

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Film Corporation Trust for Film Artist and Film Technicians for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of income, statement of changes in equity and cash flow statement for the year then ended and notes to the financial statements including material accounting policy information was carried out under my direction in pursuance of section 11(4) of National Film Corporation Trust for Film Artist and Film Technicians Act, No 03 of 1986, 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 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

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 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 Sub 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 Trust.

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. 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 to cease 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 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 Foundation;
- Whether the Trust has performed according to its powers, functions and duties; and whether the resources 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

Non-compliance with reference to the relevant Standard	Comments of the Management	the Recommendation
(a) According to paragraph 53 of Sri Lanka Public Sector Accounting Standards 01, although all reported numerical information should be disclosed in the financial statements, the comparative information related to the previous year had not been disclosed in the statement of changes in equity of the corporation trust.	It will be presented from the year 2023.	It should be complied with the terms of the Standard.
(b) As per the supplementary 107 (a) of Sri Lanka Public Sector Accounting Standards 11, without accounting of recurrent grants which is received annually as a revenue income, it was accounted under capital employed and accounting only the amount required to pay the annual pension as income for the year, the remaining balance of Rs.3,153,000 which was without spending at the end of the year was added to the capital employed creating a reserve under the General Treasury Grants.	Annual Treasury grants received to the Trust are used only to pay the monthly pension payments and the remaining balance was not shown as repayable balance under current liabilities in the statement of financial position as the remaining balance is used to pay monthly pension benefits until the grants related to the next year are received.	It should be complied with the terms of the Standard.
(c) Due to the said fact, although the recurrent grant received from the Treasury during the year under review was Rs.7,500,000, Since it was stated as Rs.8,278,000, the income for the year had been overstated in the financial statements by Rs.778,000.	The manner in which this amount was spent during the year under review has been shown in the Income and Expenses Account and as well as in the Accounting Notes.	Recurring grants received in respect of the year should be properly accounted in accordance with the terms of the Standard.

1.5.2 Written Evidences not made available for Audit

Subject	Value Rs.	Non-submitted Evidence	Audit	Comments of the Management	Recommendation
Initial capital	05 million	Failure to provide written evidence of disbursements Treasury and not included in the Treasury financial statements.	written of from financial	It was unable to find any written evidence to prove this fact and it will be reconsidered.	Relevant written confirmations should be submitted.

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

Reference to Laws, Rules, Regulations etc.	Non- compliance	Comments of the Management	Recommendation
Section 06(2)(d) of the National Film Corporation Trust for Film Artists and Film Technicians Act No.03 of 1986	Although rules should be made regarding the matters such as appointment and employment of officers and employees of the trust, payment of remuneration etc., the staff of the National Film Corporation had been assigned to the affairs of the trust without making any rules or hiring the necessary staff to carry out the work of the trust from the date the trust came into operation until the present.	Attention has been drawn to this matter in the 89th Board of Trustees meeting.	The provisions of the Act should be followed.

1.7 Cash Management

Audit Observation	Comments of the Management	Recommendation
Although the rate of interest on investment has been gone up by July 2022, the trust had lost an interest income that could have been obtained due to keeping excess cash balance of around Rs.2 million approximately in the	This is due to the lack of Board of Trustees approval and, proper approvals will be taken in the future.	Arrangements should be made to immediately invest the excess money belonging to the fund on the proper

current account during January to December 2022.

approvals of the Board of Trustees.

