

## **National Film Development Fund - 2022**

### **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 2022 comprising the statement of financial position as at 31 December 2022 and the statement of comprehensive income, 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 financial statements give a true and fair view of the financial position of the fund as at 31 December 2022, 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**

I expressed qualified opinion 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**

	<b>Non-Compliance with the reference to particular Standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	In terms of paragraph 48 of Sri Lanka Public Sector Accounting Standards No. 01, although assets and liabilities, income and expenditures should not be offset against each other, treasury bill totaled of Rs.27,425,701 as at 31 December 2022 and Rs. 454,444 of interest receipts for the next year had been offset against each other and net value of Rs.26, 971,257 had been shown under current asset in the statement of financial position.	It will be noted correctly in the year 2023.	It should be complied in accordance with the terms of the standard.
(b)	In terms of paragraph 76 of Sri Lanka Public Sector Accounting Standards No. 01, although assets that are not expected to be used within 12 months after the reporting date should be classified as non-current assets, the debtor balance of Rs.300,000 given to a cinema hall in the year under review of which payments to be started in 2024 and to be paid off in 2026, had been classified under current assets.	It will be noted correctly in the year 2023.	It should be complied in accordance with the terms of the standard.

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| (c) | In terms of paragraphs 22 and 27(a) of Sri Lanka Public Sector Accounting Standards No.02, although the change in debtors of Rs.873,425 and the change in cash receivables of Rs.1,972,244 which should be shown under the changes in working capital in operating activities in the cash flow statement, had been classified under financial activities.   | It will be noted under the changes in working capital from 2023.  | It should be complied in accordance with the terms of the standard. |
| (d) | In terms of paragraphs 92 of Sri Lanka Public Sector Accounting Standards No.07, although the carrying value of property, plant and equipment which were classified as temporarily inactive or fully depreciated but still in use or retired from operational use and held for disposal should be disclosed in the financial statements, such disclosure had not been made in respect of overhead projector and multimedia projector with a cost of Rs.567,732 and fully depreciated by the year 2022 and the existence of those assets was also not confirmed. | Information will be identified in the fixed asset survey of year 2023. The overhead projector and multimedia machine have now been removed from the books of accounts due to malfunction. | It should be complied in accordance with the terms of the standard. |

## 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) Due to the fact that the value of the Mitsubishi L 300 van bearing GB – 1371, which was revalued at Rs.3,200,000 on 9 December 2021 and which should be adjusted to the opening balances of the year 2022, but had been accounted in the year 2022, the opening balances of the motor vehicle account and the revaluation reserve account in the year under review had been understated by Rs.3,200,000 each and the depreciation adjustments of Rs.50,441 related to the year 2021 also had not been made for that van.	The observations are correct. Although it was not adjusted to the opening balance by revaluing the assets in year 2022, it was added at the end of the year and the accounting notes were used. The net figure for the year 2021 is shown as Rs. 1/=. It was depreciated by adding the revalued amount again in the year 2022.	Depreciation adjustments should be made correctly.
(b) Although, the outstanding period of a fee of Rs.3,532,156 to be received by the Fund from the exhibition income of Wakanda Walauwa and	Since cinema halls are using modern technology for projection, the opportunity to screen 35mm films has been	Action should be taken to recover the amount receivable to the fund or to

Nisalagira films had been exceeded 05 years as at 31 December 2022, no action had been taken to recover that amount or make provisions for it.

lost. Since these films are 35mm film rolls, the ability to re-exhibit them and to recover the debt has been lost. It is informed that this amount was prepared after recovering the exhibited income.

make provisions for the same.

### 1.5.3 Unreconciled Control Accounts or Records

Item	As per Financial Statements Rs.	As per corresponding Record Rs.	Difference Rs.	Management Comment	Recommendation
Film production expenditure	1,360,404	1,457,772	97,368	It was an error occurred while preparing the schedule.	Actions should be taken to prepare the schedules correctly.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Receivables

