

National Film Development Fund – 2016

The audit of financial statements of the National Film Development Fund for the year ended 31 December 2016 comprising the balance sheet as at 31 December 2016 and the statement of income and expenditure 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(3) 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 5 of the Sri Lanka National Film Corporation Act No.47 of 1971 and Order No.12 of the Series of Orders of the National Film Development Fund No.1 of 1994 imposed under Section 61. My comments and observations on the above financial statements appear in this report.

1.2 Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector 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. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Auditing Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of the Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

2. Financial Statements

2.1 Opinion

In my opinion, the financial statements give a true and fair view of the financial position of the National Film Development Fund as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

Even though each material class of similar items should be presented separately in the financial statements in terms of Section 45 of the Standard, film production loans payable amounting to Rs.1,457,772 which represents 72 per cent of the total liabilities had not been shown in the balance sheet separately.

(b) Sri Lanka Public Sector Accounting Standard 02

Action had not been taken to state Treasury Bills Investments 3 months or less than 3 months valued at Rs.24,791,754 under cash and cash equivalents in the cash flow statement in terms of Section 9 of the Standard.

(c) Sri Lanka Public Sector Accounting Standard 07

Even though the motor car costing Rs.1,972,950 had been depreciated, it remained used due to not reviewing the useful life for non-current assets in terms of Section 65 of the Standard. As such, action had not been taken to rectify the estimated error in terms of the Sri Lanka Public Sector Accounting Standard 03. Further, the market value of this motor car stated in the insurance form had been identified as a sum of Rs.1,600,000.

2.2.2 Accounting Deficiencies

Even though an unidentified credit balance amounting to Rs.60,000 remained from August 2016 in the Current Account of the Bank of Ceylon Torrington Branch, maintained by the Fund, steps had not been taken to identify and bring to account that balance.

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

Reference to Laws, Rules and Regulations

Non- compliances

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| (a) Section 6.5 of the National Film Policy and Guidelines issued by the Ministry of Finance and Planning issued on 17 June 1999 | Even though a sum of Rs.2.25 from a ticket or 2.25 per cent of the total income or the higher amount out of the two of each imported film shown in the cinema complex constructed under the regulations of the Board of Investment should be receivable to the National Film Development Fund, action had not been taken to obtain the amount recoverable from the Cine City Cinema Complex constructed in the year 2001 located in Maradana. |
| (b) Section 4 of the Sri Lanka National Film Corporation (Miscellaneous Fees) Order No.1 of 1996 published in the Gazette Extraordinary No.946/9 of 24 October 1996 | One Rupees from a ticket should be charged from a ticket of a “U” rated film and Three Rupees should be charged from a ticket of an “X” rated and “Most suitable for adults” films in addition to fees levied in an instance where an imported film being shown, by every Film Hall. Even though that total amount levied should be remitted to the Corporation either by the owner of the Film Hall or by the lessee for crediting to the National Film Development Fund, action had not been taken by the parties responsible for the recovery of those amounts. |
| (c) Section 6 (c) of the National Film Development Fund Order No.1 of 1994 as amended by the Gazette Extraordinary No.946/9 of 24 October 1996 | Even though surcharges recoverable for loans should be specified by the Board of Control and should be recovered on the instance where refunding of loans is delayed, action had not been taken accordingly on loans amounting to Rs.73,716,422 granted to the owners of Film Halls up to the year under review. |
| (d) Section 11 of the Finance Act, No.38 of 1971 | Even though the approval of the Minister of Finance and of the relevant Minister should be obtained for investing money in the National Film Development Fund, a sum of Rs.47,709,984 had been invested in Treasury Bills and Fixed Deposits without such an approval. |

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Fund for the year under review had resulted in a surplus of Rs.7,433,093 as compared with the corresponding surplus of Rs.384,475 for the preceding year, thus indicating an improvement of Rs.7,048,618 in the financial result in the year under review as compared with the preceding year. The increase of income including other income in the year under review as compared with the preceding year by a sum of Rs.1,865,528 and a sum of Rs.5,000,000 incurred for Film Festivals in the preceding years not being incurred in the year under review had been the main reasons for the improvement of the above financial result.

4. Operating Review

4.1 Management Activities

The following observations are made.

- (a) Even though debtors balances amounting to Rs.67,001,194 remaining from a period ranging from 5 years to 13 years had been identified as non- recoverable loans by the end of the year under review, effective action had not been taken for the recovery of these balances.
- (b) Even though the main source of income of the National Film Development Fund being the Film Rental Contribution remained recoverable, action had not been taken to recover these amounts from several years. The amount receivable by 31 December 2016 had been a sum of Rs.20,165,991.
- (c) It had been failed to recover the loan amounting to Rs.8.5 million provided for the construction activities of the Cine City Cinema Complex in Maradana and for purchasing equipment to the Company called "Film Lanka" in the years 2001 and 2002 in terms of the agreement and as such, a sum of Rs.2,874,018 remained further recoverable by 31 December 2016. Moreover, recovering interest in terms of the agreement and bringing to account by calculating the interest value had not been carried out in recovering loans and the receivable interest value up to the year 2016 amounting to Rs.4,064,958 and identifying the receivable loan interest amount thereafter had not been carried out.
- (d) Even though it had been stated that action should be taken to give prominence to films supplied by the Corporation for a period of approximately 15 years until the loans given from the National Film Development Fund are recovered in showing films in the Cine City Cinema Complex in terms of the agreement, sufficient attention had not been paid by the Management of the Fund in this connection.

4.2 Management Activities

The following observations are made.

- (a) Even though a Board of Control should be appointed consisting of two representatives named by the Minister in charge of the subject and by the Minister in charge of the subject of Finance for the management and control of the Fund in terms of Section 5(1) of the National Film Development Fund Order No.1 of 1994 as amended by the Gazette Extraordinary No.946/9 of 24 October 1996, a Board of Control had not been appointed since the year 2012.

- (b) The investments of the Treasury Bills and Repurchase Treasury Bills Deposits (Repo) according to the financial statements as at 31 December 2016 had been sums of Rs.36,068,853 and Rs.9,641,131 respectively. Investments had been made continuously in the National Savings Bank in making these investments. However, even though investments could be made at a more favourable interest rate by calling for quotations from primary dealers for the selling of Treasury Bills for that matter, investments had been made for a low interest rate of about 0.4 per cent more than the interest rate weighted in the Treasury Bills according to the Table of the Treasury Bills Auction issued by the Central Bank of Sri Lanka.

4.3 Underutilization of Funds

A balance amounting to Rs.10,844,516 remained in the Bank Current Accounts of the National Film Development Fund as at 31 December 2016 and even though certain income could be earned by deploying those money in short- term investments on more than a sum of Rs.4,800,000 could remain every day in the year 2016, attention had not been paid in this connection.

5. Accountability and Good Governance

5.1 Presentation of Financial Statements

In terms of the Public Finance Circular No.PED/12 of 02 June 2003 the financial statements should be furnished to audit within 60 days after the close of the year of accounts. Nevertheless, the accounts of the Fund relating to the year 2016 had been furnished to audit on 21 April 2017 after a delay of 51 days.

5.2 Internal Audit

An Internal Audit had not been carried out in terms of the provisions of Financial Regulations 133 and 134 of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka.

6. Systems and Controls

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.

Areas of Systems and Controls

Observations

(a) Control of Income

Not preparing a proper procedure for the recovery of the Film Rental Income.

(b) Control of Loans

Not updating the Rules of Providing and the Recovery of Loans and not taking action to recover the outstanding loans.