National Film Corporation of Sri Lanka - 2012

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 2012 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 with Sri Lanka Accounting Standards were observed.

	Reference to Sri Lanka Accounting Standards		Non-compliances
(a)	Standard No. 1	i	The provision for gratuity allowances which should be shown as non-current liability in the statement of financial position had been shown as current liability.
		ii	Though the value shown in nearest rupee would be more suitable in understanding financial statements when presenting financial statements, the Corporation had not been done so.

iii Though the financial statements from 01 January 2012 should be presented in accordance with the new accounting standards, accounts had not been prepared accordingly.

(b) Standard No. 8 — Though when write off a sum of Rs. 2,000,000 provision for film suppliers' account and a sum of Rs. 5,600,000 provision for disagreed matters account should be adjusted to the profit of the year under review that had been adjusted to non appropriation Profit and Loss Account.

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

(d) Standard No. 18 — Though it has been shown that the adjustments had been made to interest on employee loans by the Corporation facts to be considered in adjusting loan interest such as loan amount given to each employee, number of installments, balance at the specific date, fair value of the loan, domestic loan interest rate etc. had not been considered.

(e) Standard No. 24 — Even though the connections of all related parties who could influence the financial and operating decisions of the institution should be disclosed irrespective of whether they were connected with such financial transaction or not, these disclosures had not been made.

1.2.2 Accounting Deficiencies

Purchase price and lease facility of the vehicle purchased under lease facility in the year 2010 had not been accounted properly. The vehicle account by a sum of Rs. 1,179,864 and provision for depreciation account by a sum of Rs. 182,640 had been excessively shown due to non-stating the purchase price of the vehicle correctly.

1.2.3 Un-reconciled Control Accounts

The following differences were observed.

(a)

	Description	Control Account/ Supplementary Account	Annexure	Un-reconciled Amount
	------------------	---------------	-------------------	--------------
		Rs.	Rs.	Rs.
(i)	Interest on Treasury Bills	5,670,573	4,991,555	679,018
(ii)	Film hire creditors control account	94,118,580	142,118,064	47,999,484
(iii)	Corporation staff loans	19,789,722	22,181,377	2,391,655

(b) The Sri Lanka National Film Corporation Account was a Current Account to record transactions of inter-departments and its opening balance had been shown as Rs. 120,087,374 and closing balance had been shown as Rs. 110,785,369. But a further balance of Rs. 1,333,370 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. Also, as per the

Rithma Circuit Trail Balance as at 31 December 2011 instead of the closing balance of Rs. 84,017,406 of Sri Lanka National Film Corporation Account, it was a sum of Rs. 120,087,375 as opening balance as at 01 January 2012 hence there had been a difference of Rs. 36,069,968.

1.2.4 Unexplained Differences

The cinema hall debtors control account according to the ledger, amounted to Rs. 221,634,318 whereas according to the schedule this balance amounted to Rs. 227,154,750. Hence, an unexplained difference of Rs. 5,520,432 was observed.

1.2.5 Accounts Receivable and payable

--

1.2.5.1 Accounts Receivable

(a) Production Debtors

The following observations are made.

(i) Debtors existing for more than 5 years included in the production debtors of Rs.109 million had been Rs. 50 million or 46 per cent. Debtors existing for more than three years had been Rs. 63 million or 58 per cent. Adequate steps had not been taken to recover these amounts.

(ii) According to the Production Debtors Control Account the debit balance of production debtors was Rs. 107,466,956 and, that amount had been added by debit balance of Rs. 9,063,983 in the schedule of the film hire creditors and the credit balance of Rs. 1,603,437 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 25 per cent of the above interest had been taken into revenue and the balance 75 per cent had been included in the provision for interest account on the basis that 100 per cent of the above interest would not be recoverable. The credit balance of that provision account was Rs. 4,618,806.

(b) Theater Hall Debtors

The arrears recoverable as at 31 December 2012 from 138 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. 7,785,561. Also the arrears recoverable from 150 cinema halls belonging to the Boards which are in operation at present, amounted to Rs. 142,308,228. Similarly, the amount payable to the 21 cinema halls by the Corporation was Rs. 785,354.

(c) Staff Debtors

As per the loan schedule, old loan balances of Rs. 199,062 were remained for an officer that loan installments had not been recovered in the year 2012.

