

National Film Development Fund - 2013

The audit of financial statements of the National Film Development Fund for the year ended 31 December 2013 comprising the balance sheet as at 31 December 2013 and the statement of income and expenditure and cash flow statement for the year then ended and a summary of significant 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 5 of the Sri Lanka National Film Corporation Act No.47 of 1971 and Order No.12 of the Series of Orders of the National Film Development Fund No.1 of 1994 imposed under Section 61. My comments and observations on the above financial statements appear in this report.

1:2 Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements whether due to fraud or error.

1:3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgements, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1:4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the National Film Development Fund as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Accounting Deficiencies

The following observations are made.

- (a) Film levy contribution receivable from Sri Lanka National Film Corporation had been debited to a debtor account and instead of being credited to the Revenue Account, it had been credited to a temporary creditor's account continuously. Even though this amount had not been settled at any instance, balances of creditors and debtors accounts existed as at the end of the year under review had been Rs.12,573,744 and Rs.20,506,930 respectively. The reasons for this difference had not been identified while action had not been taken to identify the income of relevant years during each year. Accordingly, the income so credited to the creditors account during the year under review amounted to Rs.1,655,486.
- (b) The income and expenditure of production supervision of foreign films amounting to Rs.818,500 and Rs.677,125 respectively had not been separately identified whereas only the net balance had been brought to account.
- (c) A sum of Rs.1,042,355 had been credited in three instances where adjustments should not be made to the profit during the preceding year, thus the profit of the year under review had been under computed by a sum of Rs.1,042,355.

2.2.2 Lack of Evidence for Audit

The following evidence had not been presented to audit.

- (a) Supporting documents and other schedules relating to a balance of Rs.1,477,210 in the payable production account.
- (b) Even though the income tax of Rs.999,315 payable in the year 2012 had been set off against Withholding Tax, particulars of the computation of tax had not been presented to audit.

2.3 Accounts Receivable and Payable

The following observations are made.

- (a) Film production debtors balance as at the end of the year under review amounted to Rs.64,682,582 out of which 99.8 per cent or Rs.64,554,331 had been outstanding for over five years. Any amount out of the loans granted for film production had not been recovered during the year 2013 while the estimated amount of irrecoverable balance of loans granted for film production had been Rs. 60,784,558 or 94 per cent.
- (b) Out of the corporation trust recoverable to the Film Corporation from local and foreign films, 20 per cent is granted to the operation of the Fund. Nevertheless, the film levy contribution receivable to the Fund as at the end of the year under review amounted to Rs.20, 506,930.
- (c) Out of the loans granted to three film halls for renovation and modernization and interest thereon, the balance recoverable as at 01 January 2013 had been Rs.13,663,380. A sum of Rs.566,614 or 4 per cent had been refunded to the Fund in respect of these loans during the year under review. No loan installment whatsoever had been recovered from two film halls.
- (d) Action had not been taken to recover a sum of Rs.3,547,454 due since the year 2005 from the Film Corporation in respect of a film produced and sold to the Film Corporation by the Fund.

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

The following non-compliances were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Gazette Notification No. 946/9 of 24 October 1996 on Film Development Fund Order No. 6 (c)	In case of delays in refunding loans granted, surcharges thereon should be determined and recovered. Nevertheless, action had not been taken accordingly.
(c) Public Finance Circular No. PF/PE/09 of 12 June 2000	Treasury approval had not been obtained for fixed deposits of Rs.2,000,000 and Rs.5,500,000 invested in the year 2000 and the year under review respectively.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had been a pre-tax surplus of Rs. 4,635,230 as compared with the corresponding pre-tax surplus of Rs. 4,996,573 in the preceding year thus indicating a deterioration of Rs.361,343 or 7 per cent in the surplus.

4. Operating Review

4.1 Performance

None of the functions of the Development Fund stipulated from (a) to (k) under Order No. 04 of the National Film Development Fund Orders No. 01 of 1994, had been discharged during the year 2013.

4.2 Management Inefficiencies

The following observations were made.

- (a) Any legal action had not been taken by the Fund to recover the loan installments and interest thereon amounting to Rs.2,355,959 in respect of a loan granted to a Cinema hall. Instead, it had been shown in the financial statements after being treated as irrecoverable and deducted from debtor balances. That loan had not been utilized for the intended purposes.
- (b) The National Film Corporation had planned to produce a film in the year 2007 in collaboration with a private laboratory in India and had incurred an initial expenditure of Rs.200,000. Nevertheless, the production of this film had been subsequently abandoned as it was unable to find a producer and it had been included in the film stock of the Fund.

5. Accountability and Good Governance

5.1 Corporate Plan and Action Plan

A Corporate Plan and an Action Plan including the year under review had not been prepared in terms of the Paragraph 05 of Public Enterprises Circular No. PED/12 of 02 June 2003.

5.2 Budgetary Control

Action had not been taken to prepare a budget for the Fund and to obtain the approval of the Board of Directors.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Fund from time to time. Special attention is needed in respect of the following areas of control.

- (a) Recovery of Loans
- (b) Surcharges