

National Film Corporation

1. Financial Statements

1.1 Opinion

So far as appears from my examination and to the best of information and according to the explanations given to me, I am of opinion that the National Film Corporation of Sri Lanka had maintained proper accounting records for the year ended 31 December 2010 and except for the effects on the financial statements of the matters referred to in paragraph 1.2 of this report, the financial statements have been prepared in accordance with Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the National Film Corporation of Sri Lanka as at 31 December 2010 and the financial results of its operations and cash flows for the year then ended.

1.2 Comments on Financial Statements

1.2.1 Presentation of Financial Statements

Even though the financial statements should be prepared and presented to the Auditor General for audit within 60 days after the closure of the year of accounts in terms of Public Enterprises Circular No. PED/12 of 02 June 2003, the National Film Corporation of Sri Lanka had presented the financial statements for the year ended 31 December 2010 only on 20 April 2011 after a delay of 49 days.

1.2.2 Sri Lanka Accounting Standards

The following observations are made.

- (a) i. Even though assets should be depreciated from the time they are ready for use in terms of Section 55 of the Standard No. 18, it was shown according to the depreciation policy of the Institution that no provision for depreciation in the year of purchase of an asset and provision for depreciation are made in the year of disposal of assets up to the date of disposal. Accordingly, the depreciation policy of the Institute was not in accordance with the Standard.
- ii. Action had not been taken even during the year under review to compute the useful life of 99 assets which were shown in the accounts at the net value of Re. 1.00 for each asset and to make revaluation or to dispose off if there were assets which could not be used.
- (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.

1.2.3 Un reconciled Control Accounts

The cinema hall debtors control account according to the ledger amounted to Rs. 161,826,268 whereas according to the schedule this balance amounted to Rs.166,736,441. Therefore, an unexplained difference of Rs. 4,910,173 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.81 million had been Rs.44 million or 54 per cent. 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 of Rs.13,602,867 in the schedule of the film hire creditors and the credit balance of Rs. 1,300,217 in the schedule of the miscellaneous creditors had been shown by making adjustment to the value of debit balance of the production debtors amounting to Rs. 80,461,888.

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. 2,965,492 had been deducted from the production debtors and the net value of debtors amounting to Rs. 92,399,492 had been shown in the financial statements. According to the matters mentioned above, it was observed that the correct value of the production debtors had not been disclosed in the accounts.

(b) Theater Hall Debtors

The following matters were observed.

- (i) The arrears recoverable as at 31 December 2010 from 164 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. 11,599,690. The Chairman informed me in the month of July 2011 that the legal advice is being obtained in this connection.
- (ii) The arrears recoverable from 157 cinema halls belonging to the Boards which are in operation at present, amounted to Rs.107,272,736. Similarly, the amount payable to the 15 cinema halls by the Corporation was Rs.316,783. During the year under review action had not been taken to recover the amount recoverable and to settle the amount payable.
- (iii) The film hire not paid to the Corporation within the specified date and a sum of Rs. 15,164,096 shown as surcharges in the financial statements for the last 05 years in respect of Corporation Trust had not been recovered up to the end of the year under review..

(c) Staff Debtors

Action had not been taken to settle or to recover from the responsible officers since the year 1997 on an overpayment of compensation amounting Rs.134,001 made to 3 officers at the time of termination from the service.

1.2.4.2 Accounts Payable

(a) Film Hire Creditors

The following observations are made.

- i. According to the schedule of the film hire creditors, It was observed that out of the credit balances of Rs.85,375,548, a sum of Rs.14,173,996 or 17 per cent had been the balances older than 5 years.
- ii. A sum of Rs.70,474,094 had been shown in the financial statements as the value of film fire creditors by incorporating the balance of the provision for film suppliers account amounting to Rs.2,000,000 with the credit balance of Rs. 68,474,094 in the film hire creditors control account. Any information which could be identified the film and the film suppliers included in the provision for film suppliers account, had not been presented for audit.

(b) Other Creditors

The following observations are made.

- (i) Sundry creditors of Rs.1,794,435 had included a creditors balance of Rs.1,164,819 elapsed for more than 5 years and action had not been taken to settle them.
- (ii) Even though a provision of Rs.2,805,964 had been made under the other creditors as audit fees payable for the period 2003 to 31 December 2009, audit fees had not been paid. 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 confirmation of balances of the creditors.

1.2.5 Lack of Evidence for Audit

Detailed schedules age analysis and files, relating to unclaimed wages, staff loan advances Corporation staff debtors, salaries and wages control account, court cases and National Apprentice Board totalling Rs.35,275,403 were not made available for audit.

1.2.6 Non-compliance with Laws, Rules, Regulations and Management Decision

Instances of non-compliance with the following laws, rules, regulations and management decisions were observed in audit.

