

Sri Lanka Press Council - 2015

The audit of financial statements of the Sri Lanka Press Council for the year ended 31 December 2015 comprising the Statement of Financial Position as at 31 December 2015 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. A detailed report in terms of Section 13 (7) (a) of the Finance Act will be furnished to the Chairman of the Council in due course.

1.2 Managements Responsibility for the Financial Statements

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

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 Auditing 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 judgement, 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 management, as well as evaluating the overall presentation of financial statements. Subsections (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

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 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 2015 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

2.2.1 Sri Lanka Public Sector Accounting Standards

According to Sri Lanka Public Sector Accounting Standard 09, stocks should be valued at cost or net realizable value, whichever is lower. However, stocks valued at Rs.74,650 had been accounted at cost in spite of the fact that the Board of Directors had decided to sell it at Rs. 69,450.

2.2.2 Accounting Policies

The following observations are made.

- (a) According to the Accounting Note No. 2.7.2, it had been stated that the present value of the retirement benefits of Gratuity of the Council would be valued at the Projected Unit Credit Method. However, instead of doing so, the increase or decrease of the employee benefit account at the end of the year had only been adjusted to the Statement of Financial Position.
- (b) Without being disclosing the accounting policy for the government grant for capital expenditure, a sum of Rs. 136,843 and Rs. 8,224,986 respectively had been debited to the capital grant account and credited to the retained surplus/deficit account as amortization of the year under review and the past 5 years from 2010 to 2014.

2.2.3 Accounting Deficiencies

Although upon disposal, any revaluation reserve relating to the asset sold should be transferred to retained earnings, such reserve value of Rs.833,975 had not been transferred to the retained earnings.

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

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

Reference to Laws, Rules, Regulations and Management Decisions **Non – compliance**

(a) 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 to 110

Although goods misplaced or unusable valued at Rs.66,205 had been identified as per the Annual Board of Survey Report, necessary action had not been taken in this connection as required.

(b) Paragraph 1 of the letter of the Presidential Secretariat No . CA/1/17/1 dated 14 May 2010

According to the said circular and the Directive of the Committee on Public Enterprises No. 07 dated 10 July 2012, it had been stated that the Press Council should function in a government building. However, the Council had been functioned in buildings obtained on rent for about 40 years from its inception. The expenditure incurred for building rent in this connection from 2006 to 2015 aggregated to Rs.13,730,500.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Council for the year under review had resulted in a deficit of Rs. 791,842 as compared with the corresponding deficit of Rs. 1,490,967 for the preceding year showing an improvement in financial results by Rs. 699,125 for the year under review. The decrease in government grant and other income of the year under review as compared with the preceding year amounting to Rs.860,000 and Rs. 202,546 respectively along with the decrease in recurrent expenditure of Rs. 1,761,670 had caused the improvement in financial results.

An analysis of the financial results of the year under review and the past 4 years has shown continuous financial deficits occurred from 2011 to 2015 and it had been fluctuated during those years. After adjusting employee emoluments and depreciation for non current assets, the

contribution of Rs. 6,704,176 in 2013 had increased to Rs.11,003,288 by 39 per cent during the year under review.

4. Operating Review

4.1 Performance

- (a) The main objectives of the Council in terms of the Sri Lanka Press Council Act No.5 of 1973 appear below.
- (i) To ensure the freedom of the press, to prevent abuses of that freedom, safeguard the character of the press in accordance with the highest professional standards.
 - (ii) To advise the government on any matter pertaining to the regulation and conduct of newspapers.
 - (iii) To ensure that newspapers shall be free to publish as news true statements of facts.
 - (iv) To ensure on the part of newspapers and journalists the maintenance of high standards of journalistic ethics.
- (b) The existing mechanism of the Council was not adequate to find out filthy, discrediting and non ethical publications in newspapers and to refer wrong doers to the courts in terms of Sections 15 and 30 (1) of the Press Council Act. Although instances where such magazines sold as registered magazines had been reported to the Council, in terms of the section 30 of the Act. necessary action had not been taken by the Council.
- (c) According to Section 25 of the Press Council Act, every newspaper should be registered in the Press Council. Although the council had authority to frame necessary laws and rules relating to newspapers delivered in the market without being registered in terms of the section 30 of the Act, the Council had not taken suitable action in this regard.
- (d) Printing of books and symposiums on relevant subject had been planned with a view to ensure an advanced professional journalism, it had not been so done.
- (e) Eighteen complaints had been received by the Council against newspapers during the year under review. The number of unresolved complaints in 2014 was 34 making the total number of complaints as 52 of these, 23 complaints had not been resolved even by end of the year.
- (f) Provision amounting to Rs. 2,550,000 had been made with a view to conduct 13 workshops on Regional Journalism and School Mass Media in accordance with the Annual Action Plan. However, only 06 programmes were conducted and a sum of Rs. 1,020,021 had been spent therefor.

