

National Film Development Fund.

1. Financial Statements

1.1 Qualified Opinion

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 2011 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Comments on Financial Statements

1.2.1 Sri Lanka Accounting Standards

A net value of Rs.1,494,332 was shown as creditors in financial statements having set off a sum of Rs. 1,043,265 of receivable film production income to a sum of Rs. 2,537,597 of expenditure payable on produced film contrary to the Chapter No.32 of Sri Lanka Accounting Standards No. 3.

1.2.2 Accounting Deficiencies

Even though the received film hire contribution of Rs. 83,101 had been accounted out of the film hire contribution of Rs. 1,876,692 with relating to year under review, the receivable income of Rs. 1,793,591 had been shown in creditor account instead of revenue account.

1.2.3 Accounts Receivables and Payables

The following observations are made.

- (a) Out of the film production debtors balances as at 31 December 2011 amounting to Rs.73,616,244 a 99 per cent or Rs.72,923,005 had remained for more than 5 years and any balance whatsoever had not been recovered as the films had not been shown during the year 2011 except a sum of Rs. 100,000 received from the loan of ‘Tharanaya’ film. Of that a sum of Rs.57,714,499 or 78 per cent had been estimated as irrecoverable debts.
- (b) A bad debt provision of Rs.7,213,526 had been made in the year under review and it had been a increase of Rs.5,059,167 or 235 per cent as compared with that of the preceding year. Also, the total loan amount of Rs.7,783,032 granted to “Uduganyamaya” film had been provided as bad debts in year 2011.

I was reported by the Chairman that “ the total loan was shown as provision by considering the loan would not be recovered, due to the loans granted on film production is recovered from the receiving income of film shows and also this film was not shown in this year.”

- (c) 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 2011 amounted to Rs.17,039,059. Of that a sum of Rs.7,933,187 or 47 per cent of the balances had remained for more than 5 years.
- (d) The balance due as at 01 January 2011 from loans and related interest granted to 5 cinema halls for repairs and modernisation amounted to Rs.14,544,045. Of that the amount refunded to the Film Development Fund during the year 2011 amounted to Rs.1,231,442 or 9 per cent. Any loan installments from 2 cinema halls had not been recovered.

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

Following instances of non-compliance were observed.

Reference to laws, rules,
regulations etc.,

Non-compliance

(a) Gazette Notification No.
946/9 of 24 October 1996 on
Film Development Fund

(i) Rule No. 6 (e)

Action had not been taken to determine and recover the surcharges to be imposed, if the refund of loans granted would be delayed.

I was reported by the Chairman that “the loans granted on film production are recovered from the receiving income of film shows. Loan recoveries could not be made due to decrease of income. In this instance, having calculated surcharges on the delay in loan recoveries and due as income and debtors caused to generate non receiving income in to books. However if the loan could be recovered then the actions would be taken to recover the surcharges.

(b) Financial Regulation 168(3)

Even though the original and the second copy of cancelled receipts should be kept with the receipt books, actions had not been taken accordingly with regard to cancelled receipts.

(c) Public Finance Circular No.
PF/PE/09 of 12 June 2000

The Treasury approval had not been obtained for the investment made in year 2000 on fixed deposit for Rs. 2,000,000. And this was kept as security bond for bank overdraft and details in this regard were not shown in notes to the financial statements.

2. Finance Review

2.1 Financial Results

As per the financial statements presented the financial result of the fund for the year under review was pre tax deficit of Rs. 3,628,437 as compared with the pre tax deficit of Rs.16,488 in the preceding year thus indicating a increase in pre tax deficit of Rs.3,611,949 or 21,906 per cent. Increase of bad debts by Rs.5,059,167 had been the reasons for the increase in pre tax deficit. Details are shown bellow.

Description	Year under review (2011)	Preceding Year (2010)	(Decrease) / Increase	%
	Rs.	Rs.	Rs.	
Approved rates for foreign film shooting and receipts for foreign technician	2,444,725	1,122,300	1,322,425	118
Income from shows, film hire contribution and interest on production loans	332,346	353,835	(21,489)	6
Surcharges	-	4,000	(4,000)	100
Other Income	1,224,696	1,289,449	(64,753)	5
Provision for bad debts	7,213,526	2,154,359	(5,059,167)	235
Audit fees, bank charges, stationery, script approvals, refreshment expenses	62,851	34,213	(28,638)	84
Film production expenses	-	243,673	243,673	100
			(3,611,949)	

3. Operating Review

3.1 Performance

No objectives had been achieved in year 2011 which were laid down from (a) to (i) under Regulation No. 04 of the National Film Development Fund Regulation No. 01 of 1994. Also, at least a one had not been achieved from provided budgeted estimates of Rs.2,030,000 for the following four objectives in 2011.

	Rs.
(i) Film Festivals	500,000
(ii) Course Fees	500,000
(iii) Donations for National Film Industry	500,000
(iv) Development Projects	530,000

I was reported by the Chairman that, “These objectives were non-performed due to improper functioning of the fund’s objectives and instructions would be given to perform in the coming year”.

3.2 Management Inefficiencies

The following matters were observed.

- (a) Action had not been taken recover a sum of Rs.3,547,454 due since 2005 from the "Wekanda Walwwa" 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 the Giriulla Cinema hall. Instead, this amount had been treated as irrecoverable and deducted from debtor balances and shown in the financial statements. It was further observed that loan had not been utilised for the intended purpose.
- (c) The National Film Corporation had planned to produce the film "Sanda Diya Salu" 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 Film Development Fund.

- (d) Though a Board of Control was appointed for the year under review, no major operational decisions had been taken even met in two occasions during the year 2011.

3.3 Idle and under utilized Assets

It was observed that an amount of Rs. 227,283 in a current account has been idle since year 2008.

3.4 Staff Administration

Payment of Rs. 29,000 per month for ten corporation staff for duties of the fund had been approved as per decisions taken in two meetings of Board of Control, and a sum of Rs.1,711,000 had been provided as staff allowances expenditure from year 2007 to 2011. Even though no objectives of the Fund were achieved during the year 2011, deficit had been increased with that amount by providing an amount of Rs. 348,000 as staff expenses. Also attention had not been drawn to assign only the essential staff by providing the proper duty list.

4. Accountability and Good Governance

4.1 Corporate Plan

A Corporate Plan 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

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

5. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman from time to time. Special attention is needed in respect of the following areas of control.

- (a) Recovery of Debts
- (b) Surcharges