National Film Corporation of Sri Lanka - 2011

1. Financial Statements

1.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 1.2 of this report, the financial statements give a true and fair view of the financial position of the National Film Corporation of Sri Lanka as at 31 December 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

The following non-compliances were observed.

(a) The information in accounting of operational lease which should be disclosed in terms of Standard No. 17 by the lessee had not been disclosed in the accounts.

(b) Even though the related party connections of the related parties who could influence the financial and operating decisions of the institution should be disclosed in the accounts in terms of Sri Lanka Accounting Standard No. 30 irrespective of whether they were connected with such financial transaction or not, these disclosures had not been made.

1.2.2 Accounting Deficiencies

The following deficiencies were observed.

(a) Though the Contingent Liability amount of Rs. 5,670,876 should be disclosed in notes to the account, it was disclosed in Current Liabilities. The loss had been decreased due to adjusting of Expenditure amounting to Rs. 774,540 which was not included in this provision.

(b) A sum of Rs. 680,000 relating to 2010 had been included as Rent Income in the year under review and the Rent Income of Rs. 1,520,000 relating to the year 2011 had not been brought to account when accounting the rent of the building which was rented out to external parties.

(c) The revenue of Rs. 1,010,808 and the expenditure of Rs. 926,574 were not disclosed in the financial statements due to the inclusion of both, income and expenditure in the same Account of the Theatre taken on lease by the Rithma Circuit. Similarly the loss was reduced by that amount due to non-adjusting of the accrued rent of Rs. 84,234.

(d) The Sri Lanka Film Corporation Account was a Current Account to record transactions of inter-departments and the closing balance for the year under review had been shown as Rs. 84,071,406. But a further balance of Rs. 2,832,555 was remained after adjusting the balance of the film distribution account of the Corporation maintained similarly in Sri Lanka Film Corporation. Thus the steps had not been taken to reconcile the relevant current accounts.

(e) Hence debiting of Rs. 1, 227,777 to brought forwarded loss as provision amount of Gratuity for previous year which was prepared according to the salary of the month of December in the year under review, the loss of the year under review had been reduced by that amount.

(f) When correcting an over provision for depreciation of Rs. 2,873,773 adjusted erroneously in the financial statements of previous years had been adjusted to previous year loss instead of adjusting to the financial result of the year under review.

(g) Even though an imported film has no stock value after exceeding the 6 months of screening time, an amount of Rs. 4,568,026 had been included in the stock with relating to a film exceeding such time.

(h) Deposits made for obtaining foreign laboratory services had been under stated by Rs. 217,880 due to non-accounting of deposits made in order to get foreign lab services without converting exchange rate at the end of the year.

1.2.3 Unexplained Differences

The cinema hall debtors control account according to the ledger, amounted to Rs. 187,371,876 whereas according to the schedule this balance amounted to Rs. 192,852,819. Hence, an unexplained difference of Rs. 5,480,943 was observed.

1.2.4 Accounts Receivable and payable

1.2.4.1 Accounts Receivable

(a) Production Debtors

The following matters were observed.

(i) Debtors existing for more than 5 years included in the production debtors of Rs.91 million had been Rs. 50 million or 54%. Information had not been submitted for audit to support that adequate steps had been taken to recover these amounts.

(ii) According to the Production Debtors Control Account the debit balance was Rs. 89,116,396 and, that amount had been added by debit balance of 12,007,567 in the schedule of the film hire creditors and the credit balance of Rs. 3,022,409 in the schedule of the miscellaneous debtors. The interest receivable for the amount of loan granted to the producers had been shown by incorporating with the debtors balance. Only 50 per cent of the above interest had been taken into revenue and the balance 50 per cent had been included in the provision for interest account based on that 100 per cent of the above interest are not recoverable. The credit balance of this account amounting to Rs. 2,965,479 had been deducted from the production debtors and the net value of debtors amounting to Rs. 101,180,893 had been shown in the financial statements.

(b) Theater Hall Debtors

The following matters were observed.

(i) The arrears recoverable as at December 2011 from 146 cinema halls closed down prior to the handing over of the distribution of films to the private sector in the year 2001 amounted to Rs. 7,913,163.

