

## **Sri Lanka Press Council - 2014**

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The audit of financial statements of the Sri Lanka Press Council for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, statement of changes in equity and cash flow statement 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(1) 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 20 of the Sri Lanka Press Council Act, No.5 of 1973. My comments and observations which I consider should be published with the Annual Report of the Council in terms of Section 14(2)(c) of the Finance Act appear in this report.

### **1.2 Management's Responsibility for the Financial Statements**

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Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### **1.3 Auditor's Responsibility**

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My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of

the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal control relevant to the Council 's preparation and fair presentation of the 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 Council's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by managements, as well as evaluating the overall presentation of the 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 audit opinion.

#### **1.4 Basis for Qualified Opinion**

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

## **2. Financial Statements**

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### **2.1 Qualified Opinion**

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In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Press Council as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

## **2.2 Comments on Financial Statements**

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### **2.2.1 Sri Lanka Public Sector Accounting Standards**

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The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard – No.9

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Even though the value of stocks should be stated at cost or net realizable value whichever is lower, the obsolete books and the books of which the cost is not fully recoverable had been shown as their cost of Rs.381,880 in the financial statements.

(b) Sri Lanka Public Sector Accounting Standard – No.7

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Residual value and the useful life of fixed assets should be determined on market information. Nevertheless, in case of acquisition of assets, their residual value and useful life had been assessed on the estimate of the Accountant, while the assets had not been assessed annually.

(c) Sri Lanka Public Sector Accounting Standard – No.2

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Even though the cash flow statement should be prepared by showing the cash inflows and cash outflows, the cash flow statement had been prepared contravening the above in the following instances.

(i) Even though a value of Rs.35,490 had been shown as write offs under non-financial adjustments in the cash flow statement, such a write off had not been included in the Financial Performance Report.

(ii) The increase of value of the three wheeler by Rs.26,000 due to the revaluation of motor vehicles and the interest of Rs.94,613 received during the year under review for the fund accounts maintained by the Council had been identified as a cash outflow due to investment activities in the cash flow statement.

### **2.2.2 Accounting Policies**

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The following observations are made.

- (a) According to Sri Lanka Public Sector Accounting Standard –No.7, the depreciation policy of the Council had been changed in the year 2013 on the basis of computation of depreciation from the date of use of assets. Nevertheless, depreciation policy under accounting policies included in the final accounts had not been disclosed accordingly.
- (b) An accounting policy in respect of the accounting of Government contribution for capital expenditure had not been adopted by the Council.

### **2.2.3 Accounting Deficiencies**

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The following observations are made.

- (a) Comparative information pertaining to 3 items shown in the financial statements of the preceding year had been altered by a sum of Rs.8,268 and shown in the financial statements of the year under review.
- (b) Provision for Gratuity had been understated by a sum of Rs.136,152 due to computation errors.

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

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Instances of non - compliance with laws, rules, regulations and management decisions are given below.

Reference to Laws, Rules,  
Regulations

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Non – compliance

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- (a) Letter No.CA/1/17/1 of 14 May 2010 of the Presidential Secretariat Paragraph 1 Action had not been taken in accordance with the notice informing that all the office premises of the Ministry and all institutions thereunder should be maintained as much as possible in Government or government owned buildings and in accordance with the directive given to move the office of the Council to a Government building in terms of the Directive No.7 of the Committee on Public Enterprises held on 10 July 2012. Further, the office had been maintained in various places on rental basis despite the elapse of 40 years since the inception of the Council. A sum of Rs.11,570,500 had been spent as rent only from the year 2006 up to 2014. Further, according to the Rent Agreement revised in the year 2014, monthly rental had been increased by a sum of Rs.20,000.
- (b) Public Enterprises Circular No.PED/12of 02 June 2003 Paragraph 4.2.6 Quarterly performance reports should be submitted to the relevant line Ministries before the elapse of 30 days from the end of the relevant quarter. Nevertheless, all quarterly reports of the year 2014 had not been submitted to relevant line Ministries within the specified periods.
- (c) Financial Regulations of the Democratic Socialist Republic of Sri Lanka
- (i) Financial Regulation 880 Officers who are entrusted the receipt and custody of public money and who certify vouchers or sign cheques on Government Account will be required to give security

in accordance with the Public Officers (Security) Ordinance. Nevertheless, no security had been obtained as yet from any officer engaged in such duties in the Council.

