The Associated Newspapers of Ceylon Limited – 2015

The audit of consolidated financial statements of the Associated Newspapers of Ceylon Limited (the Company) and its Subsidiaries for the year ended 31 December 2015 comprising the statements of financial position as at 31 December 2015 and the statements 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. I was assisted by a firm of Chartered Accountants in public practice to conduct the audit of a Subsidiary out of three Subsidiaries functioning under the Company.

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 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 Auditing 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 judgement, 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 Opinions

(a) Qualified Opinion – Company

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 2.2.2 of this report, the financial statements give a true and fair view of the financial position of the Associated Newspapers of Ceylon Limited (the Company) as at 31 December 2015 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.

(b) Qualified Opinion – Group

In my opinion, except for the effects of the adjustments arising from the matters described in paragraph 2.2.1 and 2.2.2 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 2015 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 Group Financial Statements

Audited Financial Statements of the Lake House Property Development Private Limited, Info Media (Private) Limited and Business Lanka AN (Private) Limited, which are fully owned Subsidiaries of the Company, had been taken for preparing the consolidated financial statements.

The following deficiencies are made in this regard.

(a) Info media (Private) Limited, one of the Subsidiaries of the Company has been non-operating since 2012 and on 08 February 2016, the Board has decided to write off total current asset balance of Rs. 185,511 and total current liability balance of Rs. 4,681,768 which has resulted in a negative equity capital balance of Rs.4, 496,257 in the financial position of the Company. These financial statements were consolidated with the Company without disclosing the above fact.

(b) Business Lanka AN (Private) Ltd, one of the Subsidiaries of the Company has been experiencing continuous business losses, negative working capital and negative solvency margin. Main operation of the company and service of key management personnel have been terminated with effect from 01 of April 2016. These events indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern and therefore, it may be unable to realize its assets and discharge its liabilities in the normal course of business. However, the financial statements of the Subsidiary were consolidated with the Company without disclosing the above fact.

2.2.2 Comments on Financial Statements of the Company

2.2.2.1 Compliance with Sri Lanka Accounting Standards for Small and Medium-sized Entities (SME's)

The following observations are made.

(a) Section 2.52	The Company had offset a credit balance of Rs.2,338,126 against the trade debtors instead of being shown as trade creditors.
(b) Section 4.14	Although a decision had been taken to dispose a printing machine at a cost of Rs.24,215,536, it had not been disclosed accordingly.
(c) Section 10.21	Although adjustments of Rs.10,242,898 had been made for the opening stock balance, it had not been shown retrospectively.
(d) Section 16.3	If the property meets the definition of the investment property under an operating lease, it can be classified as such. However, a circuit bungalow at Kataragama which is on operating lease had not been recognized as an investment property.
(e) Section 17.19	Fully depreciated assets at a cost of Rs.925,027,381 had been used to generate cash flows continuously without reviewing its useful life.
(f) Section 20.13	Lease amount of Rs.2,634,000 had been shown incorrectly as borrowings in the statement of financial position.

(g) Section 20.16	Although the main land where the Company’s building is situated under lease terms for 99 years and only nine years has been remained for the laps of lease period, this had not been disclosed in the financial statements for the year under review.
(h) Section 23.30 (b)	Although the Company had earned revenue from sales of newspapers as well as advertisements, it had not been separately disclosed.
(i) Section 28.41	The Company had not followed the disclosure requirements in Sub-sections (c), (f), (i), (j) and (k) of the Standard.

2.2.2.2 Accounting Deficiencies

The following observations are made.

(a) As the system of internal controls on accounting had failed to provide reasonable assurance for the entries made in the general journal, journal entries had been prepared throughout the year by making adjustments in the accounts without having proper and relevant supporting documents and approvals. Further, in many occasions, it was observed that journal entries had been created and confirmed by the same person.

(b) The deductions from salaries of employees due to late attendance, and as other fines aggregating Rs. 4,509,155 had been credited to the fine fund account, and accumulated credit balance of that account amounting to Rs.12,338,537 had been shown as creditors as at 31 December 2015.

