National Film Development Fund - 2024

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1. Financial Statements

1.1. Opinion

The audit of the financial statements of the National Film Development Fund for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a material accounting policy 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 provisions of the National Audit Act No. 19 of 2018. My comments and observations which consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2. Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3. Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund' stability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the fund.

1.4. Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund;

- Whether the fund has performed according to its powers, functions and duties; and the resources of the fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5. Accounts Receivable and Payable

1.5.1 Receivables

	Audit observation	Comment of the management	Recommendation
(a)	Out of the balance total of Rs. 71,375,384 including production loan, cinema hall loan and Covid-19 cinema hall loan, the loan balance more than 5 years lapsed was Rs. 71,024,268 and Rs. 64,602,413 out of that had been lapsed even 20 years. Collapse the industry and the failure of the management to take effective measures to recover this loans and Rs. 67,177,716 which were 94 percent of the total debtor balance had been provisioned as doubtful debts. Although it has been shown regarding this even by the previous year's audit queries there had not been pay the attention regarding recovering the non-recoverable loans even in the Governing Board meeting.	Although steps had been taken to file cases against those who had taken production loans as per the instructions of the Attorney General's Department, the case has been withdrawn as per the instructions given by the Secretary to the Line Ministry. All of these films had been produced using 35mm technology, and as cinemas with new technologies have now been developed, it has become impossible to screen these old films. This matter will be presented to the Credit Committee for further action to be taken.	Immediate action should be taken to recover outstanding old balances.
(b)	Even though Rs. 23,297,763 out of the total balance of Rs. 30,148,135, including film rental contributions receivable from the Sri Lanka National Film Corporation of Rs. 26,615,979 and Rs. 3,532,156 receivable from film exhibition income has been exceeded 05 years as at 31 December 2024 , stepshad not been taken by the management obtain that money promptly.	It has not been possible to recover revenue of Rs. 3,532,156 due to non-receipt of film screening revenue. Film rental contributions should be obtained from the Corporation and Rs. 5,000,000 had been taken in the year 2023. Steps will be taken to obtain that amount from the Development Fund.	Action should be taken to recover the rent due from the corporation.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a).	Financial Regulation 135 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka	Payment of Rs. 8,191,868 had been made in the year under review when no delegation of powers had been made regarding the financial control of the Fund for the year 2024. .	Instructions had been given to delegate financial powers in accordance with Financial Regulation 135.	Financial regulations should be followed.
(b).	Section 3 of Guidelines 04 under Financial Regulations 877(2) (c) as amended by Public Finance Circular No. 01/2020 dated 28 August 2020.	Although reports on the main functions of the Fund (quarterly reports on the progress of preparing bank reconciliations, reports on the achievement of budget targets, quarterly progress reports on the action plan) should be prepared and submitted to the Auditor General with copies to the Department of Public Finance and the Department of National Budget 15 days prior to the end of the quarter so that the progress of the fund can be reviewed at the end of each quarter, those reports had not been submitted for the year under review.	It should be consistent with the existing system. Observations are accurate.	Quarterly reports should be submitted in accordance with Financial Regulations.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 13,394,374 and the corresponding surplus in the preceding year amounted to Rs. 20,890,342. Therefore, an deterioration amounting to Rs. 7,495,968 of the financial result was observed. This was mainly due to decreasing in investment interest by Rs. 7,613,222 and lack of other income.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Since the manner in which the meetings of the Board of Directors should be held had not been mentioned in the regulations under Sections 61 and 05 of the National Film Corporation Act No. 47 of 1971 amended by the Extraordinary Gazette No. 946/9 of 24 October 1996, only 2 meetings of the Board of Directors had been held in the year 2024 and the situation was the same in previous years. Accordingly, it was observed that an active contribution had not been made by the Board of Directors towards the advancement of the film industry although this fund had been established with the aim of developing the film industry.	The observations are correct.	Attention should be paid to amending the directives.
(b) Approval of the board of directors had not been obtained for an amount of Rs. 8,000,000 paid to the National Savings Financial Management Company Ltd. for the purchase of treasury bills during the year under review and the amount of Rs. 191,868 paid for the audit fees for 2022 although payment of an mount exceeding Rs. 10,000 by cheque should be approve by the Board of Directors in terms of Section 11 of the National Film Corporation Act, No. 47 of 1971, amended by Gazette Extraordinary No. 946/9 and dated 24 October 1996.	The observations are correct. An investment has been made subject to the approval of the Board of Directors with the aim of obtaining the highest income.	Action should be taken in accordance with the provisions of the Act.

