

## **National Film Development Fund – 2017**

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The audit of financial statements of the National Film Development Fund for the year ended 31 December 2017 comprising the balance sheet as at 31 December 2017 and the statement of income and expenditure, 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(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 Order No.12 of the Series of Orders of the National Film Development Fund No.1 of 1994 imposed under Section No. 5 and Section No.61 of the Sri Lanka National Film Corporation Act No.14 of 1971. My comments and observations on the above financial statements appear in this report.

### **1.2 Management's Responsibility for Financial Statements**

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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**

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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**

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### **2.1 Opinion**

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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 2017 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**

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#### **2.2.1 Sri Lanka Public Sector Accounting Standards (SLPAS)**

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The following observations are made.

(a) Sri Lanka Public Sector Accounting Standard 01

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Even though each material items should be presented separately in the financial statements in terms of Section 45 of the Standard, payables on film production 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

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Even though, Treasury Bills Investments for 3 months or less than 3 months amounting to Rs.10,633,747 should be shown under cash and cash equivalents in terms of Section 9 of the Standard, had been shown as increase of investment under changes in working capital items.

(c) Sri Lanka Public Sector Accounting Standard 07

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Even though the motor car costing Rs.1,972,950 had been fully 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 policies**

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The accounting policies followed by the institute had not been disclosed in the financial statements.

### 2.2.3 Accounting Deficiencies

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The following observations are made.

- a) The interest relevant to the year 2017 amounting to Rs. 44,848 relevant to fixed deposit of Rs.2,000,000 had been understated.
- b) The receivable interest for the loan amounting to Rs.8,500,000 granted by the fund for the construction of Cenecity Cinema Complex in Maradana and purchased equipment in the year 2001 and year 2002 had not been calculated and accounted. The receivable interest for the loan till 2006 was to Rs.4,064,958 had been calculated but there after no interest had been calculated.

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

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#### Reference to Laws, Rules and Regulations

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#### Non- compliances

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| (a) 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 of the National Film Development Fund, a sum of Rs.64,683,332 had been invested in Treasury Bills and Fixed Deposits without such approval.   |
| (b) Section 65 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 whichever is higher should be received from an each imported film shown in the cinema complex constructed under the regulations of the Board of Investment to the National Film Development Fund, action had not been taken to obtain the amount receivable from the Cine City Cinema Complex constructed in the year 2001 located in Maradana.   |
| (c) Section 4 of the Sri Lanka National Film Corporation (Miscellaneous Fees) Order No.1 of 1996 published in the Extraordinary Gazette 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. |

- (d) Section 6 (c) of the National Film Development Fund Order No.1 of 1994 as amended by the Extraordinary Gazette 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.73,291,424 granted to the owners of Film Halls up to the year under review.

### **3. Financial Review**

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#### **3.1 Financial Results**

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According to the financial statements presented, the financial result of the Fund for the year under review had resulted in a surplus of Rs.8,798,358 as compared with the corresponding surplus of Rs.7,433,093 for the preceding year, thus indicating an improvement of Rs.1,365,265 in the financial result in the year under review as compared with the preceding year. The increase of other income in the year under review as compared with the preceding year by a sum of Rs.1,470,483 had been the main reason for the improvement of the above financial result.

### **4. Operating Review**

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#### **4.1 Management Activities**

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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 24 years had been identified as non-recoverable loans by the end of the year under review, but 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, from the National Film Corporation, action had not been taken to recover these amounts from several years. The amount receivable by 31 December 2017 had been a sum of Rs.22,347,924.
- (c) As at 31 December 2018 a sum Rs.2,212,910 had to recover from the loan amounting to Rs.8,500,000 provided to a private company for the construction activities of the Cine City Cinema Complex in Maradana and for purchasing equipment in the year 2001 and 2002, due to loan had been recovered on non-compliance with the condition in the agreement.
- (d) As per the above paragraph (c) loan agreement, 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 is recovered, sufficient attention had not been paid by the Management of the Fund in this connection.

## 4.2 **Operation Activities**

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As per the financial statement as at 31 December 2017, investments in the Treasury bills and re-purchasing of Treasury bills (Repo) were Rs.52,080,342 and Rs.10,602,990 respectively. This investment had continuously been made in the National Savings Bank. However, quotations had not been called for investments to get most favorable interest rates from other primary dealers such as States Bank who are engaged of selling Treasury bills.

## 5. **Accountability and Good Governance**

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### 5.1 **Internal Audit**

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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**

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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.

<b>Areas of Systems and Controls</b>	<b>Observations</b>
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(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.
(c) Investment	Attention had not been paid for most favorable investments strategies and for investment rules and regulations.