(c) Administrative expenses relating to inter divisional expenses of the Company had been overstated by Rs.16,815,000 due to accounted it twice.

(d) The sale proceeds of old newspapers was Rs.34,533,000 whereas, the cost of those newspapers was Rs.187,951,000. However, the sale proceeds had been taken as other income without being recognized the net amount of Rs.153,418,000 as other expenditure.

(e) Profit for the year under review had been understated by Rs.213,170,000 due to the followings.

(i) Revenue had been overstated by Rs.294,640,000 due to erroneously computed the inter departmental sales.

(ii) Non adjustment of cost of newspapers issued in free, newspapers returned and inter departmental production cost against cost of sales, that account had been overstated by Rs.507,810,000.

(f) Spare parts of a printing machine kept for dispose valued at Rs.8,582,981 had not been shown separately.

(g) Although the actual overdraft balance was Rs.228,074,649, it was shown in the financial statements as Rs.194,368,000 after deducting favourable bank balances of Rs.9,428,176 relating to 17 bank accounts and cheques received but not deposited as at 31 December 2015 of Rs.24,278,473. As such, the cash and cash equivalents as at the end of the year under review had been understated by Rs. 33,706,649.

(h) The plan asset of Rs.297,930,452 against the retirement benefit obligations of the Company had not been brought to the financial statements for the year under review.

2.2.2.3 Un-reconciled Differences

The following observations are made.

(a) A Difference of Rs.1,531,000 was observed between schedule of age analysis and the corresponding amount shown in the financial statements.

(b) Differences aggregating Rs.853,042 were observed between the revenue shown in the revenue register maintained by Commercial Printing Department of the Company and corresponding amount shown in the accounting system as at 31 December 2015.

(c) A difference of Rs.20,624,638 was observed between the value of stock shown in the ledger and the value of physically verified stock balances relating to 25 items. Out of the difference an amount of Rs.4,050,335 had been recognized as unclear debits.

2.2.2.4 Accounts Receivable and Payable

The following observations are made.

(a) According to the confirmations received in respect of debtors amounting to Rs.586,664,670 as at the end of the year under review, the debtors amounting to Rs.10,956,377 had been agreed in whole for their balances. However, the debtors valued at Rs.11,749,278 had not been agreed for their balances. Confirmations for debtors amounting to Rs.563,959,015 had not been received even up to 30 June 2016.

(b) The Company had issued newspapers valued at Rs.7,414,522 exceeding the customers' subscriptions which they kept with the Company.

(c) A sum of Rs.107,563,000 shown under trade debtors were outstanding for more than one year. Further, a sum of Rs.19,854,011 or 18 per cent of the above balance had been referred to the legal section for further actions.

(d) An expenditure of Rs.311,930 made by the Company exceeding the sponsored amount received for "Sarasaviya Film Festival" had been recorded as an amount receivable.

(e) The Company had accepted seven cheques amounting to Rs.253,665 relating to a particular debtor in 2014. At the time of accepting these cheques, the particular bank account had been none operated and as such this amount had been remained as receivables without being recovered up to the end of the year under review.

2.2.2.5 Lack of Evidence for Audit

The evidence indicated against the following each items appearing in the financial statements had not been furnished to audit.

Item	Value Rs.	Documentary Evidence not made available
(a) Software Purchased	-	Dates and numbers of software packages purchased, initial cost and subsequent cost.
(b) Administrative Expenses - Materials	3,272,236	Journal entries, detailed schedules and accounts.

