Associated Newspapers of Ceylon Limited – 2017

The audit of Consolidated Financial Statements of the Associated Newspapers of Ceylon Limited ("the Company") and its Subsidiaries for the year ended 31 December 2017 comprising the statements of financial position as at 31 December 2017 and the statements of comprehensive income, statements of changes in equity and statement of cash flows 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 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 (SLFRS for SMEs) 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. 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 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 (the Company) and its Subsidiaries as at 31 December 2017 and their financial performances 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 Financial Statements

2.2.1 Comments on consolidated Financial Statements

Audited Financial Statements of the Lake House Property Development (Pvt) Limited, Observer Jobs (Pvt) Limited and Lake House Connect (Pvt) Limited, which are fully owned subsidiaries of the Company had been taken for preparing the consolidated financial statements. An unqualified opinion had been issued to Observer Jobs (Pvt) Limited and the qualified opinions based on the following matters had been expressed by me on the financial statements submitted by other two Subsidiaries for the year under review.

(a) Lake House Connect (Pvt) Limited

(i) The computers valued at Rs.71,800 issued to the parent company during the year under review had been recognized as cash outflow from investing activities even though there was no such cash outflow in this connection.

(ii) Although there was no sale revenue during the year under review, hiring charges and petty cash expenses aggregating Rs.22,360 had been recognized as cost of sales in the financial statements.

(iii) Without taking any recovery action, a full provision for bad and doubtful debts had been made as at 31 December 2017 in respect of trade debtors amounting to Rs.15,229,562.

(b) Lake House Property Development (Pvt) Limited

(i) Transactions with regard to income tax expenses and interest income which recorded in the current account maintaining with the parent company amounting to Rs.117,600 and Rs.296,877 respectively had been recognized as operating cash flows and investing cash flows in the statement of cash flows even though no cash flows involved with these transactions during the year under review.

(ii) Instead of maintaining individual accounts, the Company had recorded the transactions aggregating Rs.3,796,876 and Rs.117,600 as debit and credit respectively in the current account maintain with the parent company.

2.2.2 Comments on Financial Statements of the Company

2.2.2.1 Adherent with Sri Lanka Accounting Standards for Small and Medium-Sized Entities (SLFRS for SMEs)

The following observations are made.

(a) closing stock amounted to Rs.215,223,000 had been valued at cost without valuing them at cost or net realizable value whichever is lower in terms of Section 13.4 of the Standard.

(b) Fully depreciated property, plant and equipment costing Rs. 1,167,000,000 are being continuously utilized by the Company without reviewing the useful economic lifetime of such assets and accounted them accordingly.

(c) Provision for the legal cases which filed against the Company had been provided at a rate of one per cent on the claimed amount of all pending cases without being measured at the best estimate that can rationally pay to settle the obligation.

(d) A brief description of the nature of the obligation, the expected amount and timing of any resulting payments, the indication of the uncertainties about the amount or timing of those outflows and any expected reimbursement etc. had not been disclosed with regard to 37 legal cases pending against the Company.

(e) Obligations under the defined benefit plans as at 31 December 2017 amounted to Rs.285,998,000 had not been measured at its present value as requested by the Standards.

2.2.2.2 Accounting Deficiencies

The following observations are made.

(a) The plan asset amounted to Rs.283,258,000 and plan liability amounted to Rs.272,130,000 held in the Gratuity Trust Fund related to the retirement benefit obligation of the Company had not been brought to the financial statements.

(b) The carrying value of the gratuity trust fund as at 31 December 2017 amounting to Rs.272,130,000 and the interest receivable from the investment of that fund amounting to Rs.25,711,000 had not been taken into account for the computation of deferred tax. Hence, the deferred tax asset account had been understated by Rs.68,997,760.

(c) The newspapers costing Rs.80,000,000 issued on free of charge to different parties during the year under review had been shown as cost of sales instead of recording as donation.