3.2 Operational Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) When the interest income earned by the Fund for the year under review was Rs.12,590,472, the income earned from the film industry, which was the main source of income for the Fund, remained at a minimal level of Rs. 2,126,326. This situation was due to the collapse of the film industry and the fact that money had been invested instead of focusing on developing the industry.	Observations are accurate	Actions should be taken to spend on the development of the film industry instead of investing the money in the fund.
(b) Even though there should have been a separate set of rules or procedures prepared for each task in implementing the tasks under the directives of the National Film Development Fund, as the Fund had not prepared such a set of rules or procedures, a proper evaluation of the tasks implemented by the Fund could not be carried out.	Although there is no separate set of rules prepared for the regulations of the Film Development Fund, the regulations of the Fund will be governed by the Gazette.	Actions should be taken as per the provisions of the Act.
(c) It had been stated that the tax levied on cinema tickets should be credited to the National Film Development Fund in accordance with Section 3 of the National Film Development Fund Order No. 01 of 1994 published in the Extraordinary Gazette No. 799/1 of 27 December 1993 and Order No. 1 of the Extraordinary Gazette No. 946/9 of 24 October 1996. However, since the second paragraph of Office Order No. 431 issued by the Chairman of the Corporation on 30 October 2001 specified that 20 per cent	Under Office Order No. 431, the Corporation shall receive 20% of the 40 cents received by the Corporation from a Sinhala film and 20% of the Rs.3.10 received by the Corporation from imported films from the Corporation's share of the Corporation's corporate tax (Rs. 3.10). The gross income here is calculated as 40 cents received from a Sinhala film and Rs.3.10 received from an imported film. There is no separate reference in the Office Order in this regard.	Action should be taken in accordance with the orders specified in the Gazette.

of the gross income received by the Corporation should be credited to the Film Development Fund, the audit was impossible to verify the accuracy of the film rental contribution receivable of Rs. 26,615,979 stated in the financial statements as it was not clear to the auditor what the basis for calculating the income to be credited to the Film Development Fund was.

To the Sinhala Producer

Sinhala Films	**To producer**	**gross income of the Corporation**	**20 %**
3.10	2.70	0.40	0.08
Imported Films			
3.10		3.10	0.62

(d) The following tasks had not been carried out in accordance with Regulation No. (4) (a), (b), (c), (d), (e), (f), (g), (h) (i), (j) and (k) under Section 61 and 05 of the National Film Corporation Act No. 47 of 1971 as amended by the Extraordinary Gazette No. 946/9 dated 24 October 1996.	Answers have not been provided.	The management should carry out the functions of the Fund in accordance with the provisions of the Act.
i. To provide necessary equipment and raw materials for the local film industry and to support and encourage the production of films locally.	-Do-	-Do-
ii. To ensure that the cinema provides adequate facilities for the convenience and accessibility of viewers and cinema employees.	-Do-	-Do-
iii. To promote development in other spheres of the film industry.	-Do-	-Do-
iv. Providing comfortable seating in cinemas and improving facilities to suit the needs of viewers.	-Do-	-Do-
v. To ensure high standards of films, provide the equipment required to produce and show films.	-Do-	-Do-

vi.	To provide scholarships or establish training programs for artists and technicians engaged in the film industry on terms and conditions determined by the Board of Directors.	-Do-	-Do-
vii.	To promote film production by providing loans to directors to hire special equipment from an available source for the purpose of producing high quality artistic films in their entirety or for the purpose of producing such films based on scripts approved by the Screenplay Evaluation Committee appointed by the Board of Directors.	-Do-	-Do-
viii.	To issue loans to professional technicians who have been continuously engaged in the local film industry for 05 years or more and have completed not less than ten films to enhance and develop their skills.	-Do-	Do-
ix.	Provision of loans for the repair and modernization of cinema halls and for the installation of new equipment	-Do-	-Do-
x.	To consider the applications submitted by the production sector.	-Do-	-Do-
xi.	To award financial prizes for high-quality films.	-Do-	-Do-

4. Accountability and Good governance

4.1 Budget control

Audit Observation	Management Comment	Recommendation
The expenditure of the Fund had been incurred without preparing and approving a budget for the year under review in accordance with Financial Regulation 877(1) (c) and (d) referred to in Section 15.1 of the Public Finance Circular No. 01/2020 dated 28 August 2020.	Observations are accurate.	A budget should be prepared according to the objectives of the fund and any expenditure should not be incurred without an approved budget.