(ii) The arrears recoverable from 177 cinema halls belonging to the Boards which are in operation at present, amounted to Rs. 133,069,516. Similarly, the amount payable to the 19 cinema halls by the Corporation was Rs. 1,356,993. Action had not been taken to recover the amount recoverable and to settle the amount payable even in the year under review.

(c) Other Debtors

A sum of Rs. 134,001 paid excessively to 3 officers of the cadre when resigning, had been written off from books, without getting them set-off or taking actions to recover them since 1997 from the officers who had done the calculation.

(d) Provision for Bad Debts

According to the financial statements presented, the total debts of film halls, production, other loans, and saff advances as at 31 December 2011 aggregating Rs. 262,982,226 had to be recovered. The total bad debts provision made for those debtors was Rs. 73,274,300. Therefore it was observed that the higher percentage of 27 per cent from corporation debtors considered as the base of unrecoverable debts.

(e) Nineteen items of Unsettled Advances Account from 2000 to 2010 had not been settled and that amount was Rs. 359,041.

1.2.4.2 Accounts Payable

(a) Film Hire Creditors

According to the schedule of the Film Hire Creditors, it was observed that out of the credit balances of Rs. 87,233,042, a sum of Rs. 31,147,340 or 36 per cent had been the balances older than 5 years.

(b) Other Creditors

The following observations are made.

(i) Sundry Creditors of Rs. 1,828,746 had included a creditor balance of Rs. 1,121,213 elapsed for more than 5 years and action had not been taken to write off or settle them.

(ii) Even though a provision of Rs. 2,063,923 had been made under the other creditors as audit fees payable for the period 2003 to 31 December 2011, payments had not been made by cash. Similarly, creditors' balances existing for more than five years could not be written off from the books due to non-availability of relevant supporting documents and the conformation of balances of the creditors.

(c) Film Hire Creditors

A sum of Rs. 75,376,914 had been shown in the financial statements as the amount of Film Hire Creditors by adding the balance of Rs. 2,000,000 of the account of provision for film suppliers to the credit balance of Rs. 73,376,914 of the control account of Film Hire Creditors.

1.2.5 Lack of Evidence for Audit

The following observations are made.

(a) Estimates, files, schedules and age analysis were not presented to audit aggregating Rs. 82,772,745 with related to provisions for surcharges, provisions for production loans, unclaimed salaries, staff loan advances, provision for film suppliers, Court cases, business turnover tax payables.

(b) Even though opening balance of Rs. 2,615,507 was appeared in the account of Income Tax Receivable, the documents were not presented to audit to justify that this balance could be received from the Department of Inland Revenue. Therefore the accuracy of the above balances could not be ascertained in audit.

1.2.6 Non – compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances with laws, rules, regulations and management decisions were observed.

	Reference to Laws, Rules, Regulations and Management Decisions.	Non-compliance
(a)	Section 5(g) of Film Corporation Act No. 47 of 1971	Even though the Corporation can grant loans for film production, providing funds to purchase of equipments for film production or screening to certify the standard of the films had been awarded to National Film Development Fund by the Gazette Notification No. 799/1 of 27 December 1993. But a sum of Rs. 14,916,770 for purchase of sound equipment to film halls and a sum of Rs. 4,355,008 for renovation of two film halls had been spent by the Film Corporation.
(b)	Section 11 (b) of Finance Act No. 38 of 1971 and Public Finance Circular No. PF/PE/09 of 12 June 2000.	The approval of the General Treasury had not been obtained for investments amounting to Rs. 56,307,377.
(c)	Section 6.1.5 of the Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	Even though it was stated that the relevant appointment/promotion should be complying with the approved recruitment procedure, 5 employees had been recruited to technical assistants and clerical posts contrary to the provision.

(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
• Financial Regulations 177 (1)	Even though daily cash collections should be remitted daily and receipts should be obtained for the cash remitted daily which the total cash received by each other, actions had not been taken accordingly by the Studio with related to collected revenue of Rs. 318,182.
• Financial Regulations 371	An advance should be settled immediately after the completion of the purpose for which it was granted. Nevertheless, advances remaining for the period unsettled ranging from 1 to 11 years amounting to Rs. 1,338,386 had not been settled.
• Financial Regulations 756	A verification on stocks should be carried out by appointing an annual Boards of Survey and also a copy of the Boards of Survey report should be presented to audit. But action had not been taken accordingly with regard to the fixed assets of the Theatre.
(e) Public Enterprises Circular No. PED/12 of 02 June 2003	
• Section 9.2 (d)	The approval for the Organization Chart had not been obtained from the Department of Public Enterprises.