2. Financial Review

2.1 Financial Results

The operating result of the year under review was a surplus of Rs.225,556 and the corresponding surplus of the previous year was Rs.113,069. Accordingly, a growth of Rs.112,487 was observed in the financial result. Increases in the expenses on purchase of treasury bonds by Rs.257,027 during the year under review and the increases in the investment income compared to that by Rs.363,296 had been the main reason for this growth.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
<p>The National Film Corporation Trust for Film Artists and Film Technicians Act No.03 of 1986</p>		
<p>(a) According to Section 06, although it should be done the provision of money or acceptance of grants, gifts or donations in cash or in kind from local or foreign sources to achieve the objectives of the Trust, the expenses of the Trust had become a burden on the treasury as none of these tasks have been done.</p>	<p>As having to face many practical problems in implementing various proposals to generate sufficient income for carrying out the objects of the trust and due to the Covid pandemic situation and the economic instability in the country during the year under review, new programs or procedures have not been implemented to achieve the desired objectives.</p>	<p>New ways of generating income should be identified and steps should be taken to improve the fund position in order to fulfil the objectives of the trust.</p>
<p>(b) As per Section 03(1), although it was stated that, the management and control will be vested to a constituted Board of Trustees, it was observed that the Board of Trustees had not made an active contribution to the development of the Trust as not holding Board of Trustees meetings for more than a year until 31 March 2023 after the 87th Board of Trustees meeting held on 31 December 2021.</p>	<p>The Line Ministry also changed due to the various political changes that took place with the economic instability in the country and the Covid pandemic situation around the world during this period, and arrangements have been made to hold the 88th Board of Trustees on 31 March 2023.</p>	<p>The meetings should be held properly and the board of trustees should give active contribution for the betterment of the trust.</p>

3.2 Operational Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) The amount of Rs.1,000,000 which was received in January 2019 on behalf of the Ranasinghe Premadasa Memorial Trust and which was decided to be credited to the trust was invested in a fixed deposit in the name of National Film Corporation and received interest income, and it had been assigned to the corporation trust on 06 June 2022. The trust had also kept the amount in the bank current account for a period of 02 months until 08 August 2022 and then invested it in a fixed deposit for a period of one year. Accordingly, action had not been taken to fulfil the objectives or functions which this trust is established until the end of the year under review.	Arrangements have been made to credit this money to the trust in the year 2024 and actions will be taken to invest this money properly without delay in the future.	The prompt action should be taken to fulfil the objectives or functions which this trust is established and to invest without delay.
(b) The information about the purpose or functions of the Rukmani Devi Trust did not submit to audit and Rs.462,778 of that fund continued to be carried forward under the capital employed in the statement of financial position without doing any work.	Although an amount allocated to this fund was accounted and designated as a fund, clear acceptable written evidence has not been found in this regard.	The objectives related to the establishment of this fund should be investigated and the related tasks should be carried out.

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

Audit Observation	Comments of the Management	Recommendation
The financial statements of the Corporation Trust for the year 2022 had been submitted for audit on 17 April 2024 after a delay of one year in contravention of the Finance Regulation 877(2) (d) as amended by 15.1 in Section I of Public Finance Circular No.01/2020 dated 28 August 2020 and the Performance Report had not been submitted with that.	There has been some delay in preparing the financial statements for the year ending 2022.12.31 and submitting them to the Board of Trustees for approval in accordance with the Auditor General's report submitted for the financial statements for the year ending on 31.12.2021.	The financial statements should be submitted for audit on due date as per the circular.

4.2 Internal Audit

Audit Observation	Comments of the Management	Recommendation
(a) According to Section 40 of the National Audit Act No.19 of 2018, the Board of Trustees of the Trust had not appointed an internal auditor to carry out internal audit activities.	Internal audit has not taken place due to the vacancy in the position of Internal Audit of the National Film Corporation, and the related activities to appoint an officer for that have been carried out by now.	An internal audit should be conducted as per the National Audit Act.
(b) In terms of Section 41(1) of the National Audit Act No.19 of 2018, the Board of Trustees of the Trust had not appointed an Audit and Management Committee to support itself and action had not been taken to obtain the assistance of the Audit and Management Committee of the Corporation.	Answers have not been given.	National Audit Act should be followed.

4.3 Budgetary Control

Audit Observation	Comments of the Management	Recommendation
The Trust had not prepared a budget report for the year 2022 in accordance with the Financial Regulation 877(1) (c) as amended by 15.1 in Section I of Public Finance Circular No.01/2020 dated 28 August 2020 and had incurred expenses without an approved budget.	It has not been possible to prepare the budget report for the year 2022 in the year 2021 and to present it with proper approval on the facts that, only the monthly pension payments have been in operation for a long time among the objectives of the trust on the financial position and the staff are called to work only on the basis of the need for service due to the Covid pandemic situation and the economic instability in the country.	A budget should be prepared in accordance with the objectives of the fund and expenses should not be incurred without an approved budget.