Associated Newspapers of Ceylon Limited - 2013

The audit of consolidated financial statements of the Associated Newspapers of Ceylon Limited and its subsidiaries for the year ended 31 December 2013 comprising the statements of financial position as at 31 December 2013 and the statement of comprehensive income, statements of changes in equity and statements of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971 and Section 16 of the Associated Newspapers of Ceylon Limited (Special Provision) Law No.28 of 1973. My comments and observations which I consider should be published with the Annual Report of the Company in terms of Section 14(2) (c) of the Finance Act, appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards for Small and Medium- Sized Entities (SLAS for SME's) and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards, consistent with International Standard of Supreme Audit Institution (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

1.4 Basis for qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 2.2 of this report, the consolidated financial statements give a true and fair view of the financial position of the Associated Newspapers of Ceylon Limited (ANCL) as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium – Sized Entities.

2.2 Comments on Consolidated Financial Statements

2.2.1 Consolidated Financial Statements

Audited financial statements of the Lake House Property Development (Private) Limited, Informedia (Private) Limited and Business Lanka (Private) Limited, which are fully owned subsidiaries of the Company, had been taken for prepare the consolidated financial statements.

2.2.2 Going Concern of the Company

When preparing the consolidated financial statements, the Management of the ANCL had not ascertained the Company’s ability to continue the business, based on going concern concept as per Section 3.8 of the Sri Lanka Accounting Standards for SME’s. Further it was observed that net assets of the Company had decreased during last five years by around 32 per cent which could be a threat to the existence of the Company. Eventhough, the financial statements of Info Media (Private) Limited was consolidated with the Company based on the assumption that the Company is in going concern, it was observed that the commercial operations of the Company had been ceased during the preceding year due to heavy losses incurred during past two years and as a result the net assets had also been deteriorated seriously.

2.2.3 Sri Lanka Accounting Standards for Small and Medium-Sized Entities (SME’s)

The following observations are made.

(a) Section 23.10 - The Company had not identified the revenue receivable from Annual Publication Section of the Company.

(b) Section 20.13 - An accounting software package which had been acquired on lease basis and used by the Company had not been capitalized and disclosed in the financial statements.

(c) Section 20.09 - The value of the land at Wijeyawardhena Mawatha where the Company is located had not been valued and brought to the financial statements. The Chairman of the

Company had informed me on 29 July 2014 that from the inception this asset was shown as an operating lease. The only payments with regard to this lease is an annual payment of Rs.8,966 to the Divisional Secretariat, Colombo.

(d) Section 8.5 - The accounting policy applied for the provision of bad and doubtful debts had not been disclosed in the financial statements.

(e) Section 33.9 - During the year under review, the Company had obtained a loan amounting to Rs.175 million from a Commercial Bank by pledging the properties which was previously owned by the Lake House Property Development (Private) Limited. However, this was not disclosed in financial statements.

2.2.4 Accounting Deficiencies

The 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 in accordance to 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. 3,652,341.

(b) Expenses pertaining to 16 items of capital assets which had been produced and handed over to other divisions by the Maintenance Department of the Company had been written off as expenditure instead of being capitalized. Further, details of the cost of these assets were not made available for audit.

(c) A sum of Rs.2,453,125 had been incurred for printing of books during the year under review by the Annual Publication Department of the Company. However, value of unsold books printed by the Department as at 31 December 2013 had not been ascertained and brought to accounts.

(d) According to the information made available for audit, an amount equivalent to the debtors outstanding for more than one year is provided as bad and doubtful debts. Nevertheless, the Company had not been made a provision for bad and doubtful debts according to the accounting policy. As a result, the provision of the bad and doubtful debts had been overstated by Rs. 14,452,315.

2.2.5 Unexplained Differences

The following observations are made.

(a) Differences aggregating Rs. 4,050,364 had been observed between the value of ledger balances and the value of physically verified stock balances relating to 13 items of stocks of which reconciliations had been made. In addition, differences aggregating Rs.3,967,520 had been observed between the value of ledger balance and the value of physically verified stock balances relating to 8 items of stocks of which reconciliations had not been made.

