National Film Corporation of Sri Lanka - 2014

The audit of financial statements of the National Film Corporation of Sri Lanka for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 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 Auditing 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

(a) Even though rectification of errors relating to previous year in the statement of changes in equity should be disclosed in the financial statements as changes in comparative information according to Sri Lanka Accounting Standard 08, rectification of Rs.4,596,068 made relating to the previous year had not been so disclosed.

(b) Even though the particulars of assets fully depreciated but still in use for operations should be disclosed in the financial statements according to Sri Lanka Accounting Standard 16, it had not been so done. Moreover, depreciation of a motor vehicle purchased in November of the year under review had been made for the whole year without considering the date of purchase. As such, the expenditure for depreciation of the year had been overstated by Rs.1,638,070 in the financial statements.

(c) Computation of gratuities had not been done in accordance with Sri Lanka Accounting Standard 19.

(d) According to Sri Lanka Accounting Standard 40, investment assets had not been identified and disclosed thereon in the financial statements.

2.2.2 Accounting Policies

Even though it had been disclosed that the stock of the Corporation had been valued at cost or net realized value, whichever is less and shown in the financial statements, the basis on which the provisions were made for decrease of value of unusable stocks had not been disclosed in the financial statements.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) A difference of Rs.92,359,122 between the balances shown in the financial statements and balances in the ledger accounts relating to 04 items due to weaknesses prevailing in the accounting system was observed. As such, the establishment of accuracy and balancing in the financial statements presented, was problematic in audit.

(b) The profit from disposal of motor vehicles had been overstated by Rs.127,655 due to errors made in accounting in respect of receipt of insurance claims for a motor vehicle condemned after having met with an accident and settling the lease liability for that vehicle and the amount received as insurance claim had been overstated by Rs.763,596 in the cash flow statement.

(c) The credit balance of the Sundry Creditors Control Accounts according to the Ledger Accounts amounted to Rs.815,777 but the credit balance of the schedules amounting to Rs.1,518,910 had been shown as sundry creditors in the financial statements.

(d) Even though a sum of Rs.13,084,258 had been shown in the financial statements as capital work in progress of the studio as at 31 December of the year under review, action had not been taken to identify the works completed at present included in this value and bring them to account in the Assets Account.

(e) Action had not been taken to eliminate the value of a temporary building costing Rs.6,080,387 demolished in the year 2011 and the depreciation thereon from the accounts and the registers.

(f) A projector valued at Rs.1,355,007 granted under credit basis for a cinema hall under modernizations of cinema halls had been taken back due to failure in paying loans. Nevertheless, the value of that equipment had not been deducted from the cinema hall debtors and included in the stocks.

2.2.4 Unreconciled Control Accounts

The following observations are made.

(a) According to the ledger, a difference of Rs.25,839,838 was observed between the balances of the Cinema Creditors and the Cinema Debtors Accounts and the schedules presented to audit.

(b) The credit balance in the Current Account in which transactions of inter-departments are recorded as at the end of the year under review amounted to Rs.28,801,861. Even though the balance in the Film Distribution Board Account maintained in line with the Current Account, amounted to Rs.2,078,307 as at that date, action had not been taken to identify and reconcile the balances of the said Current Accounts.

2.2.5 Unexplained Differences

Even though the closing stocks of the Head Office amounted to Rs.4,939,316 according to the reports of the Boards of Survey as at 31 December of the year under review, the value of stocks shown in the financial statements amounted to Rs.17,209,432, thus observing a difference of Rs.12,270,116. Moreover, according to the financial statements, the value of stocks of the Sarasavi Studio amounted to Rs.3,297,155 and the value of closing stocks had not been shown in the reports of the Boards of Survey.

2.2.6 Lack of Evidence for Audit

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

Particulars of the Account	Value Rs.	Documentary Evidence not made available
(a) Deposits and Prepayments	826,228	Receipts
(b) Other Debtors	130,126,137	Detailed Schedules and Age Analysis
(c) Unclaimed Wages	387,231	Detailed Schedules
(d) Stocks not in Use	3,696,883	-do-
(e) Provision for Surcharges (Levy from Cinema Halls)	81,190,216	Detailed Schedules and Age Analysis

(f)	Money Receivable	2,571,892	Age Analysis

		218,798,587	
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2.3 Accounts Receivable and Payable

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The following observations are made.

