

National Film Corporation of Sri Lanka - 2013

The audit of financial statements of the National Film Corporation of Sri Lanka for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of comprehensive income, statement of changes in equity 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(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No. 38 of 1971 and Section 31(1) of the National Film Corporation of Sri Lanka Act, No. 47 of 1971. My comments and observations which I consider should be published with the Annual Report of the Corporation in terms of Section 14(2) (c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka 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 conducted in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000 – 1810)

1.4 Basis for Disclaimer of Opinion

As a result of the matters described in paragraph 2.2 of this report, I am unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded items and the elements making up the statement of financial position, statement of comprehensive income statement of changes in equity and cash flow statement.

2. Financial Statements

2.1 Disclaimer of Opinion

Because of the significance of the matters described in paragraph 2.2 of this report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly I do not express an opinion on these financial statements.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards

The following observations are made.

- (a) A sum of Rs.138,062,990 received as Government grants had been shown under capital employed instead of being shown under the non-current assets in accordance with Sri Lanka Accounting Standard No.01.
- (b) Even though the particulars of the assets fully depreciated being used at present for operations should be disclosed in the financial statements by way of notes in terms of Sri Lanka Accounting Standard No.16, it had not been so done.
- (c) The minimum information of the lease payments to be disclosed in the financial statements in accounting for operating leases in terms of Sri Lanka Accounting Standard No.17, had not been so disclosed in the financial statements.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) In view of the following weaknesses prevailing in the accounting systems, establishing the correctness and balancing of the financial statements had become a debatable issue in audit.
 - (i) Differences between the balances in the ledger accounts and the balances in the financial statements.

Particulars	According to Ledger	According to Financial Statements	Difference
-----	-----	-----	-----
	Rs.	Rs.	Rs.
Sundry Creditors	875,285	2,453,542	1,578,257
Film Hire Creditors	114,615,930	123,977,635	9,361,705
Film Hire Debtors	224,918,877	156,164,056	68,754,821
Production Creditors	106,643,677	113,311,542	6,667,865
			86,362,648

- (ii) The total of the debit balances in the Schedule of Other Creditors as well had been included in addition to the debtor balance in showing the other debtors in the financial statements of the Corporation. Even though those debit

balances amounted to Rs.702,971, a sum of Rs.1,578,256 had been included.

- (iii) The credit balance of the Sundry Creditors Control Account according to the Ledger Account amounted to Rs.875,286 and the net balance of the schedules agreed with that balance. Nevertheless, the credit balance of those schedules amounting to Rs.1,578,256 had been added again to the ledger balance shown in the financial statements.
 - (iv) The Balance of Rs.100,949 in a Current Account maintained in a Private Bank in the name of the Corporation had not been disclosed in the financial statements.
 - (v) The final balance of the account of the National Film Corporation of Sri Lanka as at 31 December 2012 according to the Trial Balance of the Rithma Board amounted to Rs.110,785,369 and a sum of Rs.145,723,112 had been brought forward as the opening balance of the year 2013.
- (b) Adjustments had not been made in the Ledger Accounts in respect of a motor vehicle costing Rs.7,696,541 which had been rendered unserviceable due to an accident. Lease purchase facilities amounting to Rs.1,638,000 had been made use of in the purchases of the motor vehicle and lease payments payable by the end of the year under review amounted to Rs.890,862. That amount had been shown as accrued expenses instead of being shown separately as lease creditors.
 - (c) Action had not been taken to eliminate from the accounts and the registers the value of a temporary building costing Rs.6,080,387 demolished in the year 2011 and the depreciation thereon.
 - (d) Even though interest amounting to Rs.2,879,113 received on call deposits had been recognized as income and re-invested, that had been shown as an amount receivable instead of being debited to the Investment Account.
 - (e) An unrealized interest on production loans amounting to Rs.4,007,480 had been included in the investment activities in the cash flow statement.
 - (f) Adjustments relating to the preceding year amounting to Rs.12,124,686 had been adjusted to the accumulated profit carried forward at the end of the year under review instead of being adjusted retrospectively in the financial statements.

