Associated Newspapers of Ceylon Limited (ANCL) -2010

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1. Financial Statements

1:1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the Associated Newspapers of Ceylon Limited had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards and give a true and fair view of the state of affairs of the Associated Newspapers of Ceylon Limited as at 31 December 2010 and the financial results of its operation and cash flows for the year then ended.

1:2 Comments on Financial Statements

1:2:1 Renditions of Financial Statements

Even though the financial statements of the Company should have been rendered within 60 days after the closure of the financial year in terms of Public Enterprise Circular No.PED / 12 dated 02 June 2003, (Chapter 6.5.1) the financial statements for the year under review had been rendered for audit only on 28 March 2011 and the amended financial statements had been furnished to the audit on 26 August 2011 after making adjustments for the accounting deficiencies pointed out in the draft audit report dated 01 August 2011.

1:2:2 Accounting Deficiencies

(a) The following observations were made on the sample examination of the property, plant and equipment amounting to Rs.226,909,844 as at 31 December 2010.

(i) The Company had not maintained an updated Property, Plant and Equipment Register and also did not carry out valuation of the assets. Therefore, it was not possible to satisfy in audit whether the amount shown as Property, Plant and Equipment and depreciation made thereon in the accounts give a true and fair position of the Company.

(ii) Even though excess and shortages had been identified after carrying out annual physical verifications of the fixed assets in every year no action had been taken for the last 10 years.

(iii) 15.87 perches of land in Kotahena belonging to the Company purchased on 23 September 1940 for Rs.45, 650 had not been disclosed in the financial statements.

(iv) Assets obtained under the lease basis for a period of 99 years during the years 1925 and 1988 had not been disclosed in the financial statements.
Ex: Premises of the Lake House building, and Kataragama circuit bungalow.

(v) Sums of Rs.18, 271 and Rs.9, 909 had been understated in the Machinery, Furniture and office equipment accounts respectively.

(vi) Furniture made by the carpentry section of the ANCL had not been valued and taken in the accounts.

(b) The medical insurance claim account had been understated by a sum of Rs.3,556,825 due to setting off the credit balances payable to the employees.

(c) The Medical Fund had been established on 18 November 2004 with a sum of Rs.3, 110,000 in order to reimburse the medical expenses which are not covered by the existing Medical Insurance Policy. It had been brought to account as a separate fund during the year 2010. However, it had not been disclosed in the financial statements of the ANCL. Further, no payment had been made from 2004 up to 31 December 2010 and the balance remained in that account as at 31 December 2010 was Rs.5, 335,942.

1.2.3 Un-reconciled Control Accounts

The following observations are made.

(a) According to the ledger account, the balance of Cash Floats shown under other receipts amounting to Rs.658, 386 whilst as per the schedule it was Rs.621,000. Hence, a difference of Rs. 37,386 was observed.

(b) According to the Age Analysis, presented the Trade Debtors balance was Rs.690,718,867 whilst according to the financial statements, it was Rs.699,195,942. Hence, a difference of Rs.8, 477, 075 was observed.

(c) According to the computer system (Adpro system), advertisement income for the last two months of the year under review was Rs.635,535,376 whilst as per the register maintained by the shroff it was Rs.627,276,234. Reason for the difference of Rs.8, 259, 142 had not been explained to audit.

(d) According to the computer system, daily cash collections for the last two months of the year under review was Rs.40,236,741 whilst as per the register maintained by the shroff it was Rs.35, 080,330. Hence, a difference of Rs.5, 156, 411 was observed.

(e) According to the list of the Agency Revenue Ledger debtors sent for the confirmations as at 31 December 2010 was Rs.238,301,981 whilst as per the financial statements it was Rs.233,971,501. Hence, a difference of Rs.4,330,480 was observed.

1.2.4 Unidentified Accounts

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

1:2:5 Accounts Receivable and Payable

Following observations are made.