- (ii) Financial Regulations 102 and 108 Even though four items misplaced or unusable had been identified according to the Annual Board of Survey Report, necessary action had not been taken in this connection as required.
- (iii) Financial Regulation 245 In the certification of vouchers of the Council, all payment vouchers should be certified by the certifying officer. Nevertheless, payment vouchers had been certified by the Assistant Commissioner without delegation of authority for certifying vouchers in September of the current year.
- (d) Public Finance Circular No.PF/423 of 22 December 2006 Paragraphs 3.3(a) and (b) All statutory Funds under the Ministries should be annulled as the operation of non-statutory Funds weakens the responsibility of financial control and the balances therein should be credited to the Consolidated Fund. Nevertheless, three Fund Accounts valued at Rs.3,139,174 had remained with the Council even by 31 December 2014. Further, approval of the Ministry had also not been obtained therefor.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the operation of the Council for the year ended 31 December 2014 had resulted in a deficit of Rs.1,490,967 as compared with the corresponding deficit of Rs.1,795,205 for the preceding year, thus an increase

of Rs.304,238 in the financial results of the year under review was observed as compared with the preceding year. Even though the government grants for the year under review had decreased by Rs.713,750 as compared with the preceding year, increase of Rs.616,248 in other income of the Council and decrease of Rs.401,740 in the recurrent expenditure had mainly attributed to the improvement of the financial results.

#### **4. Operating Review**

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##### **4.1 Performance**

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The following observations are made.

- (a) Fifty five complaints against newspapers had been received during the year under review while the number of complaints to be resolved including the 44 complaints not resolved during the year 2013 stood at 99. Out of that, 34 complaints had not been resolved even by the end of the year under review. Even though the progress of resolving complaints had been only 55 per cent according to the targets of the Action Plan, the entire provision of Rs.2 million made in this connection had been spent.
  
- (b) A programme for the registration of 60 web sites had been planned but that programme had not been implemented even by March 2015.
  
- (c) Provisions amounting to Rs.1,500,000 had been made with a view to conducting 13 workshops on District Regional Journalism and School Mass Media in accordance with the Annual Action Plan. Nevertheless, only 8 programmes were conducted and a sum of Rs.1,607,661 had been spent therefor.

- (d) Even though printing five varieties of books on Communication and a subject oriented discussion had been planned with a view to ensuring an advanced professional journalism, it had not been so done.

## **4.2 Management Inefficiencies**

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The following observations are made.

- (a) The Press Council had conducted four diploma courses on Mass Media from the year 2010 up to the year under review and the following management weaknesses were observed in this connection.

- (i) The total expenditure incurred on the four courses as at 31 March 2015 amounted to Rs.2,827,501 and the total fees recovered for the courses amounted to Rs.1,130,000 thus an additional cost of Rs.1,697,501 had to be borne by the funds of the Council. Even though the course fees had been revised so as to meet the expenses of the course in accordance with the instructions given by the Audit and Management Committee at the meeting held on 05 November 2012, the expenditure on courses had not been covered therefrom.
- (ii) The percentage of dropouts from the students registered for this course during the four preceding years had been about 50 per cent. The course organizers had not taken follow up action to find out the reason for the increase of percentage of dropouts and necessary action had not been taken in this connection.
- (iii) Out of the eight workshops on Journalism and School Mass Media conducted during the year under review , three workshops had been held covering the Kurunegala District and an imbalance in the selection of districts for conducting workshops was observed in previous years as well.



As such, it was observed in audit that in conducting workshops, the management had not paid due attention to other schools which had registered Mass Media Associations.

- (b) Books on Journalism are being printed and sold by the Council and a stock of books costing Rs.381,880 remained at the Council even by the end of the year under review. Out of that, 1318 books costing Rs.84,216 had been printed more than 14 years ago, while 480 books costing Rs.64,486 had been issued to book shops under higher discounts from 30 to 45 per cent on sale or return basis. Printing of books without identifying the actual necessity or possibility of sale and lack of proper procedure for sale and distribution of the printed books had been the reason for the above situation.

#### **4.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) According to the objectives of the Research Fund Account opened in the year 1993, the entire expenditure on subscriber surveys should be incurred by the Fund. Nevertheless, the recurrent grants had been utilized to incur the expenditure on surveys. A sum of Rs.375,000 had been spent in this connection during the year under review despite the availability of adequate funds in the above Account to meet those expenses.
- (b) A sum of Rs.403,392 had been spent on entertainment purposes in respect of 1000 officers who participated in all workshops conducted in the year 2014. Nevertheless, it was revealed that only 679 persons had participated in these workshops according to the reports. Thus, spending a sum of Rs.129,489 was questionable in audit.

#### **4.4 Uneconomic Transactions**

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An expenditure of Rs.13,475 had been incurred during the year under review by the Council in respect of pre-organizing activities with a view to conducting a Journalism Workshop in Matale District. Nevertheless, such a workshop had not been conducted as yet.

