Associated Newspapers of Ceylon Limited and its Subsidiaries - 2019

1.1 Qualified Opinion

The audit of the financial statement of the Associated Newspapers of Ceylon Limited ("Company") and the consolidated financial statements of the Company and its Subsidiaries ("Group") for the year ended 31 December 2019 comprising the statements of financial position at 31 December 2019 and the statements of comprehensive income, statements of changes in equity and cash flow statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements of the Company and Group give a true and fair view of the financial position of the Company and Group as at 31 December 2019,and of their financial performance and their cash flows for the year then ended in accordance withSri Lanka Accounting Standards for Small and Medium-Sized Entities (SLFRS for SMEs).

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statementssection of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards for Small and Medium- Sized Entities (SLFRS for SMEs), and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other document shave been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company*;*

- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Non-Compliance with Sri Lanka Accounting Standards for Small and Medium-Sized Entities(SLFRS for SMEs)

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	The operational deposits received from news agencies, street sellers, delivery agents etc. amounting to Rs.1,536,516 had been recognized as cash inflow from investing activities instead of being recognized as operational cash flow.	Noted. Actions will be taken to rectify these technical errors in year 2020.	Cash flow should be prepared in compliance with the standard.
(b)	The actual cash inflow from rent income amounting to Rs.89,099,000 had been recognized as Rs.106,902,000. As a result, the investment cash flow had been overstated by Rs.17,803,000.	Noted. Actions will be taken to rectify these technical errors in year 2020.	Actual cash flow should be taken as cash inflows.
(c)	The actual cash outflow relating to finance expenses amounting to Rs.95,668,000 had been recorded as Rs.101,151,000. As a result, the operational cash flow had been overstated by Rs.5,483,000.	Noted. Actions will be taken to rectify these technical errors in year 2020.	Actual cash flow should be taken as cash outflows.

(d)	As per Section 17.19 of the Standard, the useful life of the asset shall be reviewed at least at each financial year end and if expectations differ from previous estimates, the changes shall be accounted in accordance with section 10.15-10.18 of the SLFRS for SMEs. However, useful life of the fully depreciated property, plant and equipment amounting to Rs.1,307,274,937 still in use, had not been reviewed and accounted accordingly.	Company had planned to review the useful economic life time of the Property, Plant and Equipment during the year 2020. However, as a result of prevailed Covid 19 situation in the country this will be done in coming years, the process will be initiated within the course of this year.	Should be adhered to the provisions in the standard.
(e)	Without consulting legal department, the Company had been made a fixed provision of Rs.20,000,000 for contingent liability in every year for the legal cases against the Company.	Best estimate measured and applied in providing for the legal cases.	Action should be taken to make a realistic provision for contingent liability.

1.5.2 Accounting Deficiencies

	Audit Issue	Management Comment	Recommendation
(a)	The value of physical stock balance and the ledger balance as at 31 December 2019 in relating to 28 stock items were Rs.175,698,448 and Rs.184,190,088 respectively. However, the ledger balance had been taken as the closing stock by overstating the stock by Rs.8,491,640. Further, maintenance expenses of Rs.1,427,337 had been recognized as closing stocks. As a result, operating loss of the year under review had been understated by Rs.9,918,977.	Reasons for the ledger balance values reflecting a higher value than the physical stock have been identified in the stock reconciliations and the journal entries for adjustments will be passed during the year 2020.	Physically verified balance should be taken as the closing stock and expenses should not be recognized as stocks.
(b)	The Company had retained cheques aggregating to Rs.1,428,663 from three months to six years by debiting the creditors' account and crediting instrument in hand account instead of being crediting to the bank account.	Due to technical errors in the accounting system we were unable to issue/prepare respective payments cheques. Until such time those creditor balances appeared in the financial statements.	When a cheque is issued, it should be credited to the bank account.

(c)	Although confirmations had been called from the debtors valued at Rs.540,340,311, only 38 debtors valued at Rs.21,824,446 had responded as at 17 June 2020 and out of that, only 14 debtors valued at Rs.6,897,507 had agreed with the balances of the Company.	Noted. However, only a few debtors responded and this position is beyond our control. Even though, there were no responses (agreed or disagreed) to the confirmation letters sent, most of the outstanding balances as at 31 December 2019 have been settled as at 06.08.2020.	Action should be taken to obtained confirmations from debtors.
(d)	The newspapers costing Rs.112,726,927 issued on free of charge to different parties during the year under review had been shown as cost of sales and marketing expenses instead of recording as free issues.	Free copies had been shown under free newspapers - Marketing Expenses.	Newspapers issued in free should be accounted as free issues not as cost of sales and marketing expenses.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