(b) A difference of Rs.680,270 on the debit balance and a difference of Rs.191,762 on the credit balance were observed between debtor’s ledger balances and the corresponding amounts shown in the financial statements.

(c) Differences aggregating Rs.588,715 had been observed between the outstanding loan balances of the employees as per Company records as at 31 December 2013 and corresponding amounts furnished to audit by the Employees Provident Fund.

2.2.6 Accounts Receivables and Payables

The following observations are made.

a) Proper action had not been taken for 185 dishonored cheques valued at Rs.9,490,377. According to the information made available for audit, out of this, 116 dishonored cheques valued at Rs.4,693,656 had been outstanding for more than one year.

b) Letters calling for confirmations had been sent to the trade debtors to the value of Rs.645,835,280 and out of that Rs. 19,773,464 had been agreed in whole. At the meantime, debtors valued at Rs. 7,805,803 had not been agreed while confirmations for Rs. 618,256,013 had not been received up to 30 April 2014. Further letters calling for confirmations, to the value of Rs.35,290,509 had been returned.

c) A sum of Rs.65,464,439 had been shown under trade debtors were outstanding for more than one year. Out of that an amount of Rs.20,726,548 or 31 per cent had been referred to the Legal Section considered as unrecoverable.

d) Unidentified debits and credits amounting to Rs.69,863 and to Rs.1,037,572 respectively were remained in six bank accounts of the Company, without being cleared for over six months.

2.2.7 Lack of Evidence for Audit

The Company owns fixed assets amounting to Rs.320,028,287 except land and buildings. Neither a fixed assets register nor verifications reports were maintained by the Company in order to ensure the existence of these assets.

2.3 Non-compliance with Laws, Rules and Regulations and Management Decisions

The following instances of non-compliance were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliances
(a) Section 13 (5) (d) of the Finance Act, No.38 of 1971.	Half – yearly internal audit reports had not been furnished 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 a sum of Rs.5,085,678 as the Pay As You Earn tax on behalf of bonus payment made to the employees without been deducted from the employees.
(c)	Public Enterprises Circular No. PED/12 of 02 June 2003;	
	(i) Section 9.2 (b)	Even though the approval of the Department of Public Enterprises should be obtained for the Organization Chart and the Cadre of the Company, 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 and as at 30 November 2013 had been included in the Corporate Plan prepared for the period from 2013 to 2016.
	(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 Enterprises and the General Treasury. However, the Company did not have a scheme of recruitment and promotion procedure so approved. Hence, the Company had failed to determine specific educational and professional qualifications that required for higher management posts.
(d)	Section 2.5 of the Public Enterprises Circular No.58(2) of 15 September 2011	Concurrence of the Hon. Minister of Finance and Planning 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. At the meantime a sum of Rs.70,407,461 had been spent by the Company for the above purposes for the year under review.

3. Financial Review

3.1 Financial Results

According to the consolidated financial statements presented, the operations of the Company for the year ended 31 December 2013 had resulted in a pretax net profit of Rs.73,072,209 before taking into accounts the fair value adjustment of Rs. 2,034,813 as compared with the corresponding pretax net profit of Rs. 57,429,835 before taking into account the fair value adjustment of Rs.59,928,374 for the preceding year, thus indicating an improvement of Rs. 15,642,375 in financial results. The increase of net revenue of the Commercial Printing Department and decrease of cost of sale of the newspapers and periodicals were mainly attributed for this improvement in the financial results for the year under review.

3.2 Analytical Financial Review

The gross profit margin and the profit markup of the Company for the year under review, as compared with the preceding year had increased by 1.74 per cent and 6.22 per cent respectively. Certain matters revealed at an analytical review of the financial statements as compared with the preceding year are given below.

