

## **National Film Corporation Trust for Film Artists and Film Technicians - 2021**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the National Film Corporation Trust for Film Artists and Film Technicians for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the Income and Expenditure Statement, 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(1) 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 and the Finance Act, No.38 of 1971. 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 Trust 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 Corporation Trust'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 Trust or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16 (1) of the National Audit Act No.19 of 2018, the Trust 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 Responsibilities 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 Trust'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. However, future events or conditions may cause to cease the 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 Trust, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Trust has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Trust has performed according to its powers, functions and duties; and
- Whether the resources of the Trust 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 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Due to the failure to write off the bond loss of Rs.239,801 related to the year under review from the total Treasury Bond loss of Rs.1,096,089 related to 02 Treasury Bonds with a face value of Rs.9,083,524 purchased by the trust at a total cost of Rs.10,179,613 during the year under review, the expenditure for the year had been understated by that amount and the investment value had been overstated by that amount.	It will be corrected in the future.	Bond losses related to the year should be written off to profit.
(b) The interest of Rs.30,055 received at the time of maturity of Treasury Bills in respect of the previous period had been incorrectly accounted as a pre-receipt interest income for Treasury Bills and the Rs.68,296 of treasury bills interest receivable for the year under review had not been accounted.	Interest on Treasury Bills is treated as received in advance and shown in the accounts. Action will be taken to account as indicated in the future.	Treasury bill interest for the year should be calculated correctly and adjusted in the accounts.
(c) Due to the Treasury Bond interest for the year under review was Rs.12,633 and it was stated as Rs.57,128 in the financial statements, the Treasury Bond interest had been overstated by Rs.44,494 and the investment interest income had been understated by the same amount.	It will be corrected in the future.	Treasury bond interest related to the year should be calculated correctly and adjusted in the accounts.
(d) Even though the Treasury Bill interest for the year under review was Rs.193,567 and it was accounted as Rs.144,141, the income of the year had been understated by Rs.49,426.	This difference was due to the change in the accounting method and the increase in the interest rate in the last period. Also, action will be taken to state as indicated in the future.	Bill interest for the year should be calculated correctly and adjusted in the accounts.

### 1.5.2 Unauthorized Transactions

Description of unauthorized transaction	Comments of the Management	Recommendation
Although it is required the approval of the Board in investing the funds according to the section 6(2)(e) of the National Film Corporation Trust for Film Artists and Film Technicians Act, No.03 of 1986, the approval of the board had not been taken for the amount of Rs.5,000,000 invested in Treasury Bills on 22 January 2021.	These investments have been made with the approval of the Chairman subject to the approval of the Board of Trustees and all investments have been approved by the Board of Trustees.	According to the provisions of the Act, the approval of the Board of Trustees should be obtained while investing the money.

### 1.5.3 Documentary Evidences not made available for Audit

Subject	Amount Rs.	Unsubscribed Audit Evidences	Comments of the Management	Recommendation
Rukmani Devi Fund	462,778	Written information and evidence of the objectives and functions to be performed	It has not been able to find sufficient written evidence to provide clarification on this issue.	Objectives related to the establishment of this fund should be investigated and act accordingly.

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

Reference to Non-compliance Laws, Rules and Regulations, etc.	Non-compliance	Comments of the Management	Recommendation
(a) The National Film Corporation Trust for Film Artists and Film Technicians Act, No.03 of 1986	i. Paragraph 02 Although a Corporation in the name of the Film Corporation Trust should be existed and it should have a unique existence and a common Seal, it was not confirmed in the audit that such a Seal was in the Trust during the 37 years since the establishment of the Trust.	Efforts will be made in the future to prepare a common seal by paying attention to the fact that such a seal is not currently in the possession of the Corporation Trust due to the changes in staff, even though a common seal to the National Film Corporation Trust was in its initial stage.	Action should be taken in accordance with the provisions of the Act.

