

## **National Film Development Fund - 2014**

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The audit of financial statements of the National Film Development Fund for the year ended 31 December 2014 comprising the balance sheet as at 31 December 2014 and the statement of income and expenditure and cash flow statement for the year then ended and a summary of significant accounting 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**

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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**

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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 Auditing 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 judgement, 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**

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

**2. Financial Statements**  
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**2.1 Qualified Opinion**  
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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 2014 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**  
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**2.2.1 Sri Lanka Public Sector Accounting Standards**  
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The following observations are made.

- (a) Even though a statement of changes in equity should be presented along with the financial statements in terms of Sri Lanka Public Sector Accounting Standard No.01, action had not been taken accordingly.
- (b) According to the Sri Lanka Public Sector Accounting Standard No.03, the effect on the financial position and financial result of the preceding year due to the changes in accounting policies should be shown as a restoration with the comparative information in the financial statements. Nevertheless, a sum of Rs.12,573,744 shown under creditors in the preceding year had been adjusted to the profit of the preceding year during the year. Furthermore, the particulars of the said adjustment had not been disclosed in the financial statements.

**2.2.2 Accounting Deficiencies**  
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The income and expenditure of production supervision of foreign films amounted to Rs.734,000 and Rs.626,000 respectively and instead of being shown those income and expenditure separately in the financial statements, only the net balance had been shown in the financial statements. Further, this net balance had also been overstated in the financial statements by a sum of Rs.11,000.

**2.2.3 Lack of Evidence for Audit**  
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The following observations are made.

- (a) The evidence indicated against each item had not been made available for audit.

<b><u>Particulars of Account</u></b>	<b><u>Value</u></b>	<b><u>Evidence not made available</u></b>
	<b><u>Rs.</u></b>	
(i) Income Tax	999,315	Evidence in support of tax not payable
(ii) Payable Film Production Account	1,477,210	Supporting Documents and other Schedules

- (b) Even though the Fund had filled a “Cash /Cheque Payment Form” in obtaining cash, the particulars of relevant receipts had not been included in that Form. As such, it could not be established in audit that receipts and claims of cash were being correctly accounted for.

### **2.3 Accounts Receivable and Payable**

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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 100 per cent of the total balance had been outstanding for over five years. Any amount out of the loans granted for film production had not been recovered during the year under review and it had been estimated that the total balance of loans granted for film production was irrecoverable.
- (b) Out of the corporation trust recoverable to the Film Corporation from local and foreign films, 20 per cent should be remitted for 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.21,913,443.
- (c) Out of the loans granted to three film halls for the renovation and modernization , the balance recoverable as at 31 December of the year under review amounted to Rs.10,216,174.Out of that loan, only a sum of Rs.566,664 or 4 per cent had been recovered 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.
- (e) Any amount pertaining to the film levy contribution of Rs.1,406,512 which was receivable from the Film Corporation for the year under review had not been received to the Fund.

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

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The following non-compliances were observed.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
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- (a) Gazette Notification No. 946/9 of 24 October 1996 on Film Development Fund Order No. 6 (c)

In case of delays in recovering 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.2,859,229 invested in the year 2000 and the year under review respectively.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Fund for the year under review had been a pre-tax deficit of Rs. 679,301 as against the pre-tax surplus of Rs. 4,635,230 in the preceding year thus indicating a deterioration of Rs.5,314,531 in the financial result of the Fund. The provision for bad debts amounting to Rs.5,912,983 made during the year under review had mainly attributed to the deterioration.

### **4. Operating Review**

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#### **4.1 Performance**

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None of the functions of the Development Fund stipulated under Order No. 04 of the National Film Development Fund Orders No. 01 of 1994, had been discharged during the year under review.

#### **4.2 Management Inefficiencies**

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The following observations are 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 in the year 2001. Instead, the total amount had been shown in the financial statements after being treated as irrecoverable and deducted from debtor balances. The said loan had not been utilized for 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.
- (c) A loan amounting to Rs.3,737,222 had been granted by the Corporation during the year 2001 for the production of a film approved by the Script Evaluation Committee and the Censor Board while the total amount recoverable as at the end of the year under review amounted to Rs.6,253,983. It had been treated as loans not recoverable in the year under review and adjusted to the profit without being presented that film for screening.

**5. Accountability and Good Governance**

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**5.1 Corporate Plan and Action Plan**

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A Corporate Plan and an Action Plan including the year under review had not been prepared.

**6. Systems and Controls**

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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