	2013 (%)	2012 (%)	Variance (Favorable / Adverse) (%)
Gross Profit Margin	47.86	46.12	1.74
Profit Markup (Gross profit on cost of sales)	91.81	85.59	6.22
Administration Cost on Turnover	36.74	34.84	1.90
Selling and Distribution Cost on Turnover	9.07	8.74	0.33
Finance Cost on Turnover	3.86	3.84	0.02
Liquidity Ratio (Number of times)	1.59	1.41	0.18
Acid Test Ratio (Number of times)	1.13	1.00	0.13

3.3 Legal Cases Filed Against the Company

According to the information made available, 70 legal cases are pending against the Company and awaiting adjudication. The further details relating to the legal cases had not been furnished to audit. However, according to the financial statements, a sum of Rs.1,611,200 had been provided as contingent liabilities during the year under review.

3.4 Working Capital Management

The working capital position of the Company was deteriorated during the year under review, due to lack of efficient debts collection procedure and proper working capital management policy. As a result, the Company had borrowed a sum of Rs.175 million with a view to mitigate the working capital issues. The loan should be repaid in monthly installments of Rs.3 million with the approximate interest rate of 10 per cent. Appropriateness of the long term loans to the fulfillment of short term working capital requirement was not evaluated by the management.

In addition to that, a sum of Rs. 38.4 million had been paid by the Company as over draft interest during the year under review.

4 Operating Review

4.1 Performance

The following observations are made.

(a) The Company had published 6 newspapers, 22 periodicals and 3 annual publications during the year under review while 6 newspapers, 16 periodicals and 02 annual publications had been published during the preceding year. The net contribution of the newspapers, periodicals and annual publications had decreased by Rs. 15.6 million during the year under review, as compared with the preceding year. Although the Company had introduced 6 periodicals during the year under review, all of them had been earned negative contributions of Rs. 5.127 million.

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

(i) The overall advertisement income of the newspapers of the Company had decreased by Rs. 15.8 million or 0.7 percent as compared with the preceding year whereas the company had made no price revision during the year under review.

(ii) Overall newspaper sales income of the Company had decreased from Rs. 421.4 million in the preceding year to Rs. 408.9 million or 3 per cent in the year under review eventhough the prices of one newspaper had increased by 20 per cent with effect from 06 January 2013. The Chairman of the Company had informed me on 29 July 2014 that the group is carrying with 28 publications, 3 subsidiaries, commercial printing, annual publication and digital printing specially where an the audit opinion is expressed on consolidated financial statements. There is a drop of Rs.107 million in group turnover mainly due to drop in commercial printing amounting to Rs.124 million over last year. Therefore, it is evident that, apart from commercial printing the group turnover has been increased.

4.2 Management Inefficiencies

The following observations are made.

(a) Business Lanka AN (Private) Limited, which registered as a subsidiary of the Company during the year under review had earned a revenue of Rs.16 million. However, out of the total revenue, debtors amounting to Rs.9.9 million or 62 per cent were outstanding as at 31

December 2013. As per the financial statements prepared as at 30 April 2014 debtors amounting to Rs.1,296,960 were outstanding for more than one year.

(b) In addition to the fifteen per cent of Agents' commission, an incentive scheme was also introduced for advertising agents during the year 2012, in order to attract the advertisements. However, the Agents had not taken any obligation to recover the debtor balances related to the commercial advertisements. Under this context recoverability of this debtor balances are doubtful. It was further observed that outstanding debtor balance related to the commercial advertisements for over one year amounting to Rs.12,917,653.

(c) The Company had not revised the minimum deposit balance that should be kept by the News Agents since several years. It was observed that amount of deposits made by the Agents had been exceeded the receivables to the Company from the Agents. As a result, some of agents were suspended, terminated or retired for legal action.

(d) Out of debtor balances as at 31 December 2013, a sum of Rs. 53,445,776 to be receivable from 104 Government Institutions for advertisements received through the advertising Agents. In this regard, the Company had paid an amount of Rs.9,431,607 as commissions to the Agents. However, as a Government Owned Business Enterprise, the Company had not taken necessary steps to follow a proper procedure to attract the Government's advertisement directly to the Company.

(e) The Department of Annual Publications had incurred continuous losses due to executing printing activities without being done a cost benefit analysis, ineffective promotional programmes and weaknesses in distribution system etc. As such the Department had incurred a loss of Rs.4.8 million during the year under review too.

