

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the National Film Corporation of Sri Lanka for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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(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 Financial Act No. 38 of 1971. My comments and observations which I consider should be reported 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 National Film Corporation of Sri Lanka as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 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'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 Corporation or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Corporation 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.

1.4 Auditor's Responsibility in Auditing 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 skepticism 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.
- Obtained 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 Corporation's internal control.
- Evaluated 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 Corporation'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 to continue as a going concern.
- Evaluated the 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 Corporation, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Corporation has complied with applicable written law, or other general or special directions issued by the governing body of the Corporation;
- Whether the it 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 Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with Reference to Relevant Standards	Comments of the Management	Recommendation
(a)	A sum of Rs. 20 million received from the Treasury for the Presidential Film Awards had been stated in the statement comprehensive income by setting off to the expenditure of the ceremony amounting to Rs. 26.2 million without being identified to the income in contrary to the Paragraph 32 of Sri Lanka Accounting Standards 1.	Observations are accurate.	Actions should be taken to indicate the incomes and expenditures separately in accordance to Sri Lanka Accounting Standards 1.
(b)	Although an investment of 3 months or less should be shown as a liquidity asset equivalent to cash in the cash flow statement when accounting for Treasury Bills and Repo Bills in terms of Paragraph 7 of Sri Lanka Accounting Standard 7, the Treasury Bills expected to be matured in three months valued at Rs.60,740,425 and the Treasury Bills Repo amounting to Rs.201,624,456 had not been stated under cash and cash equivalents.	Although these bills were due to be matured within a period of 03 months it has been presented under short-term investments in current assets because it was not expected to convert it into cash at the end of that time.	Actions should be taken to indicate in the cash flow statement in accordance with the Sri Lanka Accounting Standards 7 .

(c) Although the net book value of idle assets should be disclosed in financial statements in accordance with Paragraph 79 (a) of Sri Lanka Accounting Standards 16, the technology and out-dated old assets belonging to the black and white laboratories of the Kelaniya Studio of the Corporation had not been accounted for and disclosed.	The information was presented through audit queries in respect of technology and out-dated old assets belonging to the black and white and colour laboratories of the Kelaniya Studio of the Corporation and it has been accounted for in the net book value.	Idle assets should be disclosed in the accounts as per Sri Lanka Accounting Standards 16.
(d) The software which is being used for post-production activities of Kelaniya Sarasavi Studio had not been stated in the financial statements under intangible assets in accordance with Paragraph 119 of Sri Lanka Accounting Standards 38 .	This software was purchased in the year 2005 and it has been indicated as an expense.	The software which is being used in accordance with Sri Lanka Accounting Standards 38 should be disclosed as Intangible Assets.
(e) Although the investment assets should be identified and accounted for in accordance with Paragraph 75 (c) of the Sri Lanka Accounting Standards 40, the necessary disclosures had not been made with regard to a building which was leased out to the Censor Board, the Selacine Institute and the SAARC Cultural Centre by the Corporation for over a period of 16 years.	Actions will be taken accordingly at the time of submission of Financial Statements 2020.	The investment assets should be disclosed in accounts as per Sri Lanka Accounting Standards 40.
(f) The accounting policy regarding the accounting of income had not been disclosed in the financial statements in terms of 35 (a) of Sri Lanka Accounting Standard 18 .	Actions will be taken accordingly at the time of submission of Financial Statements 2020.	The accounting policy followed to account for the revenue should be disclosed in the financial statements.

1.5.2 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
Even though the financial statements revealed that the policy for accounting of property has been made at cost or assessed value, actions had not been taken to assess the land with Rate No. 224 at Bauddhaloka Mawatha and the land of Kelaniya Studio owned by the Corporation and account for the fair value .	Requests have been made to obtain new assessment reports. As soon as receiving aforesaid reports, it will be credited to the accounts.	All the lands and buildings of the Corporation should be accounted for by obtaining new valuation reports.

