

National Film Development Fund – 2018

1.1 Opinion

The audit of the financial statements of the National Film Development Fund for the year ended 31 December 2018, comprising the balance sheet as at 31 December 2018 and the statement of income and expenditure, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies 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 I consider should be tabled in Parliament appear in this report.

In my opinion, the financial statements of the Fund give a true and fair view of the financial position of the National Film Development Fund as at 31 December 2018, 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 misstatements whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability 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 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 Responsibilities 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 it 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 Judgement 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 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 audit also had 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,
- * Whether 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 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
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(a) National Film Policy issued by the Ministry of Finance and Planning on 17 June 1999 and Section 6.5 of the Guideline thereon.	Either a sum of Rs.2.25 from an entrance ticket or 2.25 per cent of the income of total entrance tickets, whichever is more should be available to the National Film Development Fund from each imported film shows shown in the Cinema complexes constructed under the Regulations of the Board of Investments. Nevertheless, action had not been taken to compute and to recover the sum so recoverable from the Cine City Cinema Complex Maradana constructed in the year 2001.	The methodology mentioned above was included in the Guideline issued by the Ministry of Finance and Planning and action was not taken accordingly.	Action has to be taken in terms of the Film policy and the Guideline thereon.
(b) Directives of Sri Lanka National Film Corporation (Miscellaneous Fees) No.01 of 1996 published in the Extra-ordinary Gazette Notification No.9/946 dated 24 October 1996.			

(i)	Section 4	In an instance of showing an imported film, a sum of Rs.1 from a ticket for “u” group films and a sum of Rs.3 from a ticket for “x” group films and from a ticket for “Most suitable for Adults” group ticket should be recovered in addition to the levy already charged. Those money should be remitted to the Fund by the owner of the Cinema Hall or the lessee of the Cinema Hall. But action had not been taken by the responsible parties accordingly.	Money was not recovered as mentioned.	Additional fees under Directives of the Film Corporation (Miscellaneous Charges) has to be recovered.
(ii)	Section 5(i)	Even though, the Board of Control of the Fund should be consisted with two nominated members including the Chairman and the Board of Directors of the Sri Lanka National Film Corporation. Nevertheless, the Board of Control had not been appointed accordingly.	The Board of Control for the year 2019 has been appointed.	The Board of Control has to be duly appointed and the functions of the Fund should be carried out.
(iii)	Section 2(4)(i)(e)	Action had not been taken to provide equipment required to produce and to show the films to ensure the higher standards of the films for over a period of 08 years.	The observations are correct.	The necessary equipment has to be provided to produce and show the films to upgrade for higher standards of the films.
(iv)	Section 2(4)(i)(f)	Action had not been taken by the Fund either to provide scholarships for the artists and the technicians who engaged in the film industry or to arrange training programmes.	As the appointing of the Board of Control was delayed the functions of the Fund could not be carried out.	Action has to be taken to provide either scholarships or training programmes for the artists and the technicians.

(v)	Section 2(4)(i)(g)	Action had not been taken for over a number of years to promote film production through providing loans to the film Directors to obtain specific equipment on lease, from a source that could be obtained for film scripts approved by the evaluation committee of the film scripts or for the function of the producing such films for the production of higher standard artistic films.	As appointing of Board of Control was delayed, the functions of the Fund could not be carried out.	Loans to be provided for film Directors to obtain required equipment for the film production on lease basis and action has to be taken to promote such film productions.
(vi)	Section 2(4)(i)(h)	Action had not been taken since the year 2013 to issue loans to improve and develop the skills of the professional technicians who engaged in the local film industry continuously for a period of 05 years or more than that and who completed the number of films not less than 10.	As appointing of the Board of Control was delayed, the functions of the Fund could not be carried out.	The loans has to be granted to the professional technicians to increase and develop their skills.
(vii)	Section 6(c)	If it is delayed the refunds of the loans the recoverable surcharges thereon should be specified by the Board of Control and should be recovered. Nevertheless, action had not been taken accordingly in respect of the loans granted to the owners of the cinema halls amounting to Rs.72,535,872 for a period from the year 2013 up to the year under review.	There was a difficulty to recover the loans. If the loans could be recovered action will be taken to recover surcharges.	Board of Control should take action to impose and recover the surcharges recoverable if payments of refunds are delayed.

