

## **Associated Newspapers of Ceylon Limited and its subsidiaries - 2021**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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The audit of the financial statements of the Associated Newspapers of Ceylon Limited (“Company”) and the consolidated financial statement of the company and its subsidiaries (“Group”) for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of comprehensive income, statement of changes in equity and cash flow statement 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 reported 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 give a true and fair view of the financial position of the Company as at 31 December 2021 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium- Sized Entities.

#### **1.2 Basis for Qualified Opinion**

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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 Statements section 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**

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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, 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 scepticism 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 documents have 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 Audit Observations on the preparation of Financial Statements**

### **1.5.1 Internal Control over the preparation of financial statements.**

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

### **1.5.2 Accounting Deficiencies**

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Direct deposits in two current accounts aggregating to Rs.1,442,996 had not been identified in the financial statements.	Direct deposits in two current accounts aggregating to Rs.1,442,996 will be transferred to the RCL A/C during the financial year 2022. (Regular Customer Ledger)	Direct deposits should identify in the financial statements.
(b) Water bill payable for the year under review was Rs.2,926,801. However, no provisions had been made in this regard.	Noted. However the default amount in the water bill will be made based on the special default invoices raised by National Water Supply and Drainage Board time to time.	Accrual concept must consider when identify the expenses.
(c) Travelling expenses and Other staff expenses of the year under review amounting to Rs.901,200 and Rs.2,511,260 respectively had not been recognised in financial statements of the year under review.	Company accurately recognized the 12 months period expenditures in the accounts which is relating to the agency inspection travelling expenses. However, this will be rectified from the year 2022.  As a result of inconsistent labours allocation due to covid restrictions, other staff expenses was unable to quantify the November and December 2021 expenditure provision appropriately.	Accrual concept must consider when identify the expenses.

- (d) Due to under estimation of the service period of 28 employees, the provision for retirement benefit obligation of the year under had been understated by Rs.1,627,369. Noted. There was a calculation error in the number of months in the Gratuity report driven by the system. This has been communicated to the system provider and this underestimate/overestimate will be rectified in 2022. Actuarial factors should be estimate correctly.

### 1.5.3 Unreconciled Control Accounts or Records

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
A difference of Rs.2,199,201 was observed between the physical stock balance and the ledger balance of the sundry goods shown as s at the end of the year under review.	New stock system will be implemented to overcome this issue.	Prior to prepare of the financial statements, unidentified differences should be reconciled and adjusted.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Trade debtors balance as at 31 December 2021 was Rs.894,426,831 and confirmations had been sent to 712 debtors aggregating to Rs.648,483,238. However, only 47 debtors aggregating to Rs.46,760,629 had responded as at 04 May 2021 and out of 47 debtors responded, only 08 debtors aggregating to Rs.4,159,423 had agreed with the balance of the Company. Meanwhile, trade debtors aggregating to Rs.154,569,393 had remained outstanding over one year without being recovered. Further, 28 debtors balance aggregating to Rs.16,885,458 had returned their confirmation letters.	ANCL sent confirmation letters to debtors above LKR 200,000/= as agreed by the Auditor General's Dept. 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 <sup>st</sup> December 2021 have been settled as at 30.05.2022.  Sum of Rs.154,569,393/= showing under trade debtors which are outstanding for more than one year have been provided for provision for bad debts.	Necessary actions should be taken to recover the outstanding balances.
(b) Staff receivables aggregating to Rs.7,193,905 from the employees who had retired, termination of service and deceased had remained for 1 to 20 years without been recovered.	Company can't deduct these receivables from final Gratuity since gratuity act does not provide the provisions for such deductions.	At the time of loan issued recoverability with their age, repayment and capacities should also be evaluated.

However, the company has send reminders requesting to settle the balance and actions have already been taken to recover the unsettle distress loan balances from respective guarantors.