2.2.3 Unreconciled Control Accounts

A difference of Rs.6,967,159 was observed between the balances of the accounts relating to the staff loans, expenditure on gratuity, Cinema debtors, Production debtors, bad debts not agreed and irrecoverable according to the ledger and the schedules furnished to audit.

2.2.4 Unexplained Differences

The following observations are made.

- (a) The account of the National Film Corporation is a current account recording the inter-departmental transactions and its final balance had been shown as Rs.4,074,740(debit) and the balance further available after the adjustment of the Film Distribution Board Account maintained parallel to that, amounted to Rs.2,265,568. Action had not been taken to identify correctly and reconcile these Current Account balances.
- (b) According to the reports of the Board of Survey as at 31 December 2013, the closing stocks of the Head Office and the Sarasavi Studio amounted to Rs.9,033,299 whereas the value of stocks shown in the financial statements amounted to Rs.10,527,223. Thus a difference of Rs.1,493,924 was observed.

2.2.5 Accounts Receivable and Payable

The following observations are made.

(a) Production Debtors

- (i) The total value of the production debtors amounted to Rs.108,581,808 and the debtors older than 03 years amounted to Rs.69,432,725 or 64 per cent. The debtors older than 05 years included in the debtors older than 03 years amounted to Rs.52,361,734 or 48 per cent. Information relating to adequate action taken for the recovery of such money had not been furnished to audit.
- (ii) According to the Production Debtors Control Account, the balance of the Production Debtors Account amounted to Rs.106,643,677 and the debit balance of the Film Hire Creditors Schedule amounting to Rs.9,361,705 and the credit balance of the Sundry Debtors schedule amounting to Rs.1,927,407 had been added to that. Out of that, the balance of the Production Loans Interest Provision Account amounting to Rs.4,618,806 had been deducted without any basis from the Production Debtors and the net value of debtors had been shown as Rs.113,311,542 in the financial statements. As such it was not possible to be satisfied in audit with regard to this debtors balance.

(b) Theater Hall Debtors

- (i) The arrears recoverable as at end of the year under review from 254 Cinema halls that existed prior to and after the transfer of the distribution of films to cinemas was transferred to the Private Cinema Circuits in the year 2001, but closed down at present, amounted to Rs.66,215,410. Similarly the amount receivable by the Rythma Board from 36 cinema halls belonging to other Circuits but closed down, amounted to Rs.172,150.

- (ii) The arrears receivable from 151 cinema halls belonging to the Circuits in operation at present amounted to Rs.149,548,660. Similarly, the amount receivable by the Rythma Board as at the end of the year under review from 69 cinema halls amounted to Rs.11,030,269. Effective action had not been taken during the year under review for the recovery of the receivables.
- (c) According to the financial statements presented the total of the loans recoverable as at the end of the year under review as Cinema halls production and other loans and the employees advances amounted to Rs.296,776,425. Out of these debtors, provision for bad debts had been made at 100 per cent for the loan balances not agreed and remaining as irrecoverable amounting to Rs.121,433,546 and provision of bad debts at 5 per cent had been made for the balance debtors. Nevertheless, the uncertainty of the recovery Rs.129,178,138 or 44 per cent of the above debtors was observed.
- (d) A sum of Rs.945,300 receivable as at beginning of the year under review on account of rent of buildings, and water and electricity bills shown in the accounts had not been received even during the year 2013.
- (e) The deposits receivable as at 31 December of the year under review amounted to Rs.926,228. Out of that a sum of Rs.653,728 or 71 per cent had been shown as a deduction from the retained profit on irrecoverable basis without taking action for the recovery from the institutions concerned.
- (f) Distress loans amounting to Rs.730,352 granted to 06 officers who had retired, dismissed from service or vacated posts subsequently and interest amounting to Rs.62,370 had not been recovered over periods ranging from 01 year to 10 years. No recoveries whatsoever had been made from these officers during the year 2013.
- (g) The balance sum of Rs.5,000,000 remaining out of the money received from the Treasury for the payment of compensation to the officers who retired voluntarily in the year 1997 had not been refunded to the Treasury even by the end of the year under review.