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| (c) | Treasury Operations
Circular No.3/2015
dated 23 October 2015 | The current account started in the People's Bank in the year 2013 had remained dormant even by 31 December 2018 and action had not been taken to close the account. | The account was opened to provide loan facilities for the film production. It is envisaged to provide loan facilities in future and the account will be operated. | The current account which was dormant for a long period has to be closed. |
| (d) | Public Enterprises
Circular No.PED/12
dated 02 June 2003. | Even though, the financial statements should be presented to Auditor General within 60 days after the closure of the financial year, the financial statements had been presented on 05 November 2019 after a delay of 09 months and 05 days. | It was delayed the approval of the Board of Control. | The financial statements should be presented to audit in terms of the instructions of the Circular. |

2. Financial Review

2.1 Financial Results

The operations of the Fund in the year under review had resulted in a surplus of Rs.11,720,551 as compared with the corresponding surplus of the preceding year amounting to Rs.8,798,358 thus observed an improvement of Rs.2,922,193 in the financial results. The receipts for foreign technicians was mainly attributed for this improvement.

3. Operating Review

3.1 Management Activities

The following observations are made.

Audit Observation -----	Comments of the Management -----	Recommendation -----
(a) The balances of debtors amounting to Rs.67,001,194 which remained brought forward for over a period ranging from 5 years to 24 years by the end of the year	Action was taken to recover but could not be recovered the loans due to the time bar and the objections of the Cinema producers. At present a	A proper arrangement should be prepared and implemented to recover the loans.

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| <p>under review had been identified as unrecoverable loans. While necessary action had not been taken in respect of those loans.</p> | <p>proper arrangement is being implemented to recover loans.</p> | |
| <p>(b) The rental contributions of the films which is the main income source of the Fund should be recovered from the Sri Lanka Film Corporation but action had not been taken to recover above funds from the year 2003 up to the year under review. The arrears recoverable by 31 December 2018 amounted to Rs.24,470,052.</p> | <p>The requests for claims were not made due to the financial crisis of the Corporation. Action will be taken to claim those in this year.</p> | <p>Action should be taken to recover rental contribution of films from Film Corporation.</p> |
| <p>(c) The loan granted in the years 2001 and 2002 to the Film Lanka company for constructions of the Maradana Cine City Cinema Complex and to purchase equipment amounting to Rs.8.5 million could not be recovered as per the agreement. A sum of Rs.1,457,319 had to be recovered further by 31 December 2018. The interest receivable for this loan up to the year 2006 had been computed as Rs.4,064,958, and action had not been taken to identify the amount of interest receivable for the subsequent years.</p> | <p>The interest payments are not paid as the cinema hall was established by the Board of Investment. Therefore, the interest was not brought to account but the installment payments are made.</p> | <p>Action should be taken to recover interest up to the year 2019 in terms of the loan agreement relating to the constructions of the Cine City Cinema Complex.</p> |
| <p>(d) The loans granted to the production works of the “Wekanda Walauwa” and the interest thereon as at 31 December 2018 amounted</p> | <p>The observation is correct.</p> | <p>When showing films through electronic media the approval should be obtained and rental income for shows should</p> |

to Rs.3,525,795. Even though the right of the film is belonged to the Sri Lanka Film Corporation, the above film had been showed through the television from time to time. However, the shows income had not been recovered for the Film Development Fund.

be obtained for the National Film Development Fund.

3.2 Under-utilisation of Funds

Audit Observation

Comments of the Management

Recommendation

 The average monthly balance of the bank current account of the Fund in the year 2018 amounted to Rs.3.3 million. Nevertheless, action had not been taken to invest those money in a short term investment effectively and to obtain an additional income

 The additional money could not be invested due to the delay of appointing of Board of Control.

 The money required for the working capital should be retained and the money in addition to that should be invested in short term investments.