1.5.3 The Continuous Existence of the Corporation

Audit Observation	Comments of the Management	Recommendation
With the abolition of the monopoly of film distribution belonging to the National Film Corporation in the year 1999, the Corporation had deprived its distribution commission amount which was a major source of revenue. Actions had been taken to make provisions for salaries of employees since 2001 by the Treasury because of the income of the Corporation was not sufficient to cover the expenses. Further, a circumstance of continuous loss was observed before the Corporation receives Treasury Grants during the year under review and for the past 5 years and it was observed that the continuation of the Corporation without the financial assistance of the Government was in an indefinite position.	With the abolition of the monopoly of film distribution belonging to the National Film Corporation in the year 1999, provisions have been making by the Treasury since 2001 on the proposal of the Officers' Committee to cover the expenses of the Corporation on the deprive of the Distribution Commission, which was the main source of income of the Corporation.	Actions should be taken to carry out the Film Corporation without the assistance of the Treasury.

1.6 Unauthorized Transactions

	Description of Unauthorized Transactions	Comments of the Management	Recommendation
(a)	As a result of the computation of contributions to the Employees Provident Fund without considering the cost of living allowance during the period from January 2006 to December 2015, the Corporation was informed that the employer and employee contributor amounting to Rs.12,211,657 and Rs. 8,141,105 respectively and the surcharge on that amounting to Rs. 10,176,381 was receivable. In addition to that, the Corporation had been informed that contributions to the Employees' Trust Fund amounting to Rs. 2,763,753 and the surcharge amounting to Rs. 1,381,876 on it should be levied. However, a sum of Rs. 34,674,772 had been made available in the financial statements of the year 2018 for full payment as previous year's adjustments without obtaining the approval of the Board of Directors and the approval of the Treasury for the surcharge.	Actions have been taken to pay the arrears and surcharge of the Employees' Trust Fund by making aware of the Board of Directors. It is stipulated to pay the arrears and surcharges of the Employees Provident Fund in 10 installments.	Provisions should be made available by obtaining proper approval for amounts payable and surcharges for the Employees' Provident Fund and the Employees' Trust Fund.
(b)	Even though there was a bank overdraft of Rs. 241,062 as at 31 December of the year under review in a current account maintained by the Corporation in the Bank of Ceylon, the Corporation had not obtained formal approval to obtain bank overdrafts.	Over Rs. 04 million cheques which were not realized had been banked as at 31 December 2019. Further, the bank balance of the account of the Corporation as at 31 December remained as Rs.8,398,815. Accordingly, it does not show a real overdraft.	Bank overdraft should be obtained only with proper approval.

1.7 Accounts Receivable and Payables

1.7.1 Receivables

Audit Observation	Comments of the Management	Recommendation
<p>(a) Out of the loan amount given to film producers from the year 1975 to 2014, there was a balance of Rs. 71.32 million as at 31 December of the year under review. Out of that loan, Rs. 25.10 million had not been utilized for film production and debt recovery was at indefinite condition due to the death of the producers relating to the Rs 8.29 million arrears of debts.</p> <p>The legal ability to recover debts had been diminished over the course of more than 10 years and reports on the functioning of the committee appointed to deal with this and the amount of debt balance recovered were not furnished to audit.</p>	<p>The Debt Recovery Committee is inactive by now. A report is being prepared analyzing the loans identified as it was impossible to recover.</p>	<p>Activation of the Debt Recovery Committee and preparation of an analytical report on loans and recovery of arrears of debts.</p>
<p>(b) Actions had not been taken to recover the film rental receivable amounting to Rs.12,343,433 from the Cinecity Cinema, Maradana from 2003 to 31 May 2016 even by 15 September 2020 and due to the failure to take steps to obtain daily reports after 31 May 2016, the film rental revenue could not be calculated and accounted for.</p>	<p>The case filed in the Colombo District Court against the Management of the Cinecity Cinema Complex to recover the levy to be received to the Corporation.</p>	<p>Prompt actions should be taken to recover the arrears after receiving of the court decision.</p>
<p>(c) Due to control weaknesses in the system of payment and recovery of employee loan advances, unidentifiable balance of loan advances stood at Rs.539,221 as at 31 December of the year under review. Similarly, actions had not been taken to recover the</p>	<p>The balance of Rs. 539,221 has been remaining from the year 2001 and there is no information to identify it. Out of the loan balance amounting to Rs. 165,807 that was not recovered for more than 04 years, a sum of</p>	<p>Identify weaknesses in employee debt management and strengthen the internal control system and take actions to recover arrears promptly.</p>