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| ii. Section 3(1)      | Although a Board of Trustees should be appointed for the administration, management and control of the Trust, Board of Trustees had not been appointed for 08 years and 07 months from 30 November 2012 to 06 July 2021.   | The observation is correct.   | Action should be taken in accordance with the provisions of the Act.                            |
| iii. Paragraph 06(2)d | Although rules should be made regarding the appointment and employment of officers and employees of the Trust and payment of remuneration etc., such rules have not been made or officers and employees have not been recruited to carry out the activities of the Trust from the date of the operation of the Trust was started, and the officers and employees of the Film Corporation had been assigned to the activities of the Trust. | The observation is correct. Since the financial position of the Corporation Trust Fund has not been sufficient from the very beginning to fulfil the main objectives of the Trust, the authorities have taken actions to carry out its duties by the staff officers of the National Film Corporation on the basis of service requirement. | Action should be taken to fulfil these objectives in accordance with the provisions of the Act. |

## 2. Financial Review

### 2.1 Financial Results

The operating result for the year under review was a surplus of Rs.113,069 and the correspondingly surplus of the previous year was a Rs.10,884. Accordingly, an increase of Rs.102,185 was observed in the financial results. This growth was mainly due to a decrease in pension allowances by Rs.695,000 and income by Rs.580,312.

## 3. Operational Review

### 3.1 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
Almost 37 years have passed since the establishment of the Corporation Trust as on the date of audit and, the affairs of the Trust are being carried on at the same or less operational level than the initial stage and, only the payment	Interest earned from maintaining the financial donations made to the Corporation Trust in the form of fixed, treasury bills and bond deposits and the financial contribution awarded annually by the National Film Corporation remain only	Actions should be taken to improve the status of the funds and to fulfil the objectives of the Trust.

of contributory pensions to artists as the income status of the Corporation and technicians was done and, it was observed that the trust did not carry out any tasks among the objectives of the act such as updating the pensions in accordance with the existing economic conditions, providing pensions instantly to the pensioners on the waiting list and providing welfare medical facilities etc.

as the income status of the Corporation Trust Fund and, in order to improve the fund, various proposals have been implemented on several occasions and the desired objectives have not been achieved due to having to face practical problems and with the failure of those proposals, one of the main objectives of the Corporation Trust i.e. offering monthly pension allowance to eligible film artists and technicians has only been done.

#### 4. Accountability and Good Governance

##### 4.1 Submission of Financial Statements

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>In terms of Financial Regulation 877(2)(d) as amended in Section 15.1 of the Public Finance Circular No.01/2020 dated 28 August 2020, although a performance report along with certified financial statements of that fund should be submitted to the Auditor General with a copy to the Public Finance Department within 02 months of the end of the financial year, the financial statements for the year 2021 had been submitted to the Auditor General on 25 April 2023 and performance report had not been submitted.</p>	<p>The delay in submission of financial statements due to the fact that new Board of Trustees appointed in the year 2021 also came into operation with delay due to the globally spread Covid pandemic situation in the year under review and it also led to the non-submission of the performance report.</p>	<p>Actions should be taken to submit financial statements on the due date according to the provisions of the Circular.</p>

##### 4.2 Internal Audit

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
<p>According to Section 38(e) of the National Audit Act, No.19 of 2018, the Chief Accounting Officer or the Accounting Officer should ensure that there is an effective mechanism for the proper execution of internal audit functions, the actions had not been taken to carry out internal audit for the Trust.</p>	<p>The observation is correct.</p>	<p>An internal audit should be carried out in accordance with the Act.</p>

#### 4.3 Audit Committee

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
According to Section 41(1) of the National Audit Act, No.19 of 2018, there should be an Audit and Management Committee appointed by the Chief Accounting Officer or the Accounting Officer or the board of governors concerned to assist them, such committee was not appointed and the Trust had not held Audit and Management Committee meetings in the year 2021.	The observation is correct.	Action should be taken in accordance with the Act.

#### 4.4 Budgetary Control

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
A budget for the year 2021 had not been prepared and approved in terms of Financial Regulation 877(1)(c) as amended by Section 15.1 of the Public Finance Circular No.01/2020 dated 28 August 2020.	The Budget for the year 2021 could not be prepared and presented in the year 2020 with proper approvals in the absence of a Board of Trustees from 2013 to 21.05.2021 in accordance with the main objectives of the Film Corporation Trust.	A budget should be prepared and submitted annually in accordance with the provisions of Circular.