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 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. 4,615,447 as Pay as You Earn (PAYE) tax from its own fund on the bonus payments made to the employees without deducting from employees. In this connection, the Company had replied that as the Company is under "F" category of State Owned Entities (SOE's) as per PED Circular No. 58 (2), it should not be followed PED Circulars.
(c)	Public Enterprises Circular No. PED/12 of 02 June 2003:	
	(i) Section 9.2 (b) and (d)	Even though the approval of the Department of Public Enterprises should be obtained for the Organization Chart and the Cadre, it had not been done so.
	(ii) Section 9.2 (a)	The approved cadre of the Company should be indicated in the Corporate Plan. Nevertheless, the actual cadre as at 31 July 2006 and 30 November 2013 had been shown in the Corporate Plan prepared for the period from 2013 to 2016.
	(iii.) Section 9.3.1	The Scheme of Recruitment and Promotion for each post should be approved by the Board and the appropriate Ministry with the concurrence of the Department of Public Enterprises. However, the Company had not prepared a Scheme of Recruitment and Promotion as required.
(d)	Section 3.2 of the Public Enterprises Circular No.1/2015 of 25 May 2015	Approval of Secretary to the line Ministry with the recommendation of the Board of Directors had not been obtained for the expenses of Rs.1,586,000 incurred exceeding the approved fuel limit.

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 2015 had resulted in a pre-tax net profit of Rs.26,111,000 as compared with the corresponding pre-tax net profit of Rs.76,315,000 for the preceding year, thus indicating a deterioration in financial results by Rs.50,204,000. Decrease of sales revenue from six newspapers and periodicals were the main reasons attributed for the deterioration in financial results for the year under review.

In analyzing financial results of the Company for last four years and the year under review, value addition had been slightly increased from 2011 to 2015. After considering salaries, taxes and depreciation charged for the years (before dividend) 2014 and 2015, the value addition was Rs.1,783,535 and Rs.1,785,233 respectively. Details are shown below.

	Value "000"				
	2015	**2014**	**2013**	**2012**	**2011**
Profit after Tax (before dividend)	15,344	53,340	60,980	51,648	7,682
Salaries	1,348,595	1,257,095	1,238,229	1,230,808	1,231,310
Taxes					
Income / Tax	16,354	23,050	12,094	5,781	2,136
NBT	57,888	64,810	64,080	64,067	63,947
Custom Duty	46,595	91,887	89,915	98,246	96,314
VAT	217,399	211,250	210,435	182,279	127,055
Depreciation	83,058	82,103	86,346	79,579	52,882
Value Addition of the Company	**1,785,233**	**1,783,535**	**1,762,079**	**1,712,408**	**1,581,326**
Percentage of increase with compared to proceeding year	0.09%	1.2%	2.9%	8.28%	-

3.2 Analytical Financial Review

Significant Accounting Ratios

The gross profit margin and the profit markup of the Company for the year under review, as compared with the preceding year had increased slightly by 0.77 per cent and 2.85 per cent respectively. Certain matters revealed at an analytical review of the financial statements as compared with the preceding year are given below.

	2015 Percentage	2014 Percentage
Gross Profit Margin	48.29	47.52
Profit mark up (Gross profit on cost of sales)	93.40	90.55
Administration Cost on Turnover	39.42	37.57
Selling and Distribution Cost on Turnover	10.00	9.45
Finance Cost on Turnover	1.81	2.37
Liquidity Ratio	2.05	1.66
Acid test Ratio	1.58	1.10

3.3 Legal Cases Instituted Against the Company

According to the information made available, 34 legal cases were instituted against the Company awaiting adjudication and legal fees paid during the year had been increased by Rs.11.6 million or by 2049 per cent as compared with the preceding year.

3.4 Working Capital Management

Overdraft balance of the Company as at 31 December 2015 was amounted to Rs.228 million and a sum of Rs.15.9 million and Rs.92,473 had been paid by the Company as overdraft interest and penalty charges respectively during the year under review due to poor working capital management.

4 Operating Review

4.1 Performance

The following observations are made.

(a) The Company had published 06 kinds of newspapers and 09 kinds of periodicals during the year under review while these were 06 newspapers, 25 periodicals and 03 annual publications during the preceding year. The net contribution from the newspapers and periodicals published had been decreased by Rs.320 million during the year under review as compared with the preceding year. 10 periodicals published by the Company had been discontinued during the year and 06 periodicals had been issued as supplementary together with newspapers without generating any cash flows to the Company.

(b) Among the 15 newspapers and periodicals published during the year, all the newspapers had made a favourable contribution to the financial results of the Company. The following observations are made in this regard.