- (c) The Company had allowed Government Ministries, Departments, Corporations and Individuals to subscribe for Company's publications and the balance outstanding as at the end of the year under review was Rs.19,961,081. Out of that, a sum of Rs.2,171,715 had remained over 01 to 10 years and no action had been taken to recover those balances even as at the end of the year under review.
- Earlier there was no proper mechanism to offer credit to the subscribers. All subscribers were eligible for credit facilities. However, after implementation of the sales system only the government sector subscribers were eligible for credit. Even for the government sector subscribers' credit offered only for 3 months after analyzing the pattern of the payments.
- Actions should be taken to recover those balances.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
a) Employee Provident Fund Act No 15 of 1958.	Surcharge on late EPF payment aggregating to Rs.108,218,673 for the years of 2019, 2020 and 2021 had not been paid even at the end of the year under review as required by the Section 27 (2a) of the act.	As a result of economic & industry downturn and Covid 19 pandemic, Company's financial situation has been worsen and Company had to delay the payments to ensure the survival of the Company. However, all outstanding payments have been settled subsequently.	Circular instructions should be followed.
b) Public Enterprises Circular No. PED/12 of 02 June 2003.	As per section 5.2.4 and 5.2.5 of the circular, the draft budget should be placed before the Board of Directors for approval before 3 months of the financial year and as	Department of Public Enterprises operates under the purviews of Ministry of Finance. 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	Circular instructions should be followed.

per section 5.2.5 the final updated budget approved by the board should be forwarded to the line Ministry, the Department of public enterprises, General Treasury and Auditor General not later than 15 days before the commencement of the ensuring year. However, the board had approved the budget on 22 December 2021 and no approved budget had been submitted as specified in the circular. Further, no board approval and the concurrence of the Department of Public Enterprise had been obtained for the Company's Scheme of Recruitments and Promotions as required by section 9.3.1 of the circular.

applicable to ANCL.

Copies of the approved annual budgets for year 2022 (income & expenditure, capital expenditure, procurement plan & newsprint, plates & ink budget) had been submitted to the Ministry of Mass Media, Department of Public Enterprises & National Audit Office on 9<sup>th</sup> December 2021.

- c) Section 2.2 of the Public Enterprises Circular No.PED 03 of 17 June 2015
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| <p>Allowances aggregating Rs.24,423,308 had been paid to the Chairman and the Board of Directors during the year under review without the recommendation of Secretary to the line Ministry and concurrence of Ministry of Finance.</p> | <p>to Associated Newspapers Ceylon Limited (Special Provision) law No. 28 of 1973 and as per the provisions of the law, managing &amp; administrating the business &amp; affairs of the Company is vested in the Board of Directors. Accordingly, we believe Public Enterprise circular No. PED 03 of June 17, 2015 is not applicable to the ANCL.</p> | <p>Circular instructions should be followed.</p> |
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| <p>d) Section 2 and 3 of the Public Enterprises Circular No.PED 1 of 18 September 2018.</p> | <p>Two buses and a van cost of Rs.18,900,000 had been purchased without treasury approval.</p> | <p>ANCL is governed by the Associated Newspapers Ceylon Limited (Special Provision) law No. 28 of 1973 and as per the provisions of the law, managing &amp; administrating the business &amp; affairs of the Company is vested in the Board of Directors. Accordingly, we believe Public Enterprise circular No. PED 03 of June 17, 2015 is not applicable to the ANCL. Therefore, the purchasing of two buses had been done based on the delegation of authority approved by the Board of Directors.</p> | <p>Circular instructions should be followed.</p> |
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs.332,012,000 and the corresponding loss in the preceding year amounted to Rs.217,840,000. Therefore an improvement amounting to Rs.549,852,000 of the financial result was observed. The main reasons for the improvement is receiving a government grant.

### 2.2 Ratio Analysis

The gross profit margin and the profit mark-up of the Company for the year under review, as compared with the preceding year had increased by 6.39 per cent and 31.62 percent respectively. Administrative cost on turnover had decreased by 6.73 per cent with compared to the preceding year.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>(a) The value of 350 dishonoured cheques at the end of the year under review was Rs.31,370,320. Out of that, 69 cheques valued at Rs.2,155,046 and 10 cheques valued at Rs.1,478,779 had remained</p>	<p>Noted. We are in the process of tightening the credit control and recovery processes to minimize the dishonored cheques and constantly maintains pertinent procedures to recover the balance outstanding due to dishonored cheques.</p>	<p>Prevailing system should be monitored carefully.</p>

outstanding over more 5 and 25 years respectively without taking effective measures to recover them.