(a) Production Debtors:

(i) The total value of the production debtors amounted to Rs.110,547,570, out of which, the debtors remained unrecovered for more than 03 years amounted to Rs.8,452,361 or 7 per cent. The debtors unrecovered for more than 05 years amounted to Rs.60,851,013 or 55 per cent. Information regarding to adequate action taken for the recovery of such money had not been presented to audit.

(ii) Even though the balance of the Production Debtors Account amounted to Rs.109,289,896 according to the Production Debtors Control Account, debit and credit balances totalling Rs.14,642,051 had been adjusted to that balance without a basis and the net debtors value had been shown as Rs.114,694,335 in the financial statements. As such, it was not possible to be satisfied in audit with regard to this debtors balance.

(b) Cinema Hall Debtors:

(i) The arrears recoverable as at end of the year under review from 265 Cinema halls that existed prior to and after the distribution of films to cinema halls was transferred to the Private Cinema Circuits in the year 2001, but closed down at present, amounted to Rs.65,339,829.

(ii) The arrears recoverable from 169 cinema halls belonging to the Circuits in operation at present amounted to Rs.152,076,834. Effective action had not been taken during the year under review as well for the recovery of the receivables.

(c) According to the financial statements presented, the total 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.405,536,823. Nevertheless, it was observed that the recovery of Rs.132,928,299 or 33 per cent from the above debtors was uncertain.

(d) Action had not been taken to recover loans amounting to Rs.672,506 granted as employees advances to 12 officers who had retired, dismissed from service and vacated posts within a period from 01 year to 11 years.

(e) Eventhough it was disclosed by the notes to the accounts that the debtors had been shown in the financial statements by deducting the impairment value, the impairment value had not been deducted and identified from other debtors of Rs.130,126,137 shown in the statement of financial position as at 31 December of the year under review.

2.4 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) National Film Corporation 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 provisions 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 a Driver and a fuel allowance of 140 liters per month. However, the officer did not function on full-time basis while a list of duties had not been issued to him. The cost of salaries incurred for this officer in the year under review amounted to Rs.396,000. Further, a new Working Director was appointed for the last quarter of the year under review and a sum of Rs.160,520 had been paid to him as salaries and allowances.
(b) Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	
(i) Financial Regulation 110	A Register of Losses and Damages had not been maintained in an updated and proper manner.
(ii) Financial Regulation 371 (2)	Even though advances should be settled immediately after the completion of the purpose, 07 balances of advances totalling Rs.1,230,747 older than 02 years had not been settled.
(iii) Financial Regulations 756, 757	Boards of Survey had not been conducted for cinema audio equipments and stock of films valued at Rs.10,379,522.
(c) Paragraph 1.3 of Public Administration Circular No.22/99 of 08 October 1999	A female officer, not entitled to transport facilities had been provided with private transport facilities, without the approval of the Secretary to the Ministry, for travel between the office and the residence.

(d) Section 6.5.1 of Public Enterprises Circular No. PED/12 of 02 June 2003	Even though the Draft Annual Report of the year under review should be presented to the Auditor General within 60 days of close of the financial year, it had not been presented even by 20 July 2015.
(f) Letter No. MF/TR/1/2003 of 28 March 2003 of the Secretary to the Ministry of Finance	A sum of Rs.400,000 had been paid exceeding the minimum limit payable for a hired vehicle.

3. Financial Review

3.1 Financial Results

The financial result of the Corporation for the year under review had been a pre-tax net profit of Rs.36,807,353 as compared with the corresponding pre-tax net profit of Rs.11,622,173 for the preceding year, thus indicating an improvement of Rs.25,185,180 in the financial result of the year under review as compared with the preceding year. The increase in treasury grants by Rs.5,040,000 and other income by Rs.10,082,640 respectively and the decrease of operating loss by Rs.10,062,540 had mainly attributed to the increase in profit.

3.2 Legal Actions Instituted against or by the Corporation

The Corporation had filed 03 cases against external parties for the recovery of compensation amounting to Rs.14,590,013 and the external parties had filed 12 cases against the Corporation. Disclosures in respect of contingent liabilities on the proceedings of these cases had not been made in the financial statements. A sum of Rs.675,757 had been spent by the Corporation as lawyers' fees in the year under review.