(i) The overall advertisement income of newspapers and periodicals of the Company had been decreased by Rs.204 million or 9 per cent as compared with the preceding year.

(ii) Overall newspaper sales income of the Company had been decreased from Rs. 383.1 million in the preceding year to Rs.343.9 million or by 10 per cent during the year under review.

(iii) The entire periodical circulation revenue of the Company had been decreased from Rs.270.7 million to Rs.190.8 million or by 29 per cent during the year under review.

4.2 Management Weaknesses

The following observations are made.

(a) Business Lanka AN (Private) Limited, which commenced its operational activities during the year 2013, had been incurred a cumulative loss of Rs,12,740,116 as at 31 December 2015 was in solvent. Further, a sum of Rs.5,527,010 had been provided for bad and doubtful debts as at 31 December 2015 due to approving the credit sales without scrutinizing credit worthiness or credibility of potential customers,

(b) The Annual Publication Department of the Company had issued its publications to the bookshops on sale or return basis. However, the Company had not taken proper actions to recover the amount due from respective book shops. Without quantifying the outstanding balance to be recoverable from bookshops, Annual Publication Department had been closed down during the year under review.

(c) In order to minimize significant sales returns prevailed last few years, the Company had introduced Return Rates Systems for each Newspaper from time to time. The new amendments to the system had been brought on 01 August 2014. However, overall sales returns had been increased by Rs.40,129,000 during the year under review. This was equivalent to 27 per cent increase of overall sales returns with compared to the preceding year.

(d) Out of debtor balances as at 31 December 2015, a sum of Rs.125,729,624 to be receivable from 255 Government Institutions on behalf of advertisements received through the Advertising Agents. Out of above outstanding balance, a sum of Rs.16,537,862 had been outstanding for more than one year and hence the recoverability of the outstanding is in doubt. However, as a Government Owned Business Enterprise, the Company had not taken necessary steps to follow a proper procedure to attract the government advertisement directly to the Company.

(e) Due to unavailability of a proper recovering policy, doubtful trade debts had been increased considerably. Accordingly provision for doubtful debts had been increased by Rs.19.6 million or 22 per cent as compared with the preceding year. This had been brought to the notice of the Chairman last year as well.

(f) The Company had incurred severe losses from Colombo - Jaffna bus service. A loss of Rs.29,821,430 had been incurred for above service during last four years.

(g) Proper action had not been taken for 98 dishonoured cheques valued at Rs.4,522,303. Out of this, 66 cheques valued at Rs.2,265,242 had been outstanding for more than one year.

4.3 Operating Weaknesses

As per industry norms, normal wastage of 5 per cent of gross run is acceptable. However, during the preceding four years period, it had been exceeded the accepted norm in relation to several newspapers and periodicals, incurring an additional cost of Rs.24,598,476. During the year under review the Company had to incur an additional cost of Rs.5,797,893 for the exceeded wastage.

4.4 Transactions of Contentious Nature

A condition of the Board decision in giving incentives for accredited advertising agencies was to settle all outstanding dues by 2015. In contrary to that, one accredited advertising agency had been paid an incentive of Rs.2,354,186 even though its outstanding dues as at 31 December 2015 was amounted to Rs. 1,289,484.

4.5 Idle and Under-utilized Assets

A land with extent of 8 acres located at Hokandara had remained idle since the year 1985 without utilizing for intended purpose.

4.6 Uneconomic Transactions

Five thousand three hundred and seven books printed since 1996 to 2014, valued at Rs.2,147,552 had been remained at stores as at 31 December 2015, due to poor estimation of actual requirements.

4.7 Identified Losses

The following observations are made.

(a) Info Media (Private) Limited, a fully owned Subsidiary discontinued its operations during the year 2012 due to its heavy losses incurred. The cumulative loss as at 31 December 2015 was Rs.6,996,257 and the Company had written off outstanding amount of Rs.4,420,434 to be recoverable from Subsidiary during the year under review. As a result, invested capital and additional funds provided amounting to Rs.6.9 million were lost to the Company.