#### **4:5 Staff Administration**

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The following observations are made.

- (a) The functions of the Press Commissioner who is the Chief Executive Officer of the Press Council in terms of Section 22 of the Press Council Act had been performed on acting basis since 31 March 2010, by the officers appointed from time to time on the recommendations of the Ministry in accordance with the instructions of the Cabinet of Ministers. Even though the Committee on Public Enterprises had, at the meetings held in the years 2012 and 2014, directed that a permanent appointment should be made to this post for which a full-time officer should be appointed, a permanent officer had not been appointed for this post even up to the date of this report.
- (b) A newspaper advertisement for the recruitment of officers to nine posts existing in the Council had been published on 05 October 2013 at a cost of Rs.102,144. Even though applications for those vacancies had been received, steps had not been taken up to date to recruit officers for the above posts.
- (c) Two officers had been recruited on daily paid basis due to the non-recruitment to the approved cadre and a sum of Rs.187,000 had been paid as salaries during the year under review.

## **5. Accountability and Good Governance**

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### **5:1 Presentation of Financial Statements**

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In terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, the financial statements of the Press Council should be presented to audit within 60 days after the close of the financial year. Nevertheless, the financial statements for the year under review had been presented to audit only on 18 May 2015.

### **5.2 Corporate Plan**

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Even though a Corporate Plan for the period 2010-2014 had been prepared by the Council in terms of Section 5 of the Public Enterprises Circular No.PED/12 of 02 June 2003, it had not been periodically reviewed and updated as yet. Further, the Council had failed to achieve certain targets in the Corporate Plan even by the end of five year period.

### **5.3 Action Plan**

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Even though an Action Plan for the year 2014 had been prepared by the Council, it had not been periodically reviewed and updated. As per the Performance Report prepared as at 31 December 2014, the physical progress of achieving the targets included therein had been at a low level.

### **5.4 Internal Audit**

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An Internal Audit Unit was not functioning in the Council, and the internal audit functions of the Council had been assigned to the Internal Audit Unit of the Ministry. Nevertheless, an internal audit had not been carried out during the year under review.

## **5.5 Audit Committees**

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Even though four Audit Committee meetings should be held at least once in each quarter in terms of Section 6.5.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003, only two meetings had been held during the year under review.

## **5.6 Procurement Plan**

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Even though a Procurement Plan for the year under review in terms of Section 4.2.1 of the Government Procurement Guidelines had been prepared on 20 February 2014 and obtained the approval of the Commissioner, that had been submitted for the approval of the Ministry only on 01 August 2014. The following deficiencies were observed in the Procurement Plan.

- (i) The quantity of items expected to be purchased during each period and the cost thereof had not been identified separately.
- (ii) The expected dates of commencement and completion of the purchase of each item according to the requirement had not been included.

## **5.7 Budgetary Control**

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

## **5.8 Unresolved Audit Paragraphs**

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Action had not been taken to implement the directives made relating to the Press Council at the meeting of the Committee on Public Enterprises held on 24 July 2014,

i.e. update the Corporate Plan for the years 2010-2014 in a timely manner, carrying out the internal audit and presentation of reports thereon to audit, proper conduct of Audit and Management Committee meetings, appointment of officers to the vacant posts in the higher positions of the Council, formulation of a proper mechanism for the registration of newspapers and magazines not registered.

## **5.9 Environmental and Social Responsibility**

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The following observations are made.

- (a) A proper mechanism to produce the offenders in Courts after investigating any indecent or obscene statement or matter published in newspapers in terms of Sections 15 and 30(1) of the Act was not in existence in the Council. Even though instances where such magazines had been sold as registered magazines had been reported to the Council, necessary action had not been taken by the Council.
- (b) In terms of Section 25 of the Press Council Act, every newspaper should be registered in the Press Council. Even though powers had been vested in terms of Section 30 of the Act to the Board of Directors to formulate required rules and regulations in connection with the release of unregistered newspapers to the market considering it as matters having an impact on the functions of the Council, a proper mechanism in this connection had not been formulated as yet.
- (c) A methodology to investigate newspapers published daily had not been formulated. Although the number of investigation reports presented by the Investigation Officer of the Council stood at 8 in the year 2013, it had decreased up to 3 in the year 2014. As such, it was observed that the Council had not paid due attention to evaluate the adherence to ethics.
- (d) The Council had given the permission without any basis to register the newspapers reporting only the crimes, violating Section 6 of the Code of Ethics and Section 15 of the Council Act.

**06. Systems and Controls**

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Weaknesses in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Council from time to time. Special attention is needed in respect of the following areas of control.

- (a) Procurements
- (b) Maintenance of Registers
- (c) Conduct of Courses