

## **National Film Development Fund - 2023**

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### **1. Financial Statements**

#### **1.1 Opinion**

The audit of the financial statements of the National Film Development Fund for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Fund as at 31 December 2023, 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 Opinion**

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 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 stability 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 fund's 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 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 Accounts Receivable and Payable

### 1.5.1 Receivables

Audit observation	Comment of the management	Recommendation
(a) Out of the balance total of Rs.71,648,272 including production loan, cinema hall loan and Covid-19 cinema hall loan, the loan balance more than 5 years lapsed was Rs. 71,024,268 and Rs. 64,602,413 out of that had been lapsed even 20 years. Collapse the industry and the failure of the management to take effective measures to recover this loans and Rs. 67,177,716 which were 93 percent of the total debtor balance had been provisioned as doubtful debts. Although it has been shown regarding this even by the previous year's audit queries there had not been pay the attention regarding recovering the non-recoverable loans even in the Governing Board meeting.	Since the cinema halls are doing the projection work with modern technology the opportunity to showing 35 mm films have decreased and since these films are 35 mm films, the possibility to exhibit and recovery of loans has been lost, and necessary arrangements will be made for the screening of films through television channels and You Tube channels in the future.	Action should be taken to get prompt measures to recover old past due balances.
(b) Out of the balance total of Rs.31,523,282 including rental contribution receivable to the fund as at 31 December 2023 from the Sri Lanka National Film Corporation was also Rs. 26,393,457, Rs.3,532,156 receivable from the film exhibition income Rs. 23,002,208 also had been more than 5 years lapsed, necessary measures had not promptly been taken to recover this money by the management.	Since there were no earning of income for the film Wekanda Walawwa and Nisalagira there has been a situation of impossible to recover these pass due money. Action will be taken to earn income screening films through television media.	Action should be taken to recover the rental money receivable from the Corporation.
(c) As per Section 09 of the agreement relating to the loan amount given to a cinema hall which was inactive due to the Covid-19 epidemic situation, the loan was not recovered by 31 July 2024	The remaining installments due from the cinema hall that was given loan in the year 2020, has been informed to be paid both verbally and in writing.	Arrangements should be made to recover the loans as per the agreement and to extend

even further an amount of Rs. 189,426 should have been charged. No arrangements were made to extend the period of the loan agreement which had expired on 22 December 2022

the period of expired loan agreement.

## 1.5.2 Accounts Payables

<b>Audit observation</b>	<b>Comment of the management</b>	<b>Recommendation</b>
A production cost of Rs.1,360,404 should be paid to the Sri Lanka National Film Corporation for Aganthukaya and Dana Rina films production by the fund and action had not promptly been taken to settle that balance has been existed for more than 05 years	Arrangements will be made to pay this amount.	Payment should be promptly settled.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 20,890,342 and the corresponding surplus in the preceding year amounted to Rs. 12, 976,126. Therefore, an improvement amounting to Rs. 7,914,216 of the financial result was observed. Increasing in investment interest by Rs. 7,695,400 and other income by Rs. 134,992 and decreasing establishment and administration expenses by Rs. 103,494 in the year under review had been mainly attributed to this improvement.

## 3. Operational Review

### 3.1 Management Inefficiencies

<b>Audit observation</b>	<b>Comment of the management</b>	<b>Recommendation</b>
(a) Since there was not mentioned the way of holding Governing Board meetings in the Orders of under the Section 61 and 05 of the National Film Corporation Act No. 47 of 1971 amended by the extraordinary Gazette No, 946/9 dated 24 October 1996, only one Governing Board meetings had been held during the year 2023 and in the previous years was also the same. Accordingly, although this fund was established with the aim of developing the film industry, an active contribution for the improvement of the	It is being expected to do effective activities by amending the Gazette of the fund as per the instruction of the Governing Board.	Attention should be paid to the amending the Orders.

cinema industry had not been provided by the Governing Board.

- (b) Due to non- implementing any activity that should be fulfilled, no any expense had been incurred during the year under review and accordingly an amount of Rs. 10,759,729 of bank balance was owned to the fund as at the date of 31 December 2023. Further since there has been remained not less than Rs. 5 million of monthly average bank balance during the 12 months from January to December without utilizing in the current account, the interest could be able to earn by investing excess money had been lost to the fund.
- Rs. 8 million has been invested on the approval of the Governing Board in the year 2024, after delegation of authority of signing the cheques.
- Money should be utilized for the objective of the fund established.

### 3.2 Operational Inefficiencies

Audit observation	Comment of the management	Recommendation
(a) While the deposit interest income of the fund during the year under review was Rs. 20,507,972, the income earned from the film industry which was the main source of income of the fund remained as low as Rs.2,281,047. This situation was caused by the collapse of the film industry and the fact that money was invested instead of focusing primarily on uplifting that industry.	Due to the delays in the appointment of the governing body due to the transfer of ministries, there has been no effective process for the point you have pointed out.	Should be focused to take action for building and developing the film industry.
(b) According to the Order No. (4) (a),(b), (c), (d), (e), (f), (g), (h), (i),(j) and (k) under section 61 and 05 of the National Film Corporation Act No. 47 of 1971 as amended by Special Gazette No. 946/9 dated 24 October 1996 following tasks were not done.	There has been no effective process for the point you have pointed out since the delay in the appointment of the governing body due to the transfer of ministries and non-holding of board of governors meetings. And also only one Governing Board meeting has been held on the date of 04.09.2023. Action will be taken focusing the matters had been shown in the future.	The management shall arrange to perform the functions of the fund as per the orders of the Act.

i	To provide necessary equipment and raw materials for the local film industry and also to support and provide grants for the production of films locally.		
ii	Ensuring that the cinema provides adequate facilities for the convenience and accessibility of the audience and cinema staff.	-Do-	-Do-
iii.	To make the improvements of the other sectors of the film industry	-Do-	-Do-
iv.	Providing comfortable seating in cinema halls and improving facilities to meet the needs of the audience.	-Do-	-Do-
v.	Provide necessary equipment required for production and exhibition of films to ensure high standards of films.	-Do-	-Do-
vi.	To provide scholarships or establish training programs to artists and technicians engaged in the film industry on terms and conditions to be determined by the Governing Board.	-Do-	-Do-
vii.	To promote film production by providing loans to directors to hire special equipment from available sources for full production of high quality artistic films or for the purpose of producing screenplays or such films approved by the Screenplay Evaluation Committee appointed by the Governing Body	-Do-	-Do-
viii	Issuance of loans to professional technicians who have been continuously engaged in the local film industry for 05 years or more and have completed not less than ten films to enhance and develop their skills.	-Do-	-Do-
ix.	Provision of loans for repair and modernization of cinema halls and for installation of new equipment.	-Do-	-Do-

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| x.  | Consideration of applications submitted by the manufacturing sector. | -Do- | -Do- |
| xi. | Awarding financial rewards for high quality films.                   | -Do- | -Do- |

**4. Accountability and Good Governance**

**4.1 Budgetary Control**

<b>Audit observation</b>	<b>Comment of the management</b>	<b>Recommendation</b>
The fund had not prepared a budget document for the year 2023 in accordance with the financial regulations 877(1) (c) and (d) published by 15.1 of the Public Finance Circular No. 01/2020 dated 28 August 2020 and the fund has been incurred expenses without having a budget document approved.	No budget has been prepared. No any payment has been made from the Development Fund in the year 2023.	A budget should be prepared in accordance with the objectives of the fund and no expenditure should be incurred without an approved budget.