(d) Provision for Bad Debts

Steps had not been taken to recover the total debts of film halls, production, other loans, and saff advances at the end of the year under review aggregating Rs. 302,449,856. Out of those debtors 100 per cent bad debts provision for a sum of Rs. 83,709,000 in disagreed and irrecoverable loan balances, and bad debts of 5 per cent of the other debtors amounting to Rs. 9,875,300 been the total bad debts provision was Rs. 93,584,300. Therefore actions had been taken on the basis of 31 per cent of the Corporation debtors considered as irrecovrable loans.

1.2.5.2 Accounts Payable

The following observations are made.

(i) The creditor balance of Rs.5,468,818 included in Sundry Creditors of Rs.49,996,024 had elapsed for more than 5 years and actions had not been taken to write off or settle them.

(ii) Out of the Film Hire Creditors of Rs. 151,182,047, a sum of Rs.33,443,717 or 22 per cent were the balances older for than 5 years.

1.2.6 Lack of Evidance for Audit

The following items shown in the account could not be satisfactorily vouched due to unavailability of evidence referred there to.

	Description of Account	Amount RS.	Lack of written Evidence
(i)	Unclaimed Salaries	1,297,508	Schedules and Age Analysis.
(ii)	Receivable Deposits	906,228	Deposit receipts and Balance Confirmations.
(iii)	Advances to Welfare Society	161,440	Schedules and Age Analysis
(iv)	Progress of activities made by the Corporation as per the Corporate Plan and Action Plan of 2012.	Cannot be calculated	Information of Progress
(v)	Construction Contracts	43,832,996 (Contract value)	Information needed for audit

1.2.7 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 of Film Corporation Act No. 47 of 1971	Though the loans should not been given for importation of films, a loan of Rs. 5,000,000 had been given to import a Tamil film. Also the loan had not been recovered as per the agreement and relevant interest had not been calculated.
(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. 35,395,774.
(c)	Section 13 of the Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka.	
	(i) Subsection No. 13.2	MA1 officer had been paid Rs. 9,000 annually for covering up duties in JM category though the payments should not been made for covering up duties.
	(ii) Subsection No. 13:3	Though the acting appointment should be made as temporary solution until making permanent appointment, payments had been made for acting appointments in longer duration.

(iii) Subsection No. 13:4	Though the completely unqualified officer in every aspect of holding that post should not been appointed for acting in a vacant post, Deputy General Manager (Operations) and Deputy General Manager (Finance) had been appointed and had been paid a sum of Rs. 111,089 as acting allowances contrary to it.
(d) Financial Regulations of the Democratic Socialist Republic of Sri Lanka	
F.R.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 12 years amounting to Rs. 3,404,707 had not been settled.
(e) Corporation Circular No. OD/PEN/01and OD/PEN/96	The film hire receivable to the Corporation should be paid daily and 5 per cent of a surcharge should be charged on non-remitting of film hire amount to be credited daily to the Corporation. Issuing of debit notes had not been made on instances contrary to this circular.

2. Financial Review

2.1 Financial Results

The financial result of Sri Lanka National Film Corporation for the year under review was a pre-tax net loss of Rs.64,795,810 as compared with the corresponding pre-tax net loss of Rs.72,582,062 for the preceding year. After taking into account the recurrent grant of Rs. 68,308,000 and Rs. 75,000,000 received from General Treasury for the year under review and the preceding year respectively, the profits for the year under review and the preceding year were Rs. 3,512,190 and Rs. 2,417,938 respectively.

2.2 Legal Cases Against/Vs. Corporation

According to the letter of the Secretary to the Ministry of Planning and Plan Implementation on 19 February 1980, although the service of the Attorney General should be taken for the legal matters of the state institutions, Corporation had not comply with it and the expenditure incurred to outside lawyers for 06 cases was Rs. 507,010. Also 02 cases had been filed against outsiders by the Corporation.

3. Operating Review

3.1 Performance

(a) Film Loans

The following observations are made.

(i) Nevertheless the loans given for film productions were exceeded 5 years, the loan amount given for 26 films but not yet been screened was Rs. 5,418,426 and a sum of Rs. 4,229,646 or 78 per cent had been outstanding as at 31 December 2012.

(ii) The loans given for film productions were exceeded 5 years and out of the loan amount of Rs. 63,598,321 given for 49 films and been released for screening, a sum of Rs. 28,472,305 or 45 per cent had been outstanding as at 31 December 2012.

(iii) The loans given for film productions were less than 5 years and out of the loan amount of Rs. 15,611,384 given for 07 films and been released for screening, a sum of Rs. 5,207,998 or 33 per cent had been outstanding as at 31 December 2012.