2. Financial Review

2.1 Financial Results

(a) According to the financial statements presented, the financial result of the Corporation for the year under review was a pre-tax net loss of Rs. 72,582,062 as compared with the corresponding pre-tax net loss of Rs. 74,215,601 for the preceding year. After taking into account the recurrent grant of Rs. 75,000,000 each, received from General Treasury for the year under review and the preceding year the profits for the year under review and the preceding year had been Rs. 2,417,938 and Rs. 784,398 respectively.

(b) A loss of Rs. 51 million was occurred in the year 2006 and it was increased continuously up to Rs. 73 million as at 2011.

(c) The Accumulated fund had been minus till 2007 and a favorable balance was shown in the Accumulated fund since then due to revaluation of assets to the value of Rs. 115,153,399 in the year 2008.

3. Operating Review

3.1 Performance

(a) Film Loans

The following observations are made.

(i) A sum of Rs. 14,685,457 comprising a sum of Rs. 3,020,629 as film service loans for 12 films in the year 2011, a loan of Rs. 6,255,756 for printing of copies for 05 films, a loan of Rs. 5,409,072 for production activities for 05 films had been granted. However the loans granted during that year for two films amounting to Rs. 5,532,664 had only been recovered. The Chairman informed that the recoveries could be made in releasing films for screening after completed the production.

(ii) Seven films for which the production loans amounting to Rs.7,845,494 were obtained during the year 2009 and four films for which the production loans amounting to

Rs. 2,298,016 were obtained during the year 2010 had not been screened even as at the end of year under review.

(iii) The loans of Rs. 4,229,646 granted for 26 films which were not presented for screening had not been recovered for a period more than five years.

(iv) The loans granted for 24 films which were not presented for screening had not been recovered for a period less than five years amounted to Rs. 24,121,780.

(v) The loans of Rs. 23,913,254 granted for 45 films which were presented for screening had not been recovered for a period more than five years.

(b) Granting Loans for Cinema Halls

--

The following observations are made.

(i) A sum of Rs.1,100,000 had been granted to a cinema hall during the year 2003 without signing agreements whereas repayments had been started during the year 2011 and a sum of Rs. 131,957 had only been recovered but signing of agreements had not been performed.

(ii) Loans amounting to Rs. 4,748,294 had been granted to six cinema halls prior to year 2011 and the amount outstanding from those cinema halls as at 31 December 2011 was Rs. 3,334,840. A sum of Rs. 716,668 had been received from five cinema halls and no amount had been received from one cinema hall.

(c) Importing of Films

The following observations are made.

(i) According to the section 3.4.2 of the Corporate plan, action should have been taken to import the internationally awarded classical films. Nevertheless the imported films had not been categorised and identified as educational/ high quality artistic films. Similarly 31 out of 71 imported tamil films were categorised as adults only and strictly for adults by the Public Performance Board.

(ii) According to Section 3.4.3 of the Corporate plan, National Film Corporation should involve actively with private sector in competitive film importation. Even though the provisions had been made in the Action plan for 2011, 125 films had been imported for the year 2011 by the private sector whereas not even one film had been imported by the Corporation.

(iii) According to The Manual of Conditions of the Film Importation in year 2011, some rates charged were lower than the rates in Condition Manual for year 2006 and the increased rates were changed only in insignificant amount.

3.2 Management Inefficiencies

The following observations are made.

(a) Even though 78 debit notes amounting to Rs. 384,265 had been issued with regard to the discrepencies revealed by the investigation unit of the Corporation, only a sum of Rs. 211,585 had been received from 54 debit notes.

(b) A cinema hall acquired by the Corporation on lease basis in the year 2003, and its administration had been given in 2008 to a external party in illegal mannar with contrary to the provision 3(b) of the lease agreement, hence the administration charges with regard to 2011 had not been recovered and the rent income of its Bar had also not been recovered and accounted.