(e) Although the Company had received and deposited cheques valued at Rs.49,967,452 during the period from 30 November 2017 to 28 December 2017, that amount had not been recorded in the cash book. Therefore, the overdraft balance as at 31 December 2017 had been overstated by that amount due to non-correction of the cash balance prior to preparation of bank reconciliation.

2.2.2.3 Un-reconciled Control Accounts

The following observations are made.

(a) Differences aggregating Rs.28,532,877 had been observed between the debtors, revenue, gratuity trust fund liability and subscription receivables shown in the schedules, registers and ledgers etc. and the corresponding amounts shown in the financial statements for the year under review.

(b) Thirty six dishonoured cheques aggregating Rs.1,725,631 appeared in the dishonoured cheque register had not been included in the dishonoured cheque schedule.

2.2.2.4 Accounts Receivable and Payable

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The following observations are made.

(a) Ninety-four money orders amounting to Rs.329,635 received to the bank account of the Company were remained outstanding from one year to more than five years without realization.

(b) According to the confirmations received from the debtors, the debtors to the value of Rs.6,073,154 had not been agreed with their balances. Further, the confirmations to the value of Rs.610,529,468 had not been received from particular debtors even up to 24 May 2018. Meanwhile, trade debtors aggregating Rs.103,707,303 had remained outstanding for more than one year and out of that an amount of Rs.31,932,961 or 31 per cent had been referred to the legal sections considering as unrecoverable. Hence, the accuracy and reliability of the total debtor balances of Rs.626,551,673 shown in the financial statements could not be ensured in audit.

(c) The Company had issued newspapers valued at Rs. 9,962,657 as at 31 December 2017 to the customers who had not continued their subscriptions with the Company. Out of that an amount of Rs.5,289,168 was outstanding since the period ranging from 2011 to 2016 and no action had been taken to recover this amount.

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

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

Reference to Laws, Rules, Regulations and Management Decisions etc.	Non-compliance
(a) 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 Pay As You Earn tax amounting to Rs.4,845,445 during the period of April 2017 to March 2018 on behalf of the bonus payments made to the employees without deducting it from respective employees.
(b) Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.	The Company had not obtained the approval of the Board and the concurrence of the Department of Public Enterprises for its Scheme of Recruitments and Promotions as requested by the Circular.
(c) Public Enterprises Circular No. PED 3/2015 of 17 June 2015.	Although the Company has been categorized as a state owned enterprise, it has not followed any directions laid down by the Ministry of Finance or Department of Public Enterprises up to now. The Director Finance in his letter dated 29 June 2017 had informed that the management had a discussion with the Minister of Finance to obtain a waiver to deviate from PED circulars. However such approval has not yet been obtained.
(d) Public Enterprises Circular No. PED 03/2017 of 11 December 2017.	According to the provisions in the Circular the Company should pay only Rs.13,500 as bonus to an employee for the year 2017. However, the Company had paid 4 ½ months basic salary as bonus to its employees for the year under review. Amount so paid as bonus in the year under review was Rs.164,496,986.

3. Financial Review

3.1 Financial Results

According to the financial statements of the Company and the consolidated financial statements of the Group, the operations of the Company and the Group for the year ended 31 December 2017 had resulted in a pre-tax net profit of Rs.243,660,000 and Rs.270,397,000 respectively as compared with the corresponding pre-tax net profit of Rs. 40,631,000 and Rs.29,008,000 respectively for the preceding year, thus indicating an improvement of Rs.203,029,000 and Rs.241,389,000 respectively in the financial results. A voluntary retirement scheme had been introduced an amount of Rs.163,513,000 had been paid by the Company for the employees under that scheme in 2016 However, no such expense had been incurred during the year under review. It was the main reason attributed for the improvement in financial results for the year under review.

In analyzing the financial results of the Company for last four years and the year under review, the value addition had been fluctuated from 2013 to 2017. However, after taking into account the employee salaries, taxes and depreciation charged for the years (before dividend and fair value adjustment), the value addition for the years 2016 and 2017 was Rs.2,153,741 and Rs.2,025,767 respectively thus showing a decrease of 6 per cent in the year 2017 as compared with the year 2016.