	Audit Issue	Management Comment	Recommendation
(a)	Eighty seven money orders amounting to Rs.324,182 received to the bank account had remained outstanding from 4 to 12 years without being realized. However, no action had been taken to recognize this amount even as at the end of year under review.	We have requested from Bank of Ceylon Lake House Branch to settle the above outstanding money orders on 15th October 2018. However, up to the date the bank has not replied to the same.	Action should be taken to clear the outstanding balances without delay.
(b)	The Company had allowed Government Ministries, Departments, Corporations and general public to subscribe for Company's publications. However, the outstanding balance appeared in the subscription account as at 31 December 2019 amounting to Rs.8,085,027. Out of that, an amount of Rs.4,505,184 had remained outstanding 1 to 8 years. However, no action had been taken to recover this amount even as at the end of year under review.	With the implementation of the new computer system, categorization of the subscribers was done as individual, private sector and government sector. Strict instructions had been given to the relevant officers of the subscription section not to offer credit to the individual and private sector subscribers. Credit allowed only for the	Action should be taken to recover the outstanding balances without delay.

		government sector subscribers.	
(c)	An aggregate sum of Rs.6,540,785 had remained outstanding over 1 to 11 years as staff receivables without being recovered from guarantors since the said employees of the Company had already been left due to retirement, termination of service or death.	This balance represents the receivables from employees already left due to retirement, termination of service or death.	Action should be taken to recover the outstanding balances from guarantors.

1.7 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Section 7.4.1 of the Public Enterprises Circular No.PED/12 of 02 June 2003	Audit and Management Committee should comprise at least three non-executive Board members, chaired preferably by a treasury representative or person possessing financial management skills. However, no treasury representative had been participated and an executive director had chaired the meetings. Even though, Audit and Management Committee should meet on a regular basis at least once in three months, only three committee meetings had been held during the year under review.	Noted and action would be taken to rectify this in year 2020.	Audit and Management Committee should be conducted in accordance with the provisions in the Circular.
(b)	Section 9.3.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003	No Board approval and the concurrence of the Department of Public Enterprise had been obtained for the Scheme of Recruitments and Promotions of the Company.	According to the published list of Department of Public Enterprises, ANCL does not come under the supervision of said department. Hence, stipulated circulars are not applicable to ANCL.	Should be adhered to the provisions in the Circular.

(c)	Section 9.4 of the Public Enterprises Circular No. PED/12 of 02 June 2003	Seventeen officers of the Company had been released to other government institutions during the year under review and the Company had spent a sum of Rs.8,825,211 as their salaries, wages and allowances. After releasing nine journalists and four editors, subsequently, twenty six journalists and twenty three editors had been newly recruited on contract basis during the year under review.	On request made by some Ministers/Government Institutions to get the services of some of our employees, the Management has approved to release them with pay.	Should be adhered to the provisions in the Circular.
(d)	Public Enterprises Circular No. PED 3/2015 of 17 June 2015	The Company has been categorized as a state owned enterprise. However, the Company had not followed directions issued by the Department of Public Enterprises.	No answer has been given.	Should be adhered to the provisions in the Circular.
(e)	Paragraph 23 of the Second Schedule of the Company's Regulations published in the Extraordinary Gazette of the Republic of Sri Lanka No. 71/1 of 04 August 1973	The board approval had not been obtained for the cadre prepared on 06 June 2017 even up to the date of 20 June 2020. As per that cadre, the numbers of staff for the general and editorial departments were 658 and 327 respectively aggregating the total number of staff to 985. However, general and editorial actual staff was 1048 and 543 respectively aggregating to 1591. Therefore, the excess staff was 606 and out of them, 505 employees were on contract basis as at 31 December 2019. The staff cost as a percentage from revenue was stood at 53 per cent and 48 per cent respectively during the year under review and the preceding year.	This cadre position was prepared based on the strategic plan that is being developed for Lake House and taken into consideration the efficiencies that will arise from the automation and systems that are planned or are in progress (ERP, Sales, IT System, Network upgrades, HRIS Systems, etc.)	The board approval should be obtained for the cadre.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a loss of Rs. 216,105,000 and corresponding loss in the preceding year was amounted to Rs. 166,227,000. Therefore a deterioration amounting to Rs. 49,878,000 of the financial result was observed. The increase in administrative expenses and finance expenses were the main reasons for the deterioration during 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 2015 to 2019. 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 2018 and 2019 was Rs.1,756,556,000 and Rs.2,002,031,000 respectively thus showing 14 per cent increase in the year 2019 as compared with the negative of 13 per cent in year 2018.

2.2 Ratio Analysis

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

	2019 Percentage	**2018 Percentage**
Gross Profit Margin	47.02	44.33
Profit mark up (Gross profit on cost of sales)	88.75	79.63
Administration Cost on Turnover	44.89	38.81
Selling and Distribution Cost on Turnover	12.28	12.25
Finance Cost on Turnover	3.47	2.54
Current Ratio	1.51	1.59
Acid Test Ratio	1.03	0.89
Return on Capital Employed	(23)	(13)
Gearing Ratio	19	14

When compared with the preceding year, the gross profit margin and the profit mark-up of the Company for the year under review had increased by 2.69 per cent and 9.12 percent respectively. Administrative cost on turnover of the year under review had increased by 6.08 per cent when compared with the preceding year.