(c) Even though a sum of Rs. 471,257 should have to be remitted as income by an employee who had been employed for supervision in a leased out cinema hall from the starting of the lease agreement upto March 2007, the Corporation had failed to receive that amount upto August 2012 and steps had not been taken to make legal action against the responsible officers.

(d) Accounts had not been prepared to identify the receivable amount of Rs. 114,044 seperately for the years 2007 and 2008 from the owner of the cinema hall which was taken on lease, and steps had not been taken to recover that amount.

(e) Even though a sum of Rs. 3,065,482 was shown in profit and loss account as income from surcharges which the surcharge of 2.5% had been charged with relating to non payment of film hire and levy in due date, no income from surcharges had been recovered during the year 2011. The loss for the year had been understated by Rs. 3,065,482 since the inclusion of this income in accounts.

3.3 Slow-moving, Idle and Under-utilised Assets

The following observations are made.

(a) There were 523 non-moving/ slow-moving items in the Studio for more than five years. Four hundred twenty eight items among them consisted 5,060 units and values of those items were not shown. Ninety five items consisted 610 units and the value of them was Rs. 112,310.

(b) It was observed that 14 fixed assets items valued at Rs. 29,329,517 remained idle for a period ranging from 16 to 27 years.

3.4 Identified Losses

The cost incurred for an imported film of the Corporation was Rs. 8,597,915 whereas the income generated was Rs. 4,631,721 hence a loss of Rs. 3,966,193 was observed.

3.5 Defficiencies in Contract Administration

Six construction contracts valued at Rs. 43,832,995 had been commenced in the year 2011 by the Corporation and 05 contracts among them should be completed during the year under review. Nevertheless those contracts had not been completed except one contract. The cost incurred for those contracts was Rs. 12,074,002 in the year 2011. The scheduled work on the other contract to be performed for the year under review were also not performed. Even though it was informed that liquidated damages had been charged from one contract but it was not charged.

3.6 Staff Administration

The following matters were observed.

(a) Seventeen posts of executive grade and 15 posts of supporting services in the cadre had been vacant whereas the excesses in minor grades and other services were 09 and 11 respectively.

(b) Entire supervision in all activities of the Studio had been assigned to an officer whose salary scale of MA 2 as head of division where there was no approval for such post.

3.7 Vehicle Utilization

The vehicle fleet of the Corporation had been 09 and 02 of them were assigned vehicles. The total travelling distance of those vehicles was 212,851 kilometers and maintenance cost was Rs. 2,398,208 whereas the fuel cost was Rs. 2,070,606. Therefore maintenance and fuel cost per kilometer were Rs.11 and Rs.10 respectively.

4. Accountability and Good Governance

4.1 Corporate Plan

The following observations are made.

(a) The Corporate Plan for the year 2011 had not been amended/ updated. The Corporate Plan prepared for the period 2007-2011 had also been used for the year 2011 and the following activities mentioned in it had not been performed even during the year under review.

(i) Production of two combined Indian films; one combined Chinese film and one Children film by the Corporation and providing shooting equipment and upgraded locations.

(ii) Establishing a complete media unit within the Corporation.

(iii) Establishing computer network system and information system in a sense of covering up all divisions which enabling to develop and perform the administration activities efficiently.

(b) Assets belong to the Corporation; properly prepared plan for cadre in a sense of covering up all cadre of the Corporation, performance evaluating indices had not been included in the Corporate Plan prepared in accordance with the section 5.1.2 of Public Enterprises Circular No. PED 12 of 02 June 2003.

(c) The sufficient attention had not been drawn with regard to achieve targets during the scheduled time and reviewing the planned progress up to date.

4.2 Internal Audit

As the post of Internal Auditor had been vacant since 2001, it was observed that the internal audit division was not made an adequate contribution to utilize as an effective instrument of management control.

4.3 Budgetary Control

Variances exceeding 50 per cent between the budgeted income/expenditure and actual income/expenditure of the year under review in respect of 26 items were observed thus indicating that the budget had not been made use of as an effective instrument of management control.

5. Systems and Controls

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

(a) Debtors / Creditors Control
(b) Maintenance of Personal Files
(c) Investments
(d) Fixed Assets
(e) Deposits Refundable
(f) Preparation of Bank Reconciliations
(g) Corporate Plan
(h) Studio Income
(i) Ledger Accounts