(f) In order to minimize significant sales returns prevailed during last few years, the Company had introduced Return Rates Systems for each Newspaper from time to time. However, after introducing the new system, overall sales returns had been increased by Rs.35,177,498 or 41 per cent during the year under review.

(g) As a usual job, paper reels were sent to an outside Company for cutting before using them for printing activities. Due to unavailability of records, the variations between weight of reels sent for cutting and weight of reels received after cutting could not be verified in audit. The weight of papers sent for cutting and received after cutting during the period from 20 December 2013 to 25 February 2014 were 44,375 Kg and 38,567 Kg respectively. Hence the abnormal loss was 5,808 Kg or 13 per cent of the papers sent for cutting. However, the management had not implemented a proper internal control to minimize this loss.

4.3 Operational Inefficiencies

The following observations are made.

(a) According to the Board decision, a separate Branch had been established in Kilinochchi District in order to promote the newspapers of "Thinakaran" and "Wannawanawil". After the establishment of new branch the sale of these two newspapers had decreased. During the year under review and preceding year the Company had incurred a sum of Rs.628,500 and

Rs.854,749 as salaries and wages respectively, without being obtained any services from this Branch.

(b) During the preceding year a separate Digital Printing Section was established by acquiring a digital printing machine for Rs.1,680,000. According to the information made available for audit, net loss from the operation of this Section during the year under review was Rs.867,262.

4.4 Transactions of Contentious Nature

In addition to the payments of discounts to the Advertising Agents ranging from 1 per cent to 55 per cent of on their collected advertisement values, an incentive scheme for the Advertising Agents who accomplished the desired targets, had also been introduced by the Company in the year 2012 without having an approval of the Board of Directors. Under the proposed incentive scheme sums of Rs. 2,196,577 and Rs. 12,491,960 had been paid for the years 2012 and 2013 respectively. However, the total advertising revenue had been decreased by Rs. 15,755,000 as compared with the preceding year, even though the Company had incurred additional payment of Rs. 14,688,537 as incentive payments for the year under review and for the previous year. Therefore, introducing an incentive scheme is questionable. The Chairman of the Company had informed me on 29 July 2014 that to maintain the market share, we should continue the incentive payments scheme for future period too. Therefore introducing of the incentive payment scheme is vital for our business operation.

4.5 Idle and Underutilized Assets

The following observations are made.

(a) A plate making machine and hundred and seventy one items such as camera equipment and accessories and other equipment etc. which were scheduled to be disposed had been kept in the premises of Commercial Printing Department and Editorial Photographic Sections for more than two years without being disposed. Values of these items were not made available for audit.

(b) Heldel Berg Sordz machine, used for the printing of newspapers by Infor Media (Private) Limited had remained idle for over two years. The estimated value of the machine as per the valuation report was Rs.5.5 million.

(c) A land with an extent of 8 acers located at Hokandara, vested with the Lake House Property Development (Pvt) Ltd had remained idle since the year 1985. The value of this land was not made available for audit.

4.6 Uneconomical Transactions

The following observations are made.

(a) According to the Board decision taken on 13 December 2012 the Company had obtained a land from the Department of Railways to build a vehicle park for the Company on an agreement to pay a sum of Rs.143,000 per month. However, after paying an amount of Rs.715,000 as rent, the land was retransferred to the Department of Railways without being built such vehicle park.

(b) According to the instructions given by the Chief Editor of "Denamuthu" magazine, 21,000 copies in 7 books had been printed during the year under review. However, 13,592 copies valued at Rs. 951,440 had been remained at the stores since September 2013 due to over estimation.

(c) During the year under review, the Company had purchased Prime Mover on operational lease by incurring a sum of Rs. 4.8 million for the purpose of transporting 49 Mt of news print. However, at present only 6 Mt of news prints had been transported by using this vehicle. Therefore the expected saving could not be achieved by this expenditure.

(d) The Company had made certain investments in long term financial assets (share capital) of several companies. The value of the investment portfolio as at 31 December 2013 was Rs. 135,362,000. The following observations are made in this regard.

(i) Return on this investment was only ranging from 1.4 per cent to 1.5 per cent during the year under review and during the preceding year.