(iv) The loans given for film productions were less than 5 years and the loan given for 29 films were Rs. 28,032,604 but not yet been released for screening and the total loan amount had been outstanding as at 31 December 2012.

(b) Granting Loans for Cinema Halls

--

The following observations are made.

(i) A sum of Rs. 1,100,000 had been granted to a theatre during the year 2003 without signing agreements and signing of agreements had not been performed even at the end of the year under review. The amount receivable as at 31 December 2012 was Rs. 709,771.

(ii) Out of the loans granted to ten theatres for renovations amounting to Rs. 14,612,682, loans given for renovations of 07 theatres before the year 2012 was Rs. 9,103,302 and out of them a sum of Rs. 6,778,864 was receivable at the end the year under review. A sum of Rs. 2,349,090 had been recovered from 07 theatres during the year under review and no single amount had been recovered from 03 theatres.

3.2 Management Inefficiencies

The following observations are made.

(a) Though the 50 per cent of the water and electricity bills should be borne by the lessee as per the rent agreement signed with SAARC Cultural Center, the expenditure of Rs. 891,615 had been borne by the Corporation which should be borne by the lessee.

(b) Even though a sum of Rs. 3,412,270 was shown in profit and loss account as income from surcharges which the surcharge of 2.5 per cent 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 2012. A relevant procedure had not been prepared to recover that income.

3.3 Operating Inefficiencies

The following observations are made.

a) The surcharges recoverable with related to previous years due to dicsripancies of theatres had not been accounted which enabling them to be identified seperately. Even though 100 debit notes amounting to Rs. 347,610 had been issued with regard to the discrepencies revealed in 2012 by the investigation unit of the Corporation, only a sum of Rs. 297,040 had been received from 64 debit notes.

b) A sum of Rs. 1,231,452 had been spent from Corporation funds for renovation of Contrast Cinema at Dalugama and a sum of Rs. 130,501 from that amount had been debited to profit and loss account for the year under review. Therefore that amount had not been accounted as loans given for development of theatres and it was not observed that there was any recovery of that loan.

3.4 Slow Moving, Idle and Under Utilized Assets

Five DTS sound equipment had been purchased on 20 January 2012 to be given to theatres under the loan scheme of renovation of theatres. Only 02 out of this sound equipment had been given to two theatres under the loan system of renovation of theatres. Though one year passed the balance 03 equipment are idling without taking actions to give them to theatres and value of that stock was Rs. 10,592,257. It was informed to audit by the Chairman that an investigation is being conducted in this regard.

3.5 Staff Administration

The following matters were observed.

(a) Twenty two posts of executive grade and 22 posts of supporting services in the cadre had been vacant whereas the excess in minor grades and other services were 06 and 09 respectively.

(b) Though a payment of an acting allowance had been approved for an officer appointed to the post of General Manager (Professional) for which was not included in the approved cadre, the relevant qualifications to do such appointment and to make such payment had not been directed by the Board memorandum. This approval had been taken from the Board of Directors without doing such evaluation.

3.6 Vehicle Utilization

The following matters are observed.

(a) The vehicle fleet of the Corporation had been 09 and 02 of them were assigned vehicles. The total travelling distance of those vehicles was 142,358 kilometers and maintenance cost was Rs. 1,889,328 whereas the fuel cost was Rs. 2,031,455. Therefore maintenance and fuel cost per kilometer were Rs. 13.27 and Rs. 14.27 respectively.

(b) Payments Rs. 117,342 of had been made from fuel orders by exceeding the maximum limit mentioned as per the Public Enterprises Circular No. 50 of 28 July 2008 and a sum of Rs. 73,051 for allocated diesel vehicles and a sum of Rs. 44,291 for allocated petrol vehicles had been paid excessively. i.e. 664 diesel liters and 301 petrol liters were excess respectively.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Though, according to the Public Enterprises Circular No. PED/ 12 of 02 June 2003, the financial statements should be prepared and presented to the Auditor General within 60 days after ending of the financial year, financial statements for the year ended 31 December 2012 had been presented on 10 April 2013 by the Sri Lanka National Film Corporation.

4.2 Internal Audit

Except the post of Internal Auditor other posts had been vacant since 2001 hence 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 16 items were observed thus indicating that the budget had not been made use of as an effective instrument of management control. Budget varience was 5703 per cent in one instance.

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) Recovery of Loan Balances
(b) Refundable Deposits
(c) Investments
(d) Petty Cash Advances
(e) Film hall Loans
(f) Film hall Inspections
(g) Staff Loans
(h) Accounting