

National Film Development Fund - 2015

The audit of financial statements of the National Film Development Fund for the year ended 31 December 2015 comprising the balance sheet as at 31 December 2015 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

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 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

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 2015 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 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

(i) Although income and expenditure should not been set off unless required or allowed by the Sri Lanka Public Sector Accounting Standards, out of the income of Rs.530,000 received from the production of films in Sri Lanka by the foreign film producers in the year 2015, the expenditure amounting to Rs.373,000 paid for the Film Supervisors had been set off and only the net result of Rs.157,000 had been brought to account as an income.

(ii) The statement of changes in equity which is a basic feature of the financial statements had not been presented together with the financial statements.

(b) Sri Lanka Public Sector Accounting Standard 07

Depreciation policy relating to the fixed assets had not been disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

(a) The National Film Development Fund had planned to produce a film in collaboration with a private laboratory of India in the year 2007 and incurred a sum of Rs.200,000 as the preliminary expenditure for that purpose. Thereafter it had been abandoned, whereas that expenditure had been continuously brought forward as a stock balance without being written off as an expenditure of the relevant year.

(b) According to the computation carried out in audit, the investment income received in cash amounted to Rs.2,476,791. Nevertheless, it had been brought to account as Rs.2,725,981 in the cash flow statement.

- (c) Without being posted the Withholding tax on interest of the fixed deposits amounting to Rs.292,174 in the year 2014 and Rs.307,174 in the year 2015 as an expenditure relating to the year, it had been shown as the receivable balances.
- (d) There was an unidentified credit balance of Rs.20,000 in a bank account maintained by the institute in a State Bank from January to December 2015. Nevertheless, action had not been taken to identify that money.

2.2.3 Lack of Evidence for Audit

Any supporting documents whatsoever on a sum of Rs.5,000,000 spent by the National Film Corporation on behalf of the Fund for the conduct of Colombo International Film Festival in the year 2015, had not been furnished to audit.

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

In terms of Order No.06 (c) of the Gazette notification No.946/9 dated 24 October 1996 pertaining to the Film Development Fund, if the repayment of the loans is delayed, a receivable surcharge thereon should be determined and recovered. Nevertheless, action had not been taken accordingly in connection with a sum of Rs.74,336,614 granted up to the year under review.

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 surplus of Rs. 384,475 as against the deficit of Rs. 679,301 in the preceding year thus indicating an improvement of Rs.1,063,776 in the financial result of the Fund as compared with the preceding year. Although the expenditure for the film festival had increased by Rs.5,000,000 during the year under review, decrease in the financial and other expenses by Rs.5,914,483 and increase in the film rental contribution by Rs.541,832 had mainly attributed to this improvement.

4. Operating Review

4.1 Performance

In terms of Sri Lanka National Film Corporation Act, No.47 of 1971, the main objectives of the Fund were to provide the equipment and raw materials required for the local film industry, assist the production of films locally, ensure higher standards and provide assistance, to ensure the provision by cinemas, of adequate services and facilities necessary for the convenience and safety of patrons and workers in cinemas, to provide scholarships and training programmes to artists and the technicians engaged in the film industry, to grant loans to professional technicians engaged in the film industry, for a continuous period of at least five years and who have worked in the production of at least ten films to enable them to enhance and improve their skills.

The following observations are made on the achievement of the above objectives.

Although Rs.10 million had been allocated to grants loans to produce 2 films during the year under review and since there was no a Board of Control, those decisions had not been implemented. Further, action had not been taken to achieve the objectives such as providing scholarships or training programmes to artists and the technicians and granting loans to professional technicians engaged in the film industry, for a continuous period of at least five years and who have worked in the production of at least ten films to enable them to enhance and improve their skills during the year under review.

4.2 Management Activities

The loan balances amounting to Rs.67,007,500 continued to exist over a period ranging from 5 to 13 years by the end of the year had been identified as unrecoverable loan balances. The amount recovered during the year 2015 was Rs.531,101 or 0.71 per cent out of the total balance and necessary action had not been taken to recover the remaining loan balance.

4.3 Operational Activities

In terms of Paragraph 5.1 of the Series of Orders No.04/166 of the National Film Development Fund No.01 of 1994, although a Board of Control should be appointed for the management and control of the Fund, a Board of Control had not been appointed following the year 2012.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Public Enterprises No.PED/12 dated 02 June 2003, the financial statements should be furnished within 60 days from the close of the relevant year of accounts. Nevertheless, the Fund had furnished the accounts pertaining to the year 2015 to audit on 11 May 2016, that is, after 72 days.

5.2 Corporate Plan

Although the Development Fund is an independent body established based on the series of orders enacted under a Parliament Act, a Corporate Plan had not been prepared for the year 2015.

5.3 Action Plan

An Action Plan had not been prepared for the year 2015.

5.4 Internal Audit

An internal audit had not been conducted in accordance with the provisions of the Financial Regulations 133 and 134.

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.

Areas of System and Control

Observations

(a) Staff Administration

Duties had not been assigned to the staff.

(b) Granting and recovery of loans

The rules relating to the granting and recovery of loans had not been updated and action had not been taken to recover the outstanding loans.