2.2.6 Lack of Evidence for Audit

The following items could not be satisfactorily vouched or accepted in audit due to the non-submission of the evidence indicated against each item.

Particulars of Account -----	Value ----- Rs.	Evidence not made available -----
(a) Provision for Interest on Production Loans	4,618,805	Particulars of Computation
(b) Deposits and Prepayments	3,802,115	Receipts
(c) Debtors – Cinema hall	156,164,056	Confirmation of Balances
(d) Debtors - Producers	113,311,542	Confirmation of Balances
(e) Other Debtors	37,933,601	Age Analysis
(f) Deposits	2,446,727	Age Analysis
(g) Stocks not in Use	2,252,818	Detailed Schedules

(h) Provision for Surcharges (Levy from Cinema Hall)	72,044,555	Detailed Schedules and Age Analysis
(i) Cinema hall sound Equipment Stocks	10,592,257	Stock Verification Reports
(j) Stock of Films	5,253,886	Stock Verification Reports

	408,380,362	
	=====	

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

The following instances of non-compliance with laws, rules, regulations and management decisions were observed.

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliances
-----	-----
(a) Approved Staff according to the National Film Corporation of Sri Lanka Act, No.47 of 1971 as amended by the Act, No.45 of 1985 and Circular No.30 dated 28 September 2011 of the Department of Management Services.	Even though provision or a post for the appointment of a Working Director not existed, a Working Director had been appointed for a monthly allowance of Rs.45,000 and provided an official motor vehicle with Driver and an allowance for 140 liters of fuel per month. But the officer did not function on full-time basis while a list of duties had not been issued to him.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 110	A Register of Losses and Damage had not been maintained in the updated and proper manner.
(ii) Financial Regulation 177 (1)	Even though the daily receipts of money should be banked daily or as early as possible, 9 such instances of failure to do so were revealed during the course of audit test checks.
(iii) Financial Regulation 177 (3)	Even though the total amount of money received should be banked, a sum of Rs.122,622 not so banked and the use of money received for incurring daily expenses of the Corporation were observed at the test check.
(c) Public Administration Circular No.22/99 of 08 October 1999 Paragraph 1.3	An officer in the salary group not entitled to transport facilities had been provided with

transport facilities, without approval, for travel between the office and residence only by herself.

(d) Public Administration Circular
No.09/2007 of 11 May 2007

Even though re-employment of pensioners should be resorted to only when a suitable successor cannot be found, a retired officer had been deployed in a post of driver which does not come under that category. The concurrence of the Secretary to the relevant Ministry had not been obtained in that connection.

3. Financial Review

3.1 Financial Results

The financial results of the National Film Corporation of Sri Lanka for the year under review had been a pre-tax net loss of Rs. 58,337,827 as compared with the pre-tax net loss of Rs. 50,487,786 for the preceding year. The net loss as compared with the preceding year, had further deteriorated by a sum of Rs.7,850,041. As a result of the receipts of Rs.69,960,000 and Rs.68,308,000 as recurrent grants in the year under review and the preceding year respectively, the profit for the year under review and the preceding year amounted to Rs.11,622,173 and Rs.17,820,214 respectively.

3.2 Legal Actions Instituted against or by the Corporation

The following observations are made.

- (a) According to the letter dated 19 February 1980 of the Secretary to the Ministry of Policy Development and Implementation, the services of the Attorney General should be obtained for the legal work of public institutions. Nevertheless the Corporations had not taken actions accordingly. A sum of Rs.1,656,000 had been spent as legal fees to external lawyers retained for 15 cases and that as compared with the preceding year indicated an increase of 843 per cent.
- (b) The Corporation had filed 03 cases against external parties for the recovery of compensation amounting to Rs.23,534,184 and that had not been disclosed in the notes to the financial statements.