4. Operating Review

4.1 Performance

(a) Granting Loans for Production of Films

One of the main functions of the Corporation is granting loans for the production of films in terms of powers delegated to the Corporation by the National Film Corporation of Sri Lanka Act and the following matters in respect of granting and recovery of the said loans were observed in audit.

(i) Loans amounting to Rs.5,517,719 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.4,063,610 or 73 per cent remained receivable as at the end of the year under review.

(ii) Loans amounting to Rs.34,235,084 had been granted for the production of 49 films released for screening and out of those loans older than 05 years, a sum of Rs.6,216,113 or 18 per cent remained receivable as at the end of the year under review.

(iii) Loans amounting to Rs.26,953,489 had been granted for 13 films released for screening and out of those loans less than 05 years old, a sum of Rs.19,524,326 or 72 percent, remained receivable as at the end of the year under review.

(iv) The total amount of loans amounting to Rs.10,732,568 granted for the production of 08 films not-released for screening but completed, less than 05 years old, remained receivable as at the end of the year under review.

(v) The total amount of loans amounting Rs.6,040,720 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) Granting Loans for Cinema Halls

Loans had been granted to cinema halls for fulfilling the objectives of the Film Corporation and the following matters were observed in respect of granting the said loans.

(i) A loan amounting to Rs.2,033,310 had been granted in the year under for the modernization of a cinema hall out of which, the payment of loan installments of Rs.243,121 relating to the year under review had been defaulted.

(ii) Even though a sum of Rs.825,180 was recoverable from 02 cinema halls, no amount whatsoever had been received in the year under review.

4.2 Management Inefficiencies

The following observations are made.

(a) Action had not been taken for the recovery of the film charges not paid to the Corporation on the due date and 2.5 per cent recoverable for the Corporation Trust as surcharge amounted to Rs.3,061,887.

(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 management had not taken action to recover that loss.

4.3 Operating Inefficiencies

The following observations are made.

(a) Action had not been taken to recover a sum of Rs.209,280 recoverable from 21 debit notes issued in the year under review for discrepencies revealed by the investigation unit of the Corporation.

(b) Even though a balance of Rs.100,949 existed in a current account in a private bank as at the end of the year under review, it had not been included in the financial statements. Even though this account had been in the name of the Corporation, the Chairman had commented that this account belongs to the welfare society of artists.

4.4 Slow Moving, Idle and Underutilized Assets

It was observed that a sound equipment valued at Rs.5,166,792 out of the theatre sound equipment purchased in the year 2011 to be provided on credit basis for cinema halls under introduction of modern technology appropriate for the film industry, had remained idle in the Sarasavi Studio even by 20 July 2015.

4.5 Delayed Projects

Three projects, the agreement value of Rs.13,185,362 which should have been completed in the year 2011 had not been completed even by the year under review and the period of delay had been 03 years and 05 months as at the end of the year under review.

4.6 Personnel Administration

There were 51 vacancies of officers in 08 groups of posts in the staff of the Corporation as at 31 December of the year under review and that represented 30 per cent of the approved cadre. Excess of 05 employees in the approved primary grade (Non-technical) and 03 employees in other posts not approved, had existed.

4.7 Vehicle Utilization

The vehicle fleet of the Corporation had been 09 and 02 of them were assigned vehicles. The total distance travelled by those vehicles was 82,976 kilometers and repairs and maintenance cost had been Rs.1,913,821 whereas the fuel cost had been Rs.1,495,574 in the year under review. Accordingly, repairs and maintenance and fuel cost per kilometer were Rs.23.06 and Rs.18.04 respectively.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

Even though the financial statements should be prepared and presented to the Auditor General within 60 days after the close of the financial year according to the Public Enterprises

Circular No. PED/ 12 of 02 June 2003, the Corporation had presented the financial statements for the year under review to audit on 24 June 2015, after a delay of 114 days.

5.2 Action Plan

Even though it was planned for carrying out and completion of 09 activities costing Rs.33 million under the regularization of general administrative activities and improvement and modernization of studio facilities 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 supporting staff for the Internal Audit Unit had not been provided during the entire year. As such, the opportunities for the effective achievement of the objectives of the Internal Audit had been limited.

5.4. Budgetary Control

Significant variances were observed between the budgeted income and expenditure and the actual income and expenditure in the year under review, thus observing 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