3.2 Analytical Financial Review

3.2.1 Significant Accounting Ratios

According to the financial statements presented, some important accounting ratios of the Company are given below.

	2017 Percentage	2016 Percentage
Gross Profit Margin	55.32	53.69
Profit mark up (Gross profit on cost of sales)	123.81	115.92
Administration Cost on Turnover	38.10	43.85
Selling and Distribution Cost on Turnover	10.83	10.86
Finance Cost on Turnover	2.29	1.64
Current Ratio	2.50	2.12
Acid Test Ratio	2.09	1.60

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 1.63 per cent and 7.89 per cent respectively.

4. Operating Review

4.1 Performance

4.1.1 Planning

The following observations are made.

(a) Although the initial activities for the preparation of a Corporate Plan for the period 2017-2019 had been commenced by the Company in September 2016, the agreement with this regard had been entered with that company only on 23 February 2017. However, the Corporate Plan submitted by that company in later part of 2017 had been prepared only for covering the period of 2018-2020 and it was not covered the year 2017. Therefore, proper evaluation with regard strengths and weaknesses as well as opportunities and threats in the business environment had not been done by the Company for the year under review.

(b) As per the letter sent by the General Manager of the Company on 27 October 2017, it was informed to audit that the same action points appeared in the Action Plan prepared for the year 2016 had been extended for the implementation in 2017. However, the targets shown in the Action Plan prepared for the year 2016 had not been evaluated and updated so as to suit for the year 2017 and the approval of Board of Directors for such Plan had not been obtained. Therefore, identification of appropriate strategies for achieving business objectives which is the sole responsibility of the management through preparation of a Corporate Plan had not been fulfilled during the year under review.

4.1.2 Performance and Review

In terms of Sections 2 and 17 of the Associated Newspapers of Ceylon Ltd (Special Provision) Law No. 28 of 1973, published in the Extraordinary Gazette of the Republic of Sri Lanka No: 71/1 of 04 August 1973, the main objectives of the Company are (i) to establish, acquire, print, publish, and circulate any newspaper or other publications and carry on all or any of the business of printers, stationers, machines rulers, numerical printers, lithographers, type founders etc. (ii) to carry on the business of manufactures of distributers of and dealers in engravings, prints, pictures, drawings and, advertising agents, advertisement contractors and designers of advertisements**.** (iii) to carry on the business of manufacturers of films and other apparatuses and machines in connection with mechanical reproduction or transmission of pictures, amusements, music and sounds (iv) to carry on the business as tourist agents. The following observations are made in performing the above objectives during the year under review.

(a) The Company had published 06 kind of newspapers and 12 kind of periodicals during the year under review as compared with 06 kind of newspapers and 09 kind of periodicals published during the preceding year. Further, three periodicals issued as supplementary together with “Dinamina” and “Silumina” during the preceding year had been continued even in the year under review. However, overall sales income from 06 newspapers had been reduced by Rs.47,582,000 in 2016 with compared to the year 2015 and the overall declined in sales income from 05 newspapers was amounted to Rs.22,596,000 in the year 2017 with compared to 2016.

(b) Sales income of three periodicals such as "Tharuni", "Sarasaviya" and "Budusarana" had been reduced by Rs.7,489,000, Rs.276,000 and Rs.309,000 respectively in 2017 with compared to preceding year.

(c) Number of copies sold with regard to 04 newspapers and 06 periodicals had been reduced by 1,117,279 or 6.41 per cent during the year under review and printing of 05 newspapers and 06 periodicals had also been decreased by 1,336,959 or by 6.18 per cent in 2017 with compared to preceding year.

(d) The revenue from commercial printings, special publications and digital printings had been reduced by Rs.6,454,000, Rs.1,354,000 and Rs.1,583,000 respectively in 2017 with compared to preceding year.

(e) The overall advertisement income had been decreased by Rs. 45.56 million as compared with the preceding year even though the Company had introduced an incentive scheme for advertising/sales managers in order to attract more advertisements.