(a) Action had not been taken to recover the Trade Debtor balance valued at Rs.49,607,481 which was older than one year and Rs.19,888,610 which was older than 5 years while Sundry debtor balances of older than five years amounting to Rs.36,578,515.

(b) The advances balance amounting to Rs. 2,055,064 granted in 104 instances for the purchase of sundry goods and services were outstanding over 2 years as at 31 December 2010.

(c) A sum of Rs.20,460,395 receivable from a printing Company was outstanding for more than 8 months as at 31 December 2010 in respect of printing of newspapers provided on credit basis.

(d) 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 had been returned up to 31 December 2010. Accordingly, 95,410 kilograms of Printing papers valued at Rs.6,821,487 had not been received.

(e) Out of the Credit Balance as at 31 December 2010 amounting to Rs.30,263,267 a sum of Rs.1,471,287 were outstanding for more than two years. Nevertheless, action had not been taken to settle such balances.

(f) A sum of Rs. 2,185,197 outstanding for over 8 years had not been recovered from the canvassers who were deployed on casual basis by the Company.

(g) A sum of Rs.5,432,000 recoverable from the National Savings Bank had not been recovered from the bank, up to 31 December 2010.

(h) A sum of Rs.250,000 had been granted in 2004 as an advance to an officer of the Company for the implementation of Drought Relief Programme. Even though the above officer is in the service of the Company, he had not settled this advance up to 31 December 2010.

1:2:6 Lack of Evidence for Audit

The following items in the accounts could not be satisfactorily vouched in audit due to the non availability of evidence indicated against each.

Item	Value	Evidence not made available
	Rs.	
Seven Bank balances	2,503,771	Confirmations
Payment made to a private institution for preparing management salaries	169,831	Relevant tender file
Sundry debtors	12,155,658	Invoices and journal vouchers
Investments	103,000	Original share certificates
Trade debtors	380,705,161	Confirmations
	395,637,421	

1:2:7 Non-compliance with Laws, Rules, and Regulations.

A copy of the Draft Annual Report for the year under review had not been submitted to the Auditor General in terms of Section 14(1)of the Finance Act, No.38 of 1971.

2. Financial and Operating Review

2:1 Financial Review

2:1:1 Financial Results

According to the amended financial statements presented, the operations of the Company for the year ended 31 December 2010 had resulted in a pre-tax net loss of Rs.359,781,998 as against the pre-tax net profit of Rs.82,354,674 for the preceding year, thus indicating a deterioration in the financial results by Rs.442,136,672. Increase of expenditure by Rs. 291,990,035 and decrease of income by Rs. 150,146,638 had resulted to deteriorate the financial results for the year under review. A sum of Rs. 168,708,049 incurred for the VRS expenditure was the main reason to increase the total expenditure.

2:1:2 Analytical Financial Review

a) 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 4.32 per cent and 15.46 per cent respectively and the cost on Voluntary Retirement Scheme had increased by Rs. 169 million. As a result ,the pre-tax net profit for the preceding year had converted to a pre-tax net loss of Rs. 360 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.

		2010	***2009***
(i)	Gross Profit Margin	44.97%	49.29%
(ii)	Profit Mark Up (Gross Profit on Cost of Sales)	81.74%	97.2%
(iii)	Administration Cost on Turnover	41.93%	39.95%
(iv)	Selling and Distribution Cost on Turnover	10.16%	10.96%
(v)	Finance Cost on Turnover	2.25%	4.05%
(vi)	Liquidity Ratio	1.46:1.00	2.32 : 1.00

(b) Profit and Loss

Net loss of the year 2010 as compared with these preceding years are given below.

Year	Net Profit/ (Loss) Pre-tax
	Rs.
2007	31,920,326
2008	(385,505,785)
2009	82,354,674
2010	(359,781,998)

2:2 Operating Review

2:2:1 Performance

The following observations are made.

(a) The Company had published 6 newspapers, 7 periodicals and 11 annual publications during the year under review as well as in previous years. The net contribution of the newspapers, periodicals and annual publications had decreased by Rs.76,274,213 during the year under review.