Audit Observation	Management Comment	Recommendation
(a) As at 31 December 2022, out of the balance of Rs.75,768,455 as the cumulative of Rs.72,236,299 of film production loans, cinema hall loans and Covid-19 cinema loans of the fund and Rs.3,532,156 due from the screening of film Wakanda Walwwva and Nisalagira, the balance that exceeded 05 years was Rs. 74,786,010 and that amount could not be recovered due to the collapse of the industry and the failure of the management to take effective measures to recover the debt. Rs. 67,222,372 which was 92 percent of the outstanding loan balance of Rs. 72,236,299, had been provisioned as doubtful debtors.	The observation is correct.	Proper actions should be taken to recover outstanding old loan balances.
(b) As per the decision of the governing board No. 53 - 01 dated July 21, 2020, since no actions had been taken to recover as per the agreements, loan amount of Rs. 300,000 given to 02 cinemas each due to the Covid-19 epidemic situation, amount of Rs.249,087 to be recovered further from	Out of Rs. 131,577.50 due from Ruoo Cinema-Katunayake Cinema as at 31.12.2023, Rs. 64,785.75 was paid in February 2024.Nahams-Chunnagam Cinema has been informed in writing and telephonically to	Actions should be taken to recover the debt according to the agreement and also to extend the period of the expired loan agreements.

02 cinemas as at 18 March 2024, pay the money. remained unrecovered and no arrangements were made to extend the period of the expired loan agreements.

- (c) Out of Rs. 29,140,411 of the rental contribution due to the fund from Sri Lanka National Film Corporation at 31 December 2022, Rs.24,140,411 was further outstanding as at March 2024. Rs.5 million was obtained in the year 2023 and action will be taken to obtain it in parts in the future. Actions should be taken to recover the rent due from the corporation.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Orders under section 61 and 05 of the National Film Corporation Act No. 47 of 1971, amended by Extra ordinary Gazette No. 946/9 dated 24 October 1996,	(i) Section (4) (a) No action had been taken to provide necessary equipments and raw materials required for the film industry and also to support and provide grants for the production of films locally.	Due to the delay in the appointments of board, no effective process has been occurred for the facts you have pointed out. Actions will be taken in the future to pay attention to the points indicated.	Meetings of the governing body should be held properly and proper steps should be taken to implement the orders.
(ii) Section (4) (b)	It was not guaranteed that the cinema hall would provide the necessary facilities for the comfort and the accessibility of the	-Do-	Meetings of the governing body should be held properly and proper steps should be taken to implement the

	visitors and the cinema workers.		orders.
(iii) Section (4) (c)	Actions had not been taken to make the improvements of the other sectors of the film industry.	-Do-	Action should be taken to hold meetings of the governing body properly and to make more progress in the film industry.
(iv) Section 2 (4) (I) (e)	Actions had not been taken to provide the necessary equipment for the production and exhibition of films to ensure the higher standards of the films.	-Do-	In accordance with the order, arrangements should be taken to provide the necessary equipment required for the production and exhibition of films.
(v) Section 2 (4) (I) (g)	Actions had not been taken to promote the film production by lending money to the directors for the full production of high-quality artistic films or Screenplays approved by the Screenplay Evaluation Committee or to obtain special equipment from an available source for the purpose of producing such films.	-Do-	Appropriate steps should be taken to implement the orders.
(vi) Section 02 (4) (I) (h)	Actions had not been taken to issue loans to professional technicians to improve and develop own skills, who have been continuously engaged in the local film industry for 5 years or more and for those who have completed such	-Do-	Appropriate steps should be taken to implement the orders.

work not less than in ten films.

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| (b) | Treasury Circular No. 842 dated 19 December 1978 | The fund had not maintained a fixed asset register. | The observations are correct. | As per the circular, a fixed asset register should be maintained. |
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## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.12,976,126 and the corresponding surplus in the preceding year amounted to Rs.4,000,099. Therefore, an improvement amounting to Rs. 8,976,027 of the financial result was observed. Although the Institutional and administrative expenses of the fund during the year under review had been increased by Rs. 1,283,722, but the increase in income of the fund by Rs.10,259,749 was the main cause of this growth.