4. Operating Review

4.1 Performance

(a) Film Loans

The following observations are made.

- (i) Loans amounting to Rs.5,473,150 had been granted for 26 films which had not been released for screening and out of those loans older than 05 years, a sum of Rs.4,019,261 or 73 per cent remained receivable as at the end of the year under review.
- (ii) Even though loans amounting to Rs.63,460,241 had been granted for the production of 48 films released for screening a sum of Rs.28,333,559 or 45 per cent of those loans older than 05 years remained receivable as at the end of the year under review.
- (iii) Even though loans amounting to Rs.26,182,836 had been granted for 16 films released for screening, a sum of Rs.11,322,942 or 43 percent out of those loans less than 05 years old, remained receivable as at the end of the year under review.
- (iv) The total amount of loans amounting to Rs.17,940,763 granted for the production of 13 films not-released for screening but un-shuffled, less than 05 years old remained receivable as at the end of the year under review.
- (v) The total amount of loans amounting Rs.5,978,641 granted for the production of 12 films not-completed and less than 05 years old remained receivable as at the end of the year under review.

(b) Grant of Loans to Cinema Halls

The following observations are made.

- (i) A loans of Rs.1,100,000 had been granted to a theatre in the year 2003 without entering into an agreement but the agreement had not been signed even by the end of the year under review. The sum recoverable as at the end of the year under review amounted to Rs.571,738.
- (ii) The loans amounting to Rs.12,822,682 granted prior to the year 2013 for the modernisation of 09 theatres, together with the interest as at the end of the year under review had been to Rs.15,875,103. Even though a sum of Rs.1,992,560 had been recovered from 04 cinemas during the year under review, no recoveries whatsoever had been made from 04 theatres.

4.2. Management Inefficiencies

The following observations are made.

- (a) Action had not been taken for the recovery of the film hire and levy not paid to the Corporation on the due dates and 2.5 per cent recoverable for the Corporation Trust as surcharge amounted to Rs.3,625,698.
- (b) The internal parts of an air-conditioner valued at Rs.81,250 purchased in the year 2008, had been misplaced during the year under review and the responsibility for that had been placed on the Security Division. Appropriate action in this connection had not been taken on due time and had agreed to pay a sum of Rs.15,000 for the loss. The valuation of the loss had not been done by a party competent in the field and as such it was further observed that the management had not taken action to identify the loss caused to the Corporation.

4.3. Operating Inefficiencies

The surcharges imposed on debit notes of the preceding year recoverable from theatres for irregularities had not been brought to account in a manner to enable separate identification. Even though 101 debit notes valued at Rs. 394,170 had been issued in the year under review in connection with the irregularities detected by the Inspection Division of the Corporation, action had not been taken for recovery of the surcharge amounting to Rs. 242,510 recoverable on 73 debit notes. A sum of Rs. 399,072 remained recoverable on 43 debit notes issued prior to the year under review.

4.4. Slow Moving, Idle and Underutilized Assets

Even though 05 DTS sound equipment had been purchased in the year under review under the loan facilities for renovation of theatres, three of such sound equipment valued at Rs.10,592,257 had not been supplied to the theatres and remained idle over a period 02 years.

4.5. Uneconomic Transactions

The following observations are made.

- (a) The Investment valued at Rs.127,000 in a State Company shown in the financial statements as long term investments had not yielded any return.
- (b) Even though the lease period of the building leased out to the SAARC Cultural Centre had expired on 01 March 2013, entering into a new lease agreement had been delayed till 12 September 2013. Even though the monthly assessment rates for the building according to the new assessment report obtained in respect of year under review amounted to Rs.230,000 an agreement for a monthly rental of Rs.200,000 had been entered into.