4.2 Management Activities

A sum of Rs. 200,000 had been paid to Department of Mass Media of the University of Kelaniya by 24 November 2015 as an initial payment of a comparative research report on Sri Lanka Press Council and the Press Complaints Commission. Although the final report should be furnished to the Council within a month of the payment, action had not been taken to obtain that even by 30 April 2016. Although a sum of Rs. 1,507, 037 had been remained in the research fund account, the government recurrent grant had been utilized for this payment.

4.3 Transactions of Contentious Nature

The following observations are made.

- (a) Without identifying the specifications required quotations had been called to purchase a computer for the Council and action had been taken to purchase a computer for Rs. 104,500 without considering the lowest quotation of Rs. 79,000.
- (b) A three wheeler disposed had been revalued for Rs. 70,000 in the year 2014 without properly estimating its useful life and action had been taken to remove it from the books by 31 December 2015 while its carrying value as at 01 January 2015 was Rs. 64,000.
- (c) The Bajaj Company had furnished a quotation for a three wheeler of Rs. 510,850 during the year under review. In spite of this, it had been purchased for Rs. 610,000 from the same company and the reason for paying Rs. 99,150 in excess had not been explained to audit.

4.4 Staff Administration

The following observations are made.

- (a) The functions of the Press Commissioner who is the Executive Officer in terms of Section 22 of the Press Council Act had been performed on acting basis from time to time by officers appointed on the recommendations of the Cabinet of Ministers since 31 March 2010. Although the Committee on Public Enterprises had recommended in 2012 and 2014 that a permanent officer on full time basis should be appointed for the post, a permanent officer had not been appointed upto the date of this report.
- (b) Although five vacancies were existed in the Council and as such there were delays in functions such as voucher certification, news investigation, personnel administration and press complaints inquiries, recruitment had not been made although provision had been approved since 2013.

5. Accountability and Good Governance

5.1 Action Plan

Although an Action Plan had been prepared by the Council for the year under review, it had not been periodically reviewed and updated. Accordingly, as per the Performance Report prepared for the year under review it was observed that there were 06 instances where 50 to 100 per cent of the target noted therein had not been fulfilled.

5.2 Internal Audit

An Internal Audit unit was not functioning in the Council. The internal audit functions of the Council had been entrusted to the Internal Audit Unit of the Ministry. However, an internal audit had not been carried out during the year under review.

5.3 Audit and Management Committees

At least four meetings of the Audit and Management Committee per one quarter should be held in terms of Paragraph 7.4.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003. However, committee meetings had not been held during the year under review.

5.4 Procurement Plan

A Procurement Plan had been prepared for the year under review in terms of Section 4.2.1 of the Government Procurement Guideline dated 25 January 2006. However, the approval of the Ministry had not been obtained in this regard.

5.5 Budgetary Control

Significant Variances ranging from 26 per cent to 70 per cent were observed between the budgeted and actual expenditures showing that budget had not been used as an effective instrument of management control.

5.6 Unresolved Audit Paragraphs

Functions such as implementation of internal audit and furnishing report to the Auditor General, conducting regular Audit and Management Committee meetings and appointing officers for the executive posts which had been fallen vacant at the Council as directed by the Committee on Public Enterprises on 24 July 2014 with regard to the Council, had not been fulfilled.

5.7 Environmental And Social Responsibility

According to the Extra Ordinary Gazette Notification No. 162/5 A of 14 October 1981, a system is in existence to investigate the newspapers published daily in accordance with the code of ethics relating to journalists. However, the number of investigating officers are less as compared to the number of newspapers published and as such a limited number of investigation reports only had been furnished. Reasonable attention had not been paid

by the Board of Directors to take follow up actions with regard to the code of conducts as included even in such investigation reports.

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 Council from time to time. Special attention is needed in respect of the following areas of control.

Systems and Controls	Observations
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(a) Staff Administration	Duties of executive officers being carried out on acting basis and vacancies were existed in essential posts.
(b) Control over Purchases	Purchases made ignoring required specifications as well as economy of the purchases.
(c) Stock Control	Non - maintenance of stock books.
(d) Internal Audit	An Internal Audit branch is not in operation.