rs.6,917,307 during the period less than one year due to inefficient operation.

The following observations are also made in this regard.

(i) Decisions of the Board of Management had not been taken to suspend the circulations of the newspaper.

(ii)Heldel Berg sordz machine belonging to the Lake House, utilized for the printing of the newspapers had not been handed over.

(iii)The recovery of the debtor balance of Rs. 185,511 receivable in connection with the above subsidiary company is in doubt.

3.7 Release of Human and Physical Resources of the Company to other Institutions

Two hired vehicles, one vehicle belonging to the Company and six officers of the Company had been released to other state institutions in 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.1,838,438 as rent and salaries during the year under review relating to these vehicles and officers. In addition to the above, the fuel worth of Rs.49,400 was provided monthly for the two vehicles allocated for the supervisor of the Ministry of Mass Media and Information.

4. Accountability and Good Governance

4.1 Tabling of Annual Report

Annual Report for the year 2011 had not been tabled in Parliament by the Company up to 31 May 2013.

4.2 Composition of Board of Directors

Although three members of the Board of Directors of the Company should be appointed by the Public Trustee in terms of Section 6 (g) of the Associated Newspapers of Ceylon Limited (Special Provision) Law No. 28 of 1973, number of Directors so elected had confined to two members only. A qualified accountant as Finance Director had not been appointed since 18 July 2012.

4.3 Directions given by the Public Trustee

The Public Trustee being the Custodian of the Company on behalf of the Government, may issue from time to time general or special directions in writing to the Board of Directors of the Company on any matters in terms of Section 12 of the Special Provision Law. However, there were no evidence to prove that such directions had been issued.

5. Systems and Controls

Deficiencies observed in Systems and Controls during the course of audit were brought to the notice of the Chairman of the Company by my detailed report issued in terms of Section 13 (7)(a) of the Finance Act. Special attention is needed in respect of the following areas of Control.

(a) Works of the Commercial Printing Department.

(b) Delegation of Authority.

(c) Vehicles Utilization

(d) Recovery of debtor balances

(e) Activities of the Maintenance Department

(f) Recruitment of the Canvassers

(g) Assets Management

(h) Petty cash payments