Reference to Laws, Rules, Regulations and Management Decisions.	Non-compliance
-----	-----
(a) Section 11(b) of the Finance Act, No. 38 of 1971 and the Public Finance Circular No. PF/PE/09 dated 12 June 2000.	The Treasury approval for the investments of fixed deposits and seven day call deposits in a Bank valued at Rs. 45,646,422 had not been obtained.
(b) Public Enterprises Circular No. PED/12 of 02 June 2003	
(i) Section 5.1.3	Although the up dated Corporate Plan should be submitted to the Auditor General at least 15 days before the commencement of the year, the up dated Corporate Plan for the year 2010 had not been presented to the Auditor General up to 15 August 2011.

- (ii) Section 6.5.1
- The draft annual report for the year 2010 along with the financial statements for the year 2010 should be presented to the Auditor General within 60 days after the closure of the financial year, these had not been presented up to 15 August 2011.
- (iii) Section 9.2 (d)
- The Corporation had not got the organization chart approved by the Department of Public Enterprises.
- (iv) Section 9.14
- Action had not been taken to prepare a manual indicating the laws, rules, regulations and other matters in respect of Human Resources of the Institution and the matters of the Corporation and to obtain the approval of the Secretary to the Treasury.
- (c) Public Administration Circular No.30 dated 31 December 2008.
- Although entitlement for the maximum of distress loan to an officer should be limited to Rs. 250,000 in terms of the circular instruction, contrary to this a sum of Rs. 659,150 had been paid during the year 2010 to 5 officers exceeding the entitlement for the maximum of distress loan.
- (d) Chapter XXIV of the Establishment Code of the Democratic Socialist Republic of Sri Lanka.

Section 3:17:1

Although it was mentioned that any officer working under the control of the principal debtor should not be accepted as a surety, instances of non consideration of this instruction in respect of sureties were observed in audit.

Section 3:17:3

Although an officer whose service is due to terminate prior to settlement of loan amount should furnish a written undertaking that he will furnish another acceptable surety before retirement of such officer, two instances of substituting officers who are nearly to reach the age of retirement, as sureties without furnishing such written undertakings were observed.

(e) Financial Regulations of the
Democratic Socialist Republic of
Sri Lanka

(i) F.R.104

Action in accordance with F.R had not been taken in respect of vehicle accidents occurred in the year 2010. The Corporation had to incur losses due to the above accidents amounted to Rs. 54,107 and action had not been taken to recover it from the responsible person.

(ii) F.R. 188 (2)

Action had not been taken to find the reasons for non-realisation of 7 cheques valued at Rs.441,150 relating to five current accounts and to take appropriate steps.

(iii) 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 ranging from 1 to 10 years amounting to Rs.421,205 had not been unsettled.

(f) Treasury Circular No.
1A1/2002/02 of 28 November
2007

A separate register had not been maintained for computers and accessories.

2. Financial and Operating Review

2.1 Financial Review

2.1.1 Financial Results

(a) The operation of the National Film Corporation of Sri Lanka for the year under review had resulted in a pre-tax net loss of Rs.74,215,602 as compared with the pre-tax net loss of Rs.74,079,907 for the preceding year, thus indicating an adverse variance of Rs.135,695 in the pre-tax net loss.

(b) Comparison with the Losses for the Previous Years

Year	Pre-tax Profit/(Loss) of the year	Increase /(Decrease) of Loss	Increase/(Decrease) of Losses as a percentage
	Rs.	Rs.	Rs.
2006	(51,239,741)	6,527,555	15%
2007	(57,173,289)	5,933,548	12%
2008	(59,693,814)	2,520,525	4%

2009	(74,079,907)	14,386,093	24%
2010	(74,215,602)	135,695	0.2%

(c) Accumulated Fund

Year	Accumulated Fund	Increase /(Decrease)	As a Percentage
	Rs.	Rs	
2006	(15,917,613)	2,681,199	(20.25)
2007	(32,544,037)	(16,626,424)	104%
2008	66,101,267	98,645,304	303%
2009	64,955,730	(1,145,537)	(1.7%)
2010	64,146,046	(809,684)	(1.25)

It was observed that there was a tendency of increasing losses every year. As a result, the Accumulated Fund had deteriorated. There were adverse balances of Accumulated Funds during the years 2006 and 2007 and there was a profit of Rs. 115,153,399 from the revaluation of assets during the year 2008 which had effected for arising a favourable improvement in the Accumulated Fund by Rs. 66,101,267. Again there was a deterioration in the Accumulated Fund during the years 2009 and 2010.

2.2 Operating Review

2.2.1 Performance

(a) Film Production Loan

- (i) Loans amounting to Rs. 3,685,256 had been granted for 05 films during the year 2010 and out of this, only one film had been screened during the year 2010.