(b) The stock of news print reel valued at Rs.304,415 had been damaged at Kotahena store.

4.8 Release of Human and Physical Resources to Other Institutions

Nine officers including five journalists, photographer, proof reader, assistant manager and general assistant had been released for service of another external institution during the year under review. The Company had spent a sum of Rs.6,361,085 as salaries, wages and allowances on behalf of them. Although five journalists released, six new journalists had been newly recruited during the year under review.

4.9 Personnel Management

The following observations are made.

(a) No proper procedures had been followed for recruitments, promotions and demotions of the employees.

(b) The Company had obtained the services of six consultants in the field of human resources, information technology and editorial services paying Rs.3,523,000 during the year under review. However, details of the services provided for upgrading the Company’s performance had not been furnished to the audit.

(c) As per the Action Plan of the Company, it was planned to enhance the skills of employees by providing local and overseas training. However, no such training programme had been implemented during the year under review.

(d) According to the approved cadre prepared by the Company there were 162 employees in excess in General Administration Department of the Company. Out of them 41 employees had been recruited during the year under review. Apart from that, services of 138 employees had been obtained from two man power agencies at a cost of Rs.52,505,933 during the year under review. In the meantime, the Company had introduced a Voluntary Retirement Scheme (VRS) due to excess employees.

5. Accountability and Good Governance

5.1 Corporate Plan

Although a Corporate Plan for the period of 2013 – 2016 had been prepared by the Company, the salient features such as available current resources, organizational structure, proceeding three year operating results were not included and achievement of corporate objectives, particularly formulating strategy to enter into new media, implementation of the operational and marketing plan, improving product quality had not been evaluated by the management.

5.2 Annual Action Plan

In line with the Corporate Plan, an Annul Action Plan had been prepared for the year under review. However, the activities planned to be implemented during the year under review such as enhancement of circulation of all newspapers, commercialization of digital archives library, providing island wide advertising network, acquisition of latest state of the art web printing press, minimization of bad and doubtful debts, acquisition of new information system to enhance financial reporting, upgrading human resource policies, practices and skills of employees and establishing logistic control system had not been performed as planned.

5.3 Audit Committees

An Audit Committee had been appointed and four meetings were held during the year under review. As per Section 7.4.1 of Public Enterprises Circular No.12 of 02 June 2003 on "Public Enterprises Guidelines on Good Governance", the Audit Committee should comprise at least three non-executive board members, chaired preferably by a Treasury representative or person possessing financial management skills. However, none of the directors were non executives or treasury representatives participated for such meetings.

5.4 Budgetary Control

The following observations are made.

(a) According to Section 5.2.3 of PED circular No.12 of 02 June 2003, the time target for preparing of Budget and submission it to the line Ministry, Department of Public Enterprise, General Treasury and Auditor General had not been followed.

(b) Considerable deviations ranging from 15 per cent to 30 per cent had been observed between the budgeted and the actual figures.

5.5 Unresolved Audit Matters

The following observations are made.

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

(i) Not received any returns on investment made at Lake House property development Ltd and Info Media (Pvt) Ltd amounting to Rs.7,500,000 and Rs.2,500,000 respectively.

(ii) Differences appeared between ledger balances and corresponding age analysis.

(iii) Not taken actions in respect of dishonoured cheques.

(b) The following matters which were discussed at the Committee on Public Enterprises held on 09 December 2013 had been continued even up to the year under review.

(i) Increasing long outstanding advertising debtors.

(ii) Continuously decreasing the sales income of 6 newspapers.

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.

Area	Observations
(a) Debtors Management	Obtaining confirmation from debtors, increase in outstanding debtors for more than one year and increase in provision for doubtful debts.
(b) Inventory Control	Differences between the ledger balances and verified stock balances.
(c) Revenue Administration	Non-adjustment of inter departmental sales and cost of newspapers issued in free of charge.
(d) Human Resources Management	Release of personnel to other institutes, less training and development programme.
(e) Accounting	Differences in debtor control accounts.
(f) Management of Subsidiaries	Continuous losses of Subsidiaries, poor return for the investments made.