- (c) The building of monthly rates value amounting to Rs.100,000 had been rented out to the Public Performance Board at Rs.60,000 per month without entering into an agreement.
- (d) A surcharge of Rs.16,246 had been paid in the year under review due to the delay in the payment of the rates for the Studio building.

4.6. Identified Losses

Unrealized deposits amounting to Rs.105,446 and the unidentified debits amounting to Rs.25,063 older than 05 years appearing in the Bank Reconciliation Statement had been written off to the Profit and Loss Account in the year under review.

4.7 Delayed Projects

Three projects of agreements value amounting to Rs.13,185,362 which should have been completed in the year 2011 had not been completed even by the end of the year under review and the delays had been 03 years 05 months.

4.8 Staff Administration

The following observations are made.

- (a) Even though the approved staff of the Corporation and the Scheme of Recruitment had been approved on 28 September 2011 and 14 September 2012 respectively, there were 55 vacancies of officers in 08 groups of posts as at 31 December 2013. That represented 30 percent of the approved staff. Excesses of 06 employees in the approved primary grade (Non-technical) and 06 employees in other posts not approved existed. Vacancies to 11 Executive Grade posts, 35 posts in the Support Services and 09 posts in Primary Grade existed.
- (b) All three posts in the Senior Management Level of the Corporation had been vacant over periods ranging from 01 year to 05 years. Acting appointments had been made over and over again without taking action to recruit officers for those posts.
- (c) In addition to the posts in the Senior Management Level, out of 23 posts in the Management and the Junior Management Levels, 08 posts had been vacant over periods ranging from 02 years to 29 years.
- (d) Even though the Studio performance an important function in the operations of the Corporation, shortages of 12 officers including Assistant General Manager (Studio Services), Laboratory and Preservation Officer, Sound and Editing Officer and 08 Management Assistants – Technical Officers existed. That represented 34 per cent of the total number of officers of that Division.

- (e) Even though the approved posts for the Engineering Technical Services Division had been 9, four posts comprising the post of Assistant General Manager Engineering Technical Services, 02 posts of Management Assistant-Technical and one post of Management Assistant had been vacant.
- (f) Out of the 04 posts approved for the Office of the General Manager, the only permanent appointment made had been an Office Aide.

4.9 Motor Vehicles Control

The motor vehicle fleet of the Corporation had 09 motor vehicles of which 02 had been allocated motor vehicles. The total number of Kilometers run by those motor vehicles during the year under review had been 112,672. The expenditure on maintenance and fuel amounted to Rs.2,487,920 and Rs.1,716,765 respectively. As such the cost of maintenance and fuel per kilometer amounted to Rs.22.08 and Rs.15.24 respectively.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

According to the Public Enterprises Circular No. PED/12 of 02 June 2003 the financial statements should be presented to the Auditor General within 60 days after the close of the year of accounts. Nevertheless, the National Film Corporation of Sri Lanka had presented the financial statements for the year under review only on 12 September 2014, after a delay of 193 days.

5.2 Action Plan

Even though plans had been made for carrying out and completion of 04 activities costing Rs.41.5 million under the Studio Facilities Improvement and Modernization during the year under review, those activities had not been executed in the year under review.

5.3 Internal Audit

Even though an Internal Auditor, 02 Management Assistants and an Office Aide had been allocated for the Internal Audit Unit of the Corporation, other than the Internal Auditor, the other support staff for the Internal Audit Unit had not been provided regularly during the year. As such the opportunities for the effective achievement of the objectives of the Internal Audit had been limited.

5.4. Budgetary Control

Reconciliation of the budgeted income and expenditure and the actual income and expenditure of the year under review revealed that the variance of 06 items of income and expenditure had exceeded 50 per cent. As such it was observed that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

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

- (a) Credit Control
- (b) Refundable Deposits
- (c) Investments
- (d) Petty Cash Advances
- (e) Inspection of Cinema Halls
- (f) Accounting