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| <p>(b) The Company had incurred a sum of Rs.1,200,000 to purchase 1200 shares of Lanka Puvath Ltd in December 2008. However, no return had been received even as at 31 December 2021. Further, a sum of Rs.2,194,637 had been incurred in year 2017 as salaries and wages of three employees of the Lanka Puvath Ltd had remained as receivable even as at 31 December 2021 without been recovered .</p>                                                                                                                                            | <p>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.</p>                                                                                                                                                                                                                                                                                                                            | <p>Investment should be made to generate a return.</p>                                       |
| <p>(c) The management had not taken proper actions to recover the debtors aggregating to Rs.24,434,086 had remained over 2 years without been recovered.</p>                                                                                                                                                                                                                                                                                                                                                                                        | <p>Circulation Debtors - Rs.24,434,086/- : Action will be taken to write off the unrecoverable bad debts with the approval of the Board of Directors.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <p>A proper action should be taken to recover the debtors.</p>                               |
| <p>(d) Lake House Property Development (Pvt) Ltd had been established in 1985 to engage in property development business. However, no cash flows generated from operating activities even up to May 2022.</p>                                                                                                                                                                                                                                                                                                                                       | <p>Lake House Property Development (Pvt) Limited is a non operating Company since 1985.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | <p>A decision should be taken of non operating entities.</p>                                 |
| <p>(e) Although the “Code of Ethics for Journalists” had been published in Extraordinary Gazette No.162/5 of 14 October 1981 and 15 defamation cases had been filed against the Company as at 31 December 2019. For one defamation case out of 15 cases filed against the Company relating to an article appeared in “Silumina”, on 18 November 2007, a weekend newspaper, the plaintiff had claimed Rs.500 million from the Company. When this case was summoned in year 2010 at the District Court, Colombo, the defendants and the Company’s</p> | <p>On perusal of the proceedings of the said case in the District Court of Colombo, it has been fixed for ex-parte trial as the attorney for the defendant has been in the District Court No.1 on 20<sup>th</sup> October 2010 whereas the case has been called in District Court No. 3.</p> <p>As there was no appearance for the defendant, it has been fixed for the ex-parte trial against the defendant (ANCL). This case was due to come up on 20<sup>th</sup> October 2010 for the trial. By that time a motion had been filed on 30<sup>th</sup> September 2010 by the plaintiff’s registered Attorney-at-Law stating that the plaintiff could</p> | <p>The company should take actions to minimize the defamation cases against the company.</p> |



Attorney –at –Law who represented the Company had not appeared at the relevant room of the court. Hence, the Court had decided to give the judgement in favour of the Plaintiff. Although, Company had filed petitions against this verdict at the District Court and Civil Appeal High Court, Colombo, both appeals had been refused.

Subsequently, Company had decided to make an appeal from the Supreme Court and the Board of Directors by their decision number F104.19 on 30 August 2019 had decided to select a Senior President Counsel and his assistants to present for this case on behalf of the Company. Accordingly, full amount as their legal fee amounting to Rs.18,230,000 had been paid on 09 October 2019 and the selection of Counsel had been forwarded to the Board by the same Attorney-at –Law who presented to a wrong court room for this case. Further, this Attorney-at –Law had retired on 08 April 2020 and then had been reappointed on 15 May 2020 on contract basis. No disciplinary action had been taken against the officer up to now.

not be appeared on 20<sup>th</sup> October 2010 as he has travelled abroad.

However, the case had come up in the District Court No 3 and without mentioning to the courts, that a motion had been filed stating the inability of the plaintiff to appear in Courts, the registered attorney of the plaintiff has taken undue advantage of the absence of registered Attorney for the defendant has got the case fixed for ex-parte trial.

After the service of the ex-parte decree, reasonable grounds have been presented to the Courts on behalf of the defendant. At the inquiry, Company Secretary, Company’s instructing Attorney as well as the Counsel too had given evidence in the case, but the Learned Additional District Judge has refused to vacate ex parte decree.

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 a disciplinary inquiry by ANCL.

With regard to extension of her service for a further period of 6 months on a contract basis with effect from 15<sup>th</sup> May 2020 to 14<sup>th</sup> November 2020, the Board was compelled to grant the said extension due to prevailed situation after the spread of Covid 19 since 11<sup>th</sup> March 2020 as she is the only officer who was familiar with all the relevant documents. However, after the expiry of said extension, no further extension was granted to her.

