

## **National Film Development Fund - 2012**

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### **1. Financial Statements**

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#### **1.1 Qualified Opinion**

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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 Development Fund as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Generally Accepted Accounting Principles.

#### **1.2 Comments on Financial Statements**

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##### **1.2.1 Accounting Deficiencies**

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A sum of Rs. 1,812,385 film levy contribution receivable from Sri Lanka National Film Corporation for the year under review had been credited to a creditor account instead of accounted as income. Also an accumulated income amount of Rs. 10,918,258 shown in the creditor account is not counterpart with the amount of Rs. 18,851,444 reflected in the accumulated revenue debtor account.

##### **1.2.2 Accounts Receivables and Payables**

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The following observations are made.

- (a) Film production debtors balances as at 31 December 2012 had been amounted to Rs.64,682,582 and out of the said balance a 99.8 per cent or Rs.64,554,331 had remained for more than 05 years. Any balance whatsoever had not been recovered except a sum of Rs. 5,000,000 received from selling of a film during the year 2012. The interest amount of Rs. 3,933,662 shown in accounts as recoverable for the loan of that

film had been written off without getting the approval from the General Treasury. The estimated amount of irrecoverable balance of loans given to film production had been Rs. 60,739,558 or 94 per cent.

- (b) Even though a 20 per cent of film levy on local and foreign films is given to the Film Development Fund from the Film Corporation to operate the Film Development Fund, the film levy contribution receivable to the Film Development Fund as at 31 December 2012 amounted to Rs.18,851,444.
- (c) The balance due as at 01 January 2012 from loans and related interest granted to 05 cinema halls for repairs and modernisation amounted to Rs.14,710,994. Of that the amount refunded to the Fund during the year 2012 amounted to Rs.2,068,596 or 14 per cent Any loan installment from a cinema hall had not been recovered.

### 1.2.3 Non-availability of Audit Evidence

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 The following evidence mentioned in front of each subjects were not presented to audit.

	<b>Description of Account</b> -----	<b>Amount</b> -----	<b>Un-presented Evidence</b> -----
		<b>Rs.</b>	
(a)	Opening Balance of film production income receivable	2,537,597	Schedule for opening balance of film production income payable account
(b)	Debit entries for film production income receivable account	163,141	Evidence to verify the accuracy of journal entries made on correcting errors relating to year 2009
(c)	Credit entries for film production income receivable account	15,463	Evidence to verify the accuracy of entries made on writing off entries of years 2008 and 2010

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

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Following instances of non-compliance were observed.

Reference to laws, rules, regulations etc.,	Non-compliance
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(a) Gazette Notification No. 946/9 of 24 October 1996 on Film Development Fund Rule No. 6 (c)	
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	Action had not been taken to determine and recover the surcharges to be imposed, if the refund of loans granted would be delayed.
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(b) F.R. 71(1)(a) and Public Enterprises Circular No. 95 of 14 June 1994	
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	Monthly allowances of Rs. 19,250 for the Chairman and other officers had been accounted as payable expenditure without getting the approval of Deputy Secretary to the Treasury with the consent of the Secretary to the Ministry of Public Administration.
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(c) Public Finance Circular No. PF/PE/09 of 12 June 2000	
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	The Treasury approval had not been obtained for the investment made in the year 2000 on fixed deposit for Rs. 2,000,000 and investment made in the year 2012 on Repo investments for Rs. 1,500,000.
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**2. Finance Review**

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**2.1 Financial Results**

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As per the financial statements presented, the financial result of the fund for the year under review was excess before tax of Rs. 4,996,573 as against the pre tax deficit of Rs. 3,628,437 in the preceding year thus indicating an increase in excess before tax of Rs.8,625,010 or 237 per cent. Increase of other income by Rs. 1,795,082 and decrease in provision for bad debts by Rs.5,128,020 had been the reasons for the increase of excess for the year under review.

**2.2 Analytical Financial Review**

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The profit for the year under review had been overstated by Rs. 2,153,858 due to debiting of Rs. 4,028,000 in 06 instances and crediting of Rs. 1,874,142 where the adjustments should not be made to the previous year profit.

**3. Operating Review**

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**3.1 Performance**

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Non of the objectives had been achieved in the year 2012 which were laid down from (a) to (l) under Regulation No. 04 of the National Film Development Fund Regulation No. 01 of 1994.

**3.2 Management Inefficiencies**

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The following matters were observed.

- (a) Action had not been taken to recover a sum of Rs.3,547,454 due since 2005 from a film produced and sold by the Fund to the Film Corporation even up to the end of the year under review.

- (b) Any legal action had not been taken by the Fund to recover the loan installments and interest thereon amounting to Rs.2,355,959 due from a Cinema hall. Instead, this amount had been treated as irrecoverable and deducted from debtor balances and shown in the financial statements. That loan had also not been utilised for the intended purposes.
- (c) 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 a preliminary expenses of Rs.200,000. The production of this film had been subsequently abandoned as it was unable to find a producer and thus it had been included in the film stock of the Fund.

### **3.3 Idle and Under -utilized Assets**

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It was observed that an amount of Rs. 268,533 has been idle in a current account since the year 2008.

## **4. Accountability and Good Governance**

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### **4.1 Corporate Plan**

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A Corporate Plan by including the year under review had not been prepared as per the paragraph No. 05 of Treasury Circular No. PED/12 of 02 June 2003, and attention had not been made even to prepare one for the next year.

### **4.2 Internal Audit**

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Accounting activities of the Fund had not been audited by the internal audit unit of the Film Corporation.

### **4.3 Audit Committees**

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The audit committee had not been established.

**4.4 Budgetary Control**  
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A budget had not been prepared for the Fund.

**5. 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 Debts
- (b) Surcharges