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

(i) The overall advertisement income of the newspapers of the Company had increased by Rs.89,518,560 or 4.7 per cent as compared with the preceding year.

(ii) The overall newspaper sales income of the Company had decreased by Rs. 42,362,064 or 8.19 per cent as compared with the preceding year.

2:2:2 Delay in the Implementation of the Project.

No returns 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.

2:2:3 Management Inefficiencies

The Voluntary Retirement Scheme (VRS) had been implemented during the years 2008 to 2010 for the reduction of excess cadre in the Company. Although, 839 employees had been retired under VRS ,194 employees had been recruited after introducing the VRS. Details are as follows.

Year	**No. of employees retired**	**Amount paid for VRS Rs.**
2008	635	518,330,473
	-	3,229,257
2010	204	172,007,306
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Total	839	693,567,036
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	No. of employees recruited
Permanent staff	37
Contract basis	75
Re appointment on contract basis	82
	194

2:2:4 Cash Management

Following observations are made

(a) It was revealed that, unrealized money orders as at 31 December 2010 in the main Bank Account maintained at the Bank of Ceylon amounted to Rs.481,355 out of which a sum of Rs.228,041 was outstanding for more than six month.

(b) Proper action had not been taken for 71 dishonored cheques aggregating Rs.2,026,467 . Out of these 26 cheques valued Rs.939,150 had been outstanding for more than one year.

2:2:5 Providing Resources of the Company to Others

Three motor vehicles of the Company and another three motor vehicles procured on hire basis had been released to other Government institutions and expenditure on hire charges amounting to Rs.1,650,000 for those motor vehicles had been paid by the Company.

2:2:6 Assets Management

The following observations are made.

(a) 66 photography equipment valued at Rs. 797,779 had been identified as idle and underutilized assets.

(b) Despite the availability of 238 reels of printing papers valued at Rs.6,951,913 imported in February 2010, 574 reels of printing papers had been purchased at a cost of Rs.26,062,634 at a rate of US$ 770 each on 14 July 2010. The stock of printing papers purchased later had been used although previous stocks were available. As a result, 238 reels of printing papers had been lying idle without being used for over one year.

2:2:7 Identified Losses

The following observations are made.

(a) 1407 Metric Tons of printing papers (GSM 45) had been purchased from a foreign company through the Letter of Credit dated 24 February 2010, while those printing papers had not agreed with the samples submitted. Further, the

Procurement Committee had decided to recover a penalty of Rs.500,000 from the above company for the loss occurred. Nevertheless, only a sum of Rs.300,000 had been paid by that Company on 10 January 2011.

(b) Four Lorries had been sold for Rs.2,135,521 for which the assessed value were Rs.2,395,000 thus a loss amounting to Rs.259,479 had been occurred to the company.

(c) According to the Register of Consumption of Printing Papers, 139,526 kilograms of printing papers valued at Rs.11,479,829 had not been utilized as at 31 December 2010, due to damages caused.

(d) A sum of Rs.2,021,204 had been paid to the Department of Educational Publication as penalty relating to the delay of printing of school books.

2.2.8 Utilization of Vehicles

Some of the significant data relating to the fleet of vehicles of the Company and connected expenses during the year under review are given below,

Number of own vehicles	82
Number of hired vehicles	26
Total expenditure incurred on fuel	Rs.37,774,139
Total expenditure incurred on repairs and maintenance	Rs.17,566,615

2:2:9 Budgetary Control

Significant variances were observed between the budgeted and the actual of income and expenditure, thus indicating that the budget had not been made use of as an effective instrument of management control.

3. Systems and Controls

Deficiencies in Systems and Controls observed 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) Recovery of Receivables
(b) Procurements
(c) Disposal of Motor Vehicles
(d) Staff Loans and Advances
(e) Deposits and recoveries of Newspaper's Agents
(f) Stocks
(g) Assets