- (ii) Loans amounting to Rs. 19,718,626 had been granted for 12 films during the year 2009 and the balance remained recoverable as at 31 December 2010 amounted to Rs. 12,560,812. Seven films which had obtained film production loans amounting to Rs. 7,845,494 were not screened up to the end of the year 2010.

(b) Granting Loan 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 entering to a cinema hall during the year 2003 without entering into an agreement whereas any installment had not been recovered up to April 2011.
- (ii) A further loan amounting to Rs. 500,000 had been granted by the Corporation during the year 2009, despite a sum of Rs. 404,719 had remained recoverable by the National Film Development Fund since 2002. Accordingly, the outstanding amount from the above cinema hall up to 31 December 2010 was Rs. 809,612.
- (iii) Loans amounting to Rs. 3,748,000 had been granted to 05 cinema halls prior to year 2010 and the amount outstanding from those cinema halls as at 31 December 2010 was Rs. 3,211.907.
- (iv) The rate interest for the cinema hall loans had been reduced from 18 ½% to 13% during the year under review without the approval of the Ministry.

2.2.2 Management Inefficiencies

The following observations are made.

- (a) The administration of the Dalugama Contrás, Cinema Hall obtained by the Corporation in the year 2003 on lease basis by paying at the rate of Rs. 1,010,784 per annum had been vested to a private party through a letter dated 20 November 2008 without the approval the Board of Directors. Opportunity had been given to him to collect the revenue from this cinema hall whereas a proper agreement had not been entered into up to 09 May 2011. The amount recoverable by the Corporation from the cinema hall as at 31 December 2010 was Rs. 1,690,468.
- (b) Even though 36 debit notes valued at Rs.81,920 had been issued during the year 2010 in respect of discrepancies detected by the flying squad of the Corporation, only Rs. 45,560 had been received from 14 debit notes. Action had not been taken to recover the balance amount.
- (c) A sum of Rs. 104,618,634 had been spent for construction of cinema halls and auditorium of the Corporation and equipment. Number of instances of utilization of this building during the year 2010 was 25 and the revenue earned only Rs. 497,450. A report which could be provided the entire information on instances of utilization of the above building, had not been maintained by the Corporation.

2.2.3 Idle and Under - utilised Assets

The following observations are made.

- (a) It was observed that 14 items of fixed assets valued at Rs.29,329,517 had been idle for the period ranging from 14 to 26 years.

- (b) It was observed that a stock of 1997 copies of the annual reports valued at Rs.515,560 relating to the years 2003, 2004, 2005 and 2006 had existed in the stores. Opportunities had not been given to the individuals who wanted to purchase the relevant copies.

2.2.4 Human Resources Management

The following observations are made.

- (a) The post of the General Manager of the Corporation had remained vacant since June 2009 and action had not been taken to fill the vacancy up to 15 May 2011. The Chairman informed me that there were two court cases relating this post and a General Manager could not be appointed until the court cases are settled.
- (b) Three persons at the age of 60 and more had been recruited to the service as Coordinating Officers on contract basis from the month of July 2010 without calling for applications and without proper approval and a sum of Rs. 365,400 had been paid during the year 2010. The performance report that should be presented quarterly in respect of activities carried out by them, had not been presented to the Corporation.

2.2.5 Fleet of Vehicle

The following observations are made.

- (a) The National Film Corporation had possessed 2 allocated vehicles and 7 pool vehicles. Out of 2 allocated vehicles, one vehicle had been obtained on hire basis. In this connection, a sum of Rs. 220,000 had been paid for four months period at the rate of Rs. 55,000 per month.

- (b) Two vehicle accidents had occurred during the year under review and information relating to these accidents had not been reported to the Auditor General. The expenditure incurred for those vehicle repairs amounted to Rs. 487,426 and the insurance compensation received amounted to Rs. 422,583. As a result, the Corporation had to incur a loss of Rs. 64,843.

2.2.6 Internal Audit

It was observed that as the post of Internal Auditor had been vacant since 2001, the internal audit division had not provided an adequate contribution for carrying out a proper and efficient internal audit and to utilise as an effective instrument of management control.

2.2.7 Budgetary Control

Comparison of budgeted income / expenditure with the actual income / expenditure for the year under review revealed that there were variances of more than 50 per cent relating to 26 items of income / expenditure thus, it was observed that the budget had not been made use of as an effective instrument of management control.

3. 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) Accounting
- (b) Debtors / Creditors Control
- (c) Investments
- (d) Fixed Assets
- (e) Deposits Refundable
- (f) Bank Reconciliations
- (g) Corporate Plan
- (h) Distress Loans
- (i) Utilisation of Cinema Halls and Auditorium