3. Operational Review

3.1 Management Inefficiencies

	Audit Issue	Management Comment	Recommendation
(a)	There were 154 dishonored cheques valued at Rs. 10,481,557 as at 31 December 2019. Out of that, 57 cheques valued at Rs.1,650,214 and 12 cheques valued at Rs.693,291 had been remained outstanding over 5 years and 3 years respectively, without being taking legal actions against those debtors to recover the outstanding balances.	Noted. We are in the process of tightening the credit controls and recovery processes to minimize the dishonored cheques and constantly maintains pertinent procedures to recover the balance outstanding due to dishonored cheques.	Action should be taken to recover the outstanding balances without delay.
(b)	Although, the Company had paid a sum of Rs.1,200,000 as an interim payment to purchase 1200 shares of Lanka Puwath Ltd – National News Agencies of Sri Lanka in December 2008, no return had been received even as at 31 December 2019. Further, a sum of Rs.2,194,637 paid as salaries and wages to three employees of Lanka Puwath Ltd in 2017 had been shown as receivable even as at 31 December 2019 without been recovered.	Noted. Based on the Board Decision LKPB 202.17, ANCL had invested in 1200 shares of Lanka Puvath (Pvt) Ltd. Two employees have already been resigned and one employee has been joined to ANCL cadre in year 2018. This entity has been gazette under Ministry of Media in latest gazette notification (10th August 2020).	Investments should be made by analyzing the potential of return on investment.
(c)	The Company had failed to take actions against four debtors to recover the debts aggregating to Rs.4,552,559 which were outstanding over 720 days since the relevant supporting documents had been misplaced by an officer of the Company. However, management had not taken action against such officer even as at 31 July 2020.	Noted. Actions have not been taken due to lack of supporting documents with the relevant departments. Steps have been taken to rectify and avoid the same kind of operations in future.	Responsibilities should be established over custody of documents and immediate actions should be taken to recover the outstanding balances from responsible parties.

(d)	The Company had issued 192,665 copies of “Budusarana” periodical to the Department of Divinaguma in 2014 and the value of these copies were amounted to Rs.2,209,560. However, without taking any recovery action, a full provision for doubtful trade debts had been made by the Company since 2015 till 31 December 2019.	Several arrangements had been made in order to collect the balance from the additional Director General of Department of Divineguma Development by the former ANCL personnel and also made a request to the former Minister to expedite the balance payment.	Action should be taken to recover the outstanding balances without delay.
(e)	There were 15 defamation cases filed against the Company by outsiders as at 31 December 2019 and for one defamation case, the Colombo District Court had given an order to pay Rs.500 million to a plaintiff due to the absence of the defendants and the Company’s Attorney- at-Law when the case was summoned at the Court. Although, Company had filed petitions at the District Court and Civil Appeal High Court, Colombo, against this verdict, both appeals had been refused. Subsequently, the board of directors of the Company had decided to submit an appeal to Supreme Court by their decision number F104.19 on 30 August 2019. Then, the legal fee amounting to Rs.18,230,000 had been paid on 09 October 2019 for the lawyers and the selection of lawyers had been forwarded to the Board by the same Attorney-at –Law who was absent at the court. Further, this Attorney-at –Law had retired on 08 April 2020 and then had been reappointed on 15 May 2020 on contract basis.	An appeal has been made to the Civil Appellate High Court to set aside the said order of refusal to vacate the ex parte decree. But the said appeal too has been dismissed by the Civil Appellate High Court. This case is presently pending in the Supreme Court seeking the reliefs aforementioned. As there is no finality reached in this case and until the conclusion of the proceedings of the Supreme Court case, the ex parte decree entered in the District Court is unenforceable. Therefore, I am unable to conclude that Company’s Attorney-At-Law is professionally negligent to hold disciplinary inquiry by ANCL. The Board was compelled to grant the said extension due to prevailed situation after spread of Covid 19 since 11th March 2020 as she is the only person who was familiar with all the relevant documents and it would cause grave inconvenience to the management as well as the Board of Directors, if the Company discontinued her services without an extension for a shorter period. The Company has taken steps to find a replacement for the said position.	Company should take actions to minimize the defamation cases against the Company.

3.2 Idle or underutilized Property, Plant and Equipment

Audit Issue	Management Comment	Recommendation
A land purchased in 1985 at a cost of Rs.3,800,000 which has an extent of 8 acres located at Hokandara had remained idle since year 1985. This land has been kept as a security for a term loan facility worth of Rs.195,000,000 obtained from the Commercial Bank.	Noted. Ownership of the Hokandara Land transferred from Lake House Property Development Pvt Ltd to ANCL in year 2013 and mortgage to Commercial Bank for obtaining loan for VRS in year 2016 and working capital.	Company should take actions to utilize the company asset for the benefit of the Company.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
Although seven policies such as talent acquisition, promotion, leave policy, performance management etc. had been prepared in 2017 by paying Rs.2,250,000 to a consultant and used by the Company, the Board approval had been received only for the performance management policy as at 31 December 2019.	Out of the seven policies, approval of the Board was granted only for the “Performance Management” policy. Further, the HR Department is reviewing the unapproved policies. The present Board of Directors has been made aware of these policies and the Board has informed that after careful study of these policies, approval would be granted in due course.	Action should be taken to obtained bond approval for all the policies.