

National Film Development Fund - 2020

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Film Development Fund for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of financial performance, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Order No. 12 of the National Film Development Fund ordinance No. 01 of 1994 made under Section 61 of the National Film Corporation Act No. 47 of 1971 and Article 154(3) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the fund as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the fund's financial reporting process.

As per Sub Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the fund.

1.4 Auditor's Responsibility for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the fund has complied with applicable written law, or other general or special directions issued by the governing body of the fund ;
- Whether the fund has performed according to its powers, functions and duties; and
- Whether the resources of the fund had been procured and utilized economically, efficiently

and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

The following observations are made.

Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a) Although the Cash Flow Statement should be should be based on real cash outflows and real cash inflows in accordance with standard No. 02, contrary to that, the cash flow statement was prepared based on the differences between the value of the items in the Statement of Financial Position for the years of 2019 and 2020. Further, the value of the doubtful debt allocation was not disclosed as a non-cash generating activity under operational activities in accordance with the section 54 and 55 of the standard.	I will correct it in the year 2021.	Should be act in accordance with the accounting standard.

- (b) When accounting for Treasury bills in accordance with paragraphs 08 and 56 of standard No. 02, although the investments which are having remaining 03 months or less to be matured as at 31 December 2020 should be shown as cash and cash equivalent assets in the statement of financial position and cash flow statement, the total value of Rs.66,797,498 of 18 treasury bills due on 31 December 2020 for a period of 03 months and total value of 08 treasury repurchases. (Repos) amounting to Rs.6,013,502 were not listed under cash and cash equivalent liquid assets.
- I will correct it in the year 2021.
- Should be act in accordance with the accounting standard.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following non-compliances are made.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
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(a)	Orders of the Film Corporation No. 01 of 1994, published in the Extraordinary gazette No. 946/9 of 24 October 1996			
(i)	Section 02 (4) (I) (e)	No equipment was provided for the production and film showing to ensure the high standards of films.	It is expected to focus on implementing these regulations in 2022.	Act in accordance with the orders of the gazette notification.
(ii)	Section 2(4) (I) (f)	The fund did not provide scholarships or training programmes artists and technicians in the film industry.	It is expected to focus on implementing these orders in 2022.	-Do-
(iii)	Section 2(4) (I) (g)	No action was taken to promote film production by	It is expected to focus on implementing	Should be act in accordance with the orders of the gazette

		approving screenplays approved by the Screenplay Evaluation Committee for the production of high quality art films, or by lending money to directors to hire specialized equipment from a source available for the production of such films.	these orders in notification. 2022.	
(iv)	Section 2(4) (I) (h)	Loans were not issued to professional technicians who had been in the local film industry 05 or above consecutive years and who had completed not less than ten films to enhance and develop their skills.	It is expected to focus on implementing these orders in 2022.	-Do-
(v)	Section 6 (c)	If the loan repayment is delayed, although the surcharge should be determined and recovered by the governing board, Rs. 73,548,176 regarding the total amount of loans granted to cinema owners up to the year 2020 had not been acted upon accordingly.	It is expected to focus on implementing these orders in 2022.	-Do-
(b)	Financial Regulations 756 of the Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka.	The board of survey had not conducted an assets survey of the fund for the year 2020 and submitted reports to the Auditor General.	The board will also conduct an annual survey of the assets of the fund when surveying the assets of the Corporation annually.	Should be complied with the regulation.

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| (c) | Financial Regulations 872(2) (d) entered into by Public Finance Circular No. 01/2020 dated 28 August 2020. | Although the certified financial statements are required to be submitted for audit within 2 months from the end of the financial year, the financial statements for the year 2020 were submitted to the audit on 02 November 2021 with the late of 08 months. | Submission of the accounts was delayed due to the institution was closed and the board meeting was delayed due to the Covid-19 epidemic. | Should be followed the circular. |
| (d) | Treasury Operations Circular No. 03/2015 dated 23 October 2015. | The balance of the current account opened in a government bank in the year 2013 was Rs. 22,643 as at 31 December 2020. No action had been taken to close this inactive account as indicated by the audit report of the previous year. | This inactive account has been approved by the board and will be acted accordingly. | Action should be taken to close the account as per the circular. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 4,591,563 and the corresponding surplus in the preceding year amounted to Rs. 9,789,214. Therefore a deterioration amounting to Rs. 5,197,651 of the financial result was observed. The main reason for the deterioration was a revenue decline by Rs. 3,877,556 or 92 percent for the year under review as compared to the previous year.

3. Operational Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) The total uncollectable debt accumulated over a period of 05 to 26 years' worth was Rs. 66,958,372 by the fund to be estimated under the	The observation is correct. Loans from the fund are inspected by a credit committee and acted upon	These loans should be processed through various procedures to recover.

loans given to film productions and committee
cinema halls. That value was 91 recommendations.
percent of the total disbursement as
at 31 December 2020. Due to non-
systematic and timely disbursement
of loans and repayments, the above
loan balances could not be recovered
and those were brought forward as
continuous arrears.

- (b) The average monthly balance of the fund's current bank account for the year 2020 was Rs. 12,053,864. The whole year advantageous balance in the account had not been effectively invested in the short term to generate additional income.
- Cash was withheld to Action should be
lending to cinema halls, but taken to invest the
the surplus was invested in excess money.
2021 for the short term due
to delays in loan applications
in the year 2020.

4. Accountability and Good Governance

4.1 Budget Control

Audit Observation	Management Comment	Recommendation
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The budget for the year 2020 had not been prepared as a governing body for the fund.	It is not prepared.	A budget should be prepared.