## 3. Operational Review

### 3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
(a) Although there should be a set of rules or procedures prepared separately for each task, in the implementation of the tasks under the Orders of the National Film Development Fund, it was unable to do a proper evaluation relating to the tasks implemented by the fund since the fund had not prepared such a set of rules or procedures.	Although there was a set of rules mentioned in the Gazette at the beginning of the Film Development Fund, it has acted according to the instructions of the members of the governing board appointed in each case and the Gazette will be revised in the future to work according to the new rules.	Urgent steps should be taken to prepare a set of rules or procedures and to revise the gazette in relation to the functions carries out by the fund.
(b) While the fund's fixed deposit interest income was Rs.12,832,242 in the year under review, the income earned from the film industry according to Order No. 02, which was the main source of income of the fund, was as low as Rs.1,972,244. This situation was caused by the collapse of the film industry and due to the fact that only money was invested without taking actions to uplift the industry.	The appointment of governing body was delayed due to the change of ministries. As a result, decision-making to uplift the industry and implementation has become a problem. the gazette will be revised according to the new law by now. Until the money is invested to uplift the industry as per the new gazette, the money has been invested in deposits as it	Actions should be taken to revise the gazette according to the new law and to uplift the industry.



receives the highest interest and the highest interest amount has been obtained.

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| <p>(c) According to the orders under section 61 and 05 of the National Film Corporation Act No. 47 of 1971, amended by Extra ordinary Gazette No. 946/9 dated 24 October 1996, as it has not been mentioned the manner in which meetings of the governing body should be held, only one board meeting had been in the year 2022 and the situation was the same in the previous years. Accordingly, although this fund was established with the aim of developing the film industry, it was observed that the governing body had not given an active contribution to the advancement of the film industry.</p> | <p>Although it was unable to work for the advancement of the industry due to the delay in the appointment of the governing body due to the change of ministries, actions will be taken to make those works successful in the future.</p> | <p>Actions should be taken to held board meetings properly and to develop the industry as per the revised orders.</p> |
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### 3.2 Operational Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Without any other evidence, a financial support of Rs.1,000,000 had been given on the basis of a written request made by a film director that it would cost at least Rs.51,916,665 to follow “PHD in Film &amp; Multimedia – Film &amp; Media Production” from Chung Ang University, Korea and it was not confirmed that amount was paid to the university. Furthermore, according to Standing Order No. 4 (e), the governing body had made this financial grant without specifying any terms or conditions.</p>	<p>He had entered the field as a diploma holder of the corporation and as there was no one who had obtained such a post-graduate degree in the field before this and the expenses were paid based on a decision taken in the meeting of the governing body and this scholarship was given expecting that he would continuously stay in the field. He has submitted the result sheet that he is in the field of study. He has given a reputation as an international award-winning director.</p>	<p>The Board of Governors shall determine the terms or conditions according to the orders of the fund as it enables the sector to get the return of the money spent on financial grants.</p>

#### 4. Accountability and Good Governance

##### 4.1 Submission of Financial Statements

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
In terms of Financial Regulations 877(2) (d) published by 15.1 of Public Finance circular No. 01/2020 dated 28 August 2020, although certified financial statements should be submitted for audit within 02 months after the end of the accounting year, the financial statements of the year 2022 were submitted for audit on 07 December 2023 after a delay of 09 months.	Although the final accounts as at 31.12.2022 had been prepared by the end of February 2023, due to the delay in obtaining the approval of the governing body for the final accounts as a result of the delay in the appointment of the governing body due to the transfer of Ministries is caused to this.	The financial statements should be submitted for audit on the date specified as per the circular.

##### 4.2 Internal Audit

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to Section 38 (e) of the National Audit Act, although the chief accounting officer or the accounting officer must ensure that there is an effective methodology for the proper execution of internal audit tasks, an internal audit had not been conducted regarding the activities of the fund since the inception.	The observation is correct.	An internal audit should be conducted in accordance with the National Audit Act.

##### 4.3 Budgetary Control

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
In terms of Financial Regulations 877(1) (c) and (d) published by 15.1 of Public Finance circular No. 01/2020 dated 28 August 2020, Although the governing body of any fund shall annually prepare the budget for the coming year in accordance with the objective of that fund and shall forward it to the Director General of National Budget before 30 September of the current year by obtaining the approval of the Secretary of the relevant Ministry and the Honorable Minister and a copy thereof shall be forwarded to the Director of Public Finance, , the expenses of the fund had been incurred without a budget prepared and the approval obtained for the year 2022	It was unable to gather the governing body to take decisions for that and it was basically emphasized that a new set of rules should be prepared to complete the work as mentioned in the gazette paper in which a cash budget was prepared and presented for the last meeting.	A budget should be prepared in accordance with the objectives of the fund and no expenditure should be incurred without an approved budget.