4.2 Legal Cases initiated against the Company

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Although the "Code of Ethics for Journalists" had been published in Extraordinary Gazette of the Democratic Socialist Republic of Sri Lanka No.162/5 of 14 October 1981, 05 defamation cases had been filed against the Company by outsiders and it was directed to pay an amount of Rs.519 million as plaintiffs by the Courts. Subsequently, the Company had submitted appeals against these verdicts. Further, another 07 defamation cases were pending for legal opinion as at 31 December 2017.

4.3 Management Activities

The following observations are made.

(a) Lake House Connect (Pvt) Ltd (formerly known as Business Lanka AN (Pvt) Limited), one of the subsidiary of the Company which commenced its operational activities during the year 2013, had sustained a cumulative loss of Rs. 25,868,875 as at 31 December 2017. Further, doubtful trade debts as at 31 December 2017 had been significantly increased to Rs. 15,229,562 due to unavailability of a proper recovery policy. In the meantime, an amount of Rs.22,704,067 was receivable from this Subsidiary to the Company as at 31 December 2017 due to funding the expenditure of the Subsidiary. However, a full provision against these receivables had been made as at that date by the Company. Furthermore, the Board of Directors of the Subsidiary had taken a decision on 15 February 2018 to cease its operations due to continuous business losses, negative working capital and negative solvency margin.

(b) Observer Jobs (Pvt) Ltd (formerly known as Info Media (Pvt) Ltd), a subsidiary of the Company had sustained a cumulative loss of Rs. 13,122,685 as at 31 December 2017. This subsidiary was also fully depended on the Company for financing its operating expenditures and therefore, an amount of Rs.10,695,637 was receivable as at 31 December 2017 to the Company. However, a full provision against these receivables had been made as at that date. The Board of Directors of the Subsidiary had taken a decision on 15 February 2018 to cease its operations due to continuous business losses, negative working capital and negative solvency margin.

(c) Lake House Property Development (Pvt) Ltd, which was established in 1985 to engage in property development business, had not generated any cash flow from operating activities even up to now.

(d) There were 161 dishonoured cheques valued at Rs. 12,336,645 as at 31 December 2017. Out of that, 55 cheques valued at Rs. 1,693,116 and 28 cheques valued at Rs.708,289 had been remained outstanding for more than 5 years and 3 years respectively without taking any legal action against the responsible parties.

(e) Although the Company had paid an amount of Rs. 1.2 million as an interim payment to purchase 1200 shares of Lanka Puvath Ltd – National News Agencies of Sri Lanka in December 2008, no return had been received even as at 31 December 2017. Further, a sum of Rs.2,151,146 had been paid as salaries and wages for three employees relating to Lanka Puwath Ltd during the year under review.

(f) The actions against four debtors amounting to Rs.4,552,559 which outstanding for more than 720 days could not be taken by the Company due to misplace of relevant supporting documents with regard to transactions made with them.

(g) The Company had not introduced the Citizens' / Clients' Charter as requested by the Public Administration Circular No. 05/2008 of 06 February 2008.

4.4 Transactions of Contentious Nature

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The following observations are made.

(a) The Company had paid 10 per cent interest per annum to the news agents against their deposits kept with the Company when they entered into agreements with the Company. Approvals for the deposit limits, decision to pay such an interest and the rate of interest had not been obtained from the Board. Further, though an amount of Rs.3,137,318 had been paid as interest to 460 news agents during the year under review, no investment plan had been implemented against the money collected as deposits. Meanwhile, these news agents had been given 50 days credit period to settle their outstanding to the Company.

(b) The Company has maintained two bus services from Colombo to Katharagama and Colombo to Jaffna since 2015 and 2016 respectively. Two private institutions had been selected to provide buses under a rental basis at rate of Rs.31,000 and Rs.60,000 per trip respectively. Although a sum of Rs.11,140,023 and Rs.22,500,000 had been respectively paid for above institutions, no agreement had been entered into with them for this purpose. In the meantime, the Company had sustained severe losses of Rs.4,928,589 and Rs.6,899,920 respectively from these bus services during the year under review.