(ii) Even though a sum of Rs.1.2 million had been invested in Lanka Puwath in 2008, the Company had not received any return from this investment up to 31 May 2014.

With regard to our first observation, the Chairman of the Company had informed me on 29 July 2014 that the cost of these investments made several years ago was Rs.1 million and the market value as at the balance sheet date was Rs.134.4 million. This position clearly shows the increase in return, though the dividends paid on nominal values are less.

4.7 Identified Losses

The following observations are made.

(a) The Company had filed a case against a Government Institution to recover outstanding balance of Rs. 43,447,015. However, with the approval of the Board of Directors the case was withdrawn, and as a result the net refundable VAT related to the said debtor had been deprived by the Company.

(b) Infor Media (Private) Limited a fully owned subsidiary discontinued its operations during the year 2012 and accumulated loss of the subsidiary was Rs.6,993,757. As a result, the invested capital and additional funds provided amounting to Rs.6,313,833 were lost by the Company.

4.8 Release of Human and Physical Resources of the Company to Other Institutions

The following observations are made.

(a) Four hired vehicles 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.2,520,000 as rent for these vehicles during the year under review.

(b) Three officers including an Assistant Manager of Annual Publications Department had been released for service of another external Institution and the Company had spent a sum of Rs. 2,256,098 as salaries and wages and vehicle allowances during the year under review

4.9 Personnel Administration

The following observations are made.

(a) Even though 133 staff had been recruited exceeding the approved cadre as at 31 December 2014, no proper approval had been obtained for those recruitments.

(b) According to the information made available for audit, salaries and wages of the senior management and Directors had increased by 5.2 per cent and 108 per cent respectively during the year under review.

5. Accountability and Good Governance

5.1 Corporate Plan

A Corporate Plan for the period of 2013 – 2016 had been prepared by the Company in terms of Section 5 of the Public Enterprise Circular No. PED/12 of 02 June 2003. However, achievement of corporate objectives, particularly enhancement of circulation of the newspapers of the Company was declined significantly compared to the main competitive newspapers in the market.

5.2 Annual Action Plan

An Annul Action Plan had been prepared for the year under review in line with the Corporate Plan. However, the activities planned to be implemented during the year under review such as obtaining all government printing and advertising jobs, preparation of succession plan for key positions, opening of new branches for revenue generation, reduction of transport costs, introducing of new inventory module and eliminating of sales returns had not been executed according to the Action Plan.

5.3 Procurement Plan

A Procurement Plan had not been prepared for the year under review and without having a Procurement Plan capital expenditure amounting to Rs.40 million had been incurred by the Company during the year under review.

5.4 Budgetary Control

A detailed budget had not been prepared in accordance with the expenditure categories of the Company in order to make effective control over the expenditure, thus indicating that the budget had not made use as an effective instrument of management control.

5.5 Tabling of Annual Report

Annual Report for the year 2012 had not been tabled in Parliament even by 31 May 2014.

5.6 Unresolved Audit Paragraphs

The following observations are made.

(a) Attention had not been paid for the following matters which were emphasized from the audit report issued in the preceding year.

(i) Acquisition of vehicles on rent basis without approval of the Board of Directors.

(ii) Acquisition of vehicles without calling tenders and entering into the agreements.

(iii) No any return received on the investment of Rs.7,500,000 and Rs.2,500,000 made at Lake House Property Development Ltd and Infor Media (Pvt) Ltd respectively.

(b) The following directives given by Committee on Public Enterprise held at 09 December 2013 had not been followed.

(i) To appoint a suitable person for the post of Finance Director.

(ii) To submit an Annual Procurement Plan to the Auditor General.

(iii) To take proper actions relating to the investment made in Lanka Puwath amounting to Rs. 1.2 million.

6. Systems and Controls

Weaknesses 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.

(i) Procurements.
(ii) Delegation of Authority.
(iii) Vehicle utilization.
(iv) Debtors.
(v) Asset management.
(vi) Stocks.
(vii) Fixed assets.
(viii) Commercial Printing.
(ix) Working Capital Management.
(x) Investments.