

National Film Development Fund - 2021

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 2021 comprising the statement of financial position as at 31 December 2021 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 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 2021, 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, 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)	In preparing the Cash Flow Statement under the indirect method in accordance with paragraphs 22 and 27 (b) of Sri Lanka Public Sector Accounting Standards No. 02, although the debt change of Rs. 373,452 and receivable cash change of Rs. 532,220 should be indicated under the changes in the working capital subjects of the operational activities, that were listed under the financial activities.	That will be submitted from the year 2022 onwards according to the standard.	Should be act in accordance with the accounting standard.
(b)	Although assets and liabilities, income and expenditures should not be offset in accordance with paragraph 48 of Sri Lanka Accounting Standards No. 01, in preparing the Statement of financial position as at 31 December 2021, the interest income of treasury bills worth Rs. 9,424 received up to that date were offset by the total value of treasury bills for the year under review worth Rs. 11,409,081 and the net worth of Rs.11,399,657 was stated as current assets.	That will be submitted from the year 2022 onwards according to the standard.	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.	No requests have been made for this.	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 for the artists and technicians in the film industry.	It will be presented as such from the year 2022.	-Do-
(iii)	Section 2(4) (I) (g)	No action was taken to promote film production by 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.	No requests have been made for this.	-Do-
(iv)	Section 2(4) (I) (h)	Loans were not issued to professional technicians who had	It will be done to provide financial assistance from	Act in accordance with the orders of the gazette

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. the year 2022. notification.

- (b) 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 02 months from the end of the financial year, the financial statements for the year 2021 were submitted to the audit on 05 May 2022 with the late of 02 months. There was a delay in submitting the Governing Body and getting approval. Should be act in accordance with the circular.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 4,000,099 and the corresponding surplus in the preceding year amounted to Rs.4,591,563. Therefore a deterioration amounting to Rs.591,464 of the financial result was observed. The main reason for the deterioration was a decline of other income by Rs. 1,001,147 or 19 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 -----
(a)	Rs. 73,155,724 loans were given by the Development Fund for film production and cinema halls as at 31 December 2021 and due to the aggregating amount of bad debts and doubtful debts worth was Rs. 67,268,372 as on that date, the net debtors were Rs. 5,887,352. Accordingly, 92 percent of the total	The observation is correct.	These loans should be processed through various procedures to recover.

debtors were identified as non-performing loans and this was due to the failure of the industry crash management, insufficient action to recover the debt and management inefficiency.

- (b) The advantageous average bank balance was Rs. 10,418,821 according to the whole year cash book of the current account of the development fund. This amount remained inactive in a bank current account throughout the year 2021 without expecting any effective economic return and the Auditor General Report of the previous year also mentioned that the current account had remained inactive for one year without any short term investment.
- Action will be taken to invest from the year 2022.
- Action should be taken to invest the excess money.
- (c) The fund was established for the purpose of developing the film industry in accordance with the amended regulations of the National Development Fund Act No. 01 of 1994, published in the Extraordinary Gazette No. 946/9 of 24 October 1996. But, although 02 Governing Body meetings were held during the year 2021, the fund had not made the necessary decisions during the year to make an active contribution to the betterment of the film industry other than re-investing of maturing investments and repaying loans.
- Facts will be submitted to the Governing Body in the year 2022 and action will be taken accordingly.
- Action should be taken for the development of the industry in accordance with the amendment orders of the fund.
- (d) The rent contribution due from the Film Corporation to the Film Development Fund as at 31 December 2021 was Rs. 27,168,167. The management had not taken action to recover this money from the Corporation, which was 38 percent of the current assets of the Development fund on that day.
- Although the vouchers were sent to the Corporation, the money was not received due to financial difficulties.
- Action should be taken to recover this receivable rent through various procedures.