

National Film Development Fund - 2019

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the National Film Development Fund for the year ended 31 December 2019 comprising the Balance sheet as at 31 December 2019 and the income and expenditure account, 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 and the National Audit Act No.19 of 2018 read in conjunction with the Directive No. 12 of the National Film Development Fund Directives No. 1 of 1994 made under the paragraph 61 of the Sri Lanka National Film Corporation Act No. 47 of 1971. My comments and observations which I consider should be reported to Parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2019 and 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 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 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 Responsibility of the 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 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 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 it 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 judgement 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 exists 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 statement 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 Financial Statements

1.5.1 Non-compliance with Laws, Rules, Regulations and Management Decisions

The following non-compliances were observed.

	Reference to Laws, Rules, Regulations etc.	Non-compliance	Comment of the Management	Recommendation
	-----	-----	-----	-----
(a)	National Film Policy issued by the Ministry of Finance and planning on 17 June 1999 and Section 6.5 of the Guideline thereon.	Either a sum of Rs.2.25 from an entrance ticket or 2.25 per cent of the income of total entrance tickets, whichever is more should be available to the Fund from each imported film screenings shown in the Cinema complexes constructed under the Regulations of the Board of Investments. Nevertheless, action had not been taken to compute and to recover the sum so receivable from the Cine City Cinema Complex Maradana constructed in the year 2001.	Initially, this Cinema paid film rent and trust, but now even daily reports are not submitted to the corporation	Actions need to be taken in terms of the Film Policy and the Section 6.5 of the Guideline thereon.

(b) Directives of Sri Lanka National Film Corporation (Miscellaneous Fees) No.01 of 1996 published in the Extraordinary Gazette Notification No.9/946 dated 24 October 1996.

(i) Section 4	In an instance of showing an imported film, a sum of Rs.1 from a ticket for “u” group films and a sum of Rs.3 from a ticket for “x” group films and from a ticket for “Most suitable for Adults” group films should be recovered in addition to the levy already charged. Actions had not been taken to receive those money from the owners or the lessees of the Cinemas.	Not commented	Additional fees need to be recovered in terms of Directives of the Film Corporation (Miscellaneous Charges).
(ii) Section 2(4)(i)(e)	Action had not been taken to provide equipment required to produce and to show the films to ensure the higher standards of the films for over a period of 09 years.	Expect to implement these functions in the future with the present Board of Governors.	The equipment required to produce and show the films needs to be provided for upgrading the standards of the films.
(iii) Section 2(4)(i)(f)	Action had not been taken by the Fund either to provide scholarships for the artists and the technicians who engaged in the film industry or to arrange training programmes.	-Do-	Actions need to be taken to provide either scholarships or training programmes for the artists and the technicians.

(iv) Section 2(4)(i)(g)	Action had not been taken for over a number of years to promote film production through providing loans to the film Directors to obtain specific equipment on lease, from a source that could be obtained for film scripts approved by the evaluation committee of the film scripts or for the function of the producing such films for the production of higher standard artistic films.	-Do-	Loans need to be provided to film directors to obtain required equipment on lease basis to produce films of high standard art films or screenplays which are evaluated by the evaluation committee to promote such productions.
(v) Section 2(4)(i)(h)	Action had not been taken since the year 2013 to grant loans to improve and develop the skills of the professional technicians who engaged in the local film industry continuously for a period of 05 years or more and who completed the number of films not less than 10.	-Do-	The loans need to be granted to the professional technicians of five years or more to improve and develop their skills.
(vi) Section 6(c)	If it is delayed the refunds of the loans, the recoverable surcharges thereon should be specified by the Board of Governors and should be recovered. Nevertheless, action had not been taken accordingly in respect of the loans granted to the owners of the cinemas amounting to Rs.71,951,386 for a period from year 2013 to the year under review.	Not commented	If payments of refunds are delayed, actions need to be taken to determine the surcharges recoverable and recover those.
(c) Treasury Operations Circular No.3/2015 dated 23 October 2015	The current account opened in the People's Bank in 2013 had a balance of Rs. 22,643 as at 31 December 2019 and action had not been taken to close this dormant account.	Action will be taken to close the account with the approval of the Board of Governors due to being dormant at the moment	Actions need to be taken to maintain the main current account for payment from the Development Fund and to close the dormant current account.

2. Financial Review

2.1 Financial Result

The financial result of the year under review had resulted in a surplus of Rs.9,789,214 as compared with the corresponding surplus of the preceding year amounting to Rs.11,720,551. Accordingly, a deterioration of Rs.1,931,337 was observed in the financial result. This deterioration was mainly due to the decrease of Rs.1,500,000 in approved filming income of foreign films and Rs.992,000 in receipts for foreign technicians.

3. Operating Review

3.1 Management Inefficiencies

The following observations are made.

Audit Observation	Comment of the Management	Recommendation
(a) The balance of debtors amounting to Rs.67,001,194 which remained brought forward for over a period ranging from 5 years to 25 years by the end of the year under review had been identified as unrecoverable loans and necessary action had not been taken in respect of those loans.	Even though some of the loans have been filed for legal action, it has been informed that it is not possible due to the time bar. The Board will be consulted on further action to be taken in this regard.	A formal programme should be formulated and implemented to recover these loans.
(b) Even though the rental contribution of the films which is the main income source of the Fund should be recovered from the Sri Lanka Film Corporation, action had not been taken to recover these funds from the year 2003 up to the year under review. Furthermore, the arrears recoverable by 31 December 2019 amounted to Rs.26,561,790.	This money could not be given to the Development Fund due to the weak financial position of the Corporation. The cinema owners have been informed to collect the arrears and action will be taken to recover the money in the future.	Actions need to be taken to recover rental contribution of the films.
(c) The loan granted in the years 2001 and 2002 to the Film Lanka Company for construction of the Cine City Cinema Complex Maradana and to purchase equipment amounting to Rs.8.5 million could not be recovered as per the agreement and a sum of Rs.890,655 had to be recovered further by 31 December 2019. The interest receivable for this loan	Interest has been accounted for only up to 2006 as the income not earned by calculating the interest due to non-payment of loans as per the agreement is shown in the statement of accounts.	Actions need to be taken to recover interest up to the year 2019 in terms of the loan agreement relating to the construction of the Cine City Cinema Complex.

up to the year 2006 had been computed as Rs.4,064,958, and actions had not been taken to identify the amount of interest receivable for the subsequent years.

- | | | | |
|-----|--|--|--|
| (d) | The loans granted to the production works of the “WekandaWalauwa” film and the interest thereon as at 31 December 2019 amounted to Rs.3,525,795. Even though the right of the film is belonged to the Sri Lanka Film Corporation, the above film had been screened through the television from time to time. However, the screening income had not been recovered for the Film Development Fund. | As the Sri Lanka National Film Corporation, the Film Development Fund and Taprobane Picture (Pvt) Ltd. had entered into an agreement regarding this film, the legal status of the television screening rights has been referred to the Legal Division. | When screening the films owned by the Development Fund of the Film Corporation through electronic media the rental income from screening need to be recovered to the National Film Development Fund. |
|-----|--|--|--|

3.2 Under-utilization of Funds

Audit Observation	Comment of the Management	Recommendation
<p>The average monthly balance of the bank current account of the Fund in the year 2019 amounted to Rs.9.4 million. Nevertheless, action had not been taken to invest those money in a short term investments effectively and to obtain an additional income.</p>	<p>Expect to invest more effectively in the future and to take actions towards achieving the objectives.</p>	<p>The money required for the day to day working capital of this Fund need to be retained and the remaining amount need to be invested in short term.</p>