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| (f) Tender deposits aggregating to Rs.1,086,000 taken during year 2018 to 2019 had remained without settled even at the end of the year under review.                                                                                                                                                                                    | The amount of Rs.1,086,000/= is relating to the deposit made for ANCL tenders by various suppliers for the periods 2018 and 2019. The balances are still reflecting in the ledger as those suppliers have not been produced are original receipts in order to refund these deposits.                                                                                                             | A proper action should be taken to settle the remaining balances. |
| (g) According to the newspaper sales agent agreement of the Company, the minimum deposit of an agent is equal to the value of the amount of newspapers received by a newspaper agent within 7 weeks. However, no deposits had been obtained from 24 active agents who had aggregate loans amounting to Rs.1,563,699 as at 30 June, 2021. | The mention list includes promotional news agencies of RSEs, branch offices & etc. Since these news agencies are appointed on official matters, no deposits amounts are claimed from them. However, the controlling credits of the branch offices are not under our purview. Offering credit to the street sellers attached to the branch offices are directly conducted by the branch managers. | Act according to the newspaper sales agent agreement.             |

### 3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>The Company had continuously issued free copies of publications to various categories. Accordingly, 1,154,607 copies from main seven newspapers and 87,898 copies from 14 periodicals had been issued in free during the year under review.</p>	<p>Decisions have already been taken to discontinue staff free copies.</p>	<p>All the parties who receive free copies should be periodically updated and should try to reduce.</p>

The highest free copies out of printed copies had been issued from “Dinamina” representing 22 per cent from printed copies. The cost involved with these free copies was amounted to Rs.84,383,996.

### 3.3 Idle or underutilized Property, Plant and Equipment

Audit Issue -----	Management Comment -----	Recommendation -----
A land with an extent of 8 acres where the revaluated amount was Rs.733,000,000 and located at Hokandara purchased for constructing a housing scheme had remained idle since the year 1985.	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.	The company should utilize this asset to generate a return.

### 3.4 Resources Released to Other Organizations

Audit Issue -----	Management Comment -----	Recommendation -----
On the request made by the Minister of Mass Media on 26 November 2020, an independent consultant had been recruited to the Company on 07 December 2020. Subsequently the consultant had been released to the staff of Minister of Mass Media on 08 December 2020 and to the staff of Minister of Health on the 17 August 2021 and a sum of Rs.1,800,000 had been incurred by the Company as salaries of the consultant without getting any service to the Company.	Based on the request made by then Minister of Mass Media and Information on November 26, 2020, Mr. SameeraGamagewas appointed as a Consultant to the company. Following a request made by the then Minister of Mass Media and Information (Minister at that time) on 08/12/2020, Mr. Sameera Gamagehas been released from our post to the Ministry of Mass Media and Information with effect from 07/12/2020 on the basis of salary payment. At the request of the then Minister of Health, , on 17/08/2021, Mr. Sameera Gamage again returned to our health center on a salary basis released to the Ministry on 16/28/2021.	The company should not release staff to other institute on the basis of paying the salary or allowance.

### 3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) The Board approval had not been obtained for the cadre prepared on 06 June 2017 even up to the date of 23 May 2022 and as per the cadre, the general staff and the editorial staff was 658 and 327 respectively. However, the actual general and editorial staff was 875 and 423 respectively. Hence, the excess staffs were 313. Further, 407 employees were on contract basis as at the end of the year under review. The staff cost as a percentage from revenue was stood at 52 per cent and 62 per cent respectively during the year under review and the preceding year.	According to the cadre position of 6th June 2017 the approved number of staff for the General Administration and Editorial Administration was 658 and 327 respectively. This cadre position was prepared based on the strategic plan that is being developed for Lake House and taken in to consideration the efficiencies that will arise from the automation and system that are planned or are in progress (ERP, Sales, IT System, Network upgrades, HRIS Systems, etc.)  New appointments had to be made to the organization on contract basis thereafter. At present Company have 1,180 employees. ANCL is working on amended cadre and will be forwarded to Ministry for approval.	The board approval should be taken.
(b) 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, the Board approval had been received only for the performance management policy as at 31 December 2021.	Seven Policies were prepared with the consultation of a consultant. Out of them Performance Management Policy was approved by the Board. Other policies have been submitted to the Board for approval.	The board approval should be obtain for all the policies.