4.5 Idle or Underutilized Assets

A land with an extent of 8 acres located at Hokandara purchased for constructing a housing scheme had remained idle since the year 1985.

4.6 Human Resources Released to Other Government Institutions

Eleven officers including four journalists, associate editor, managing editor, assistant general manager- technical, photographer, proof reader, assistant manager and general assistant had been released for services of other government institutions during the year under review contrary to Section 9.4 of Public Enterprises Circular No.PED12 of 02 June 2003. The Company had spent a sum of Rs.9,751,458 as salaries, wages and allowances on behalf of them. Although four journalists released, thirteen journalists had been newly recruited on contract basis during the year under review.

4.7 Staff Administration

The following observations are made.

(a) Although seven policies such as talent acquisition, promotion, leave policy etc. had been prepared by the Company for better personal administration, the Board approval had been received only for the performance management policy as at 31 August 2018.

(b) Although the Company had obtained services of four consultants in the field of human resources, internal auditing, editorial and information technology by paying Rs. 3,117,500 during the year under review, their reports with regard to services performed by them had not been furnished to the Company at the end of the contract period. Meanwhile, services of two consultants had been obtained without Board approvals.

(c) Although the Company should have a realistic cadre with appropriate skills to maximize productivity of its employees, the cadre of the Company had not been periodically reviewed after 01 July 2012 in order to ascertain it realistic. As per the approved cadre prepared by the Company itself for Department of Editorial and General Administration, 522 employees were in excess and out of them, 268 employees were on contract basis.

(d) At a sample audit check, it was revealed that two Deputy General Managers, three Assistant Managers, three Managers and one Senior Assistant Accountant had not possessed even the minimum qualifications as required in the Scheme of Recruitments and Promotions of the Company.

5. Sustainable Development

5.1 Achievement of Sustainable Development Goals

Every public institution should act in compliance with the United Nations Sustainable Development Agenda for the year 2030. The following observations are made in this regard.

(a) Actions had not been taken to identify the sustainable development goals and targets relating to the activities thereof, along with the milestones in respect of achieving those targets, and the indicators for evaluating the achievements of such targets due to unaware about these goals by the Company.

(b) Although the Company had informed to audit that "the preparedness for the implementation of Sustainable Development Goals is beyond the scope of the Company", it was observed that achieving gender equality, empowering women and girls, full and productive employment and decent work for all, building resilient infrastructure, promoting inclusive and sustainable industrialization and foster innovation etc.; could be few goals applicable to the Company in out of 17 Goals under the Agenda,

6. Accountability and Good Governance

6.1 Audit Committees

Although the Audit Committee should comprise at least three non-executive Board members, chaired preferably by a Treasury representative or person possessing financial management skills, no treasury representative had been participated for the meetings and an executive director had chaired the meetings.

6.2 Budgetary Control

Significant variances ranging from 20 per cent to 112 per cent had been observed between the budgeted and actual figures, thus indicating that the Budget had not made use of an effective instrument in management control.

6.3 Unresolved Audit Paragraphs

Due consideration had not been paid for the following paragraphs which were pointed out in the audit report issued for preceding year.

(a) None receipt of return from the investment made at Lake House property development Ltd and Observer Jobs (Pvt) Ltd amounting to Rs.7,500,000 and Rs.2,500,000 respectively.

(b) Appeared the differences between ledger balances and corresponding age analysis.

(c) Not taken the actions with regard to dishonoured cheques.

7. 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.

	Area	**Control Weaknesses**
(a)	Debtors Management	Prevailing of differences between the ledger balances and the age analysis and none reviewing debtor balances which not confirmed.
(b)	Revenue Management	Decrease in sales income of Newspapers, decrease in printing of newspapers and periodicals.
(c)	Human Resources Management	Un-availability of approved Scheme of Recruitments and Promotions.
(d)	Post-Employment Benefit	None disclosure of plan asset and plan liability held in the gratuity trust fund.