unrecovered loan advances Rs. 53,433 is being amounting to Rs. 165,807 for recovered monthly. more than 04 years.

1.7.2 Payables

Audit Observation	Comments of the Management	Recommendation
Even though it had elapsed more than 05 years for a sum of Rs.5,000,000 remained out of the compensation received from the Treasury for the retirement of employees, actions had not been taken to remit it to the Treasury back and though this amount had been reduced as the Contribution of the Treasury to the Presidential Awards, the approval for that had not been obtained from the Treasury.	Out of the funds to be provided by the General Treasury for the expenses of the Presidential Awards Ceremony held in the year 2019 (Rs. 28,000,000), the amount of Rs. 5,000,000 that had to be paid by the Corporation to the Treasury has been set off in the year 2020 .	The money should be remitted to the Treasury as soon as the task is completed.

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

Reference to Laws, Rules, Regulations	Non-compliance	Comments of the Management	Recommendation
(a) Section 27 of the Sri Lanka National Film Corporation Act No. 47 of 1971 and Sections 10 (5) and 11 of the Finance Act No. 38 of 1971	The surplus of income amounting to Rs. 173,169,736 related to the period from 2014 to 2019 had not been remitted to the Treasury and a sum of Rs. 115,091,406 with the added interest and Rs. 201,624,456 had been invested in Treasury Bills and Treasury Bills on Repo respectively without the approval of the Minister of Finance and the relevant Minister.	Grants had been received in every year from the General Treasury as a definite quantity for deprived revenue to the Corporation for the salaries of the Corporation for a full receipt and for other overheads. The withholding money has been invested more effectively until it pays for Producers, Boards and Other Creditors and due to the income received from those investments, it shows a surplus.	Actions should be taken to send the excess revenue from 2014 to 2019 to the Treasury and the approval of the Minister of Finance for the Treasury Bills and Bills on Repo should be obtained.

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| (b) | Section 7 (2) of the Finance Act No. 38 of 1971 | Government grant of Rs. 80,750,000 received during the year under review had been stated in the statement of comprehensive income after calculating the profit / loss of the Corporation. | The revenue and expenditure incurred through the activations have been taken into consideration in calculating the profit or loss of the Corporation and Government Grants have been shown in the statement of comprehensive income. | Government Grants should be shown in accounts before calculating the profit of the Corporation. |
| (c) | Paragraph 9 of National Film Policy and Guidelines dated 17 June 1999 | Although a Vault for films should be set up and the management of it should be carried out by the Corporation, about 273 old films owned by the Corporation had been kept in a Vault of the Department of Archives and even though a programme had been prepared to protect 987 films which have been screened since 1947 and the copies of new films, activities of them had not been monitored and followed up. | Since the most suitable Vault of the Department of Archives has been received for this to the Corporation, it is stored and conservation activities of them is being performed by the employees of the Corporation. | A proper programme should be formulate to protect films. |
| (d) | F.R. 381 (1) of the Financial Regulation of the Democratic Socialist Republic of Sri Lanka | The Corporation had opened 09 bank current accounts without the approval of the General Treasury as at 31 December of the year under review and the balance in those bank accounts on that day was Rs. 36,979,808 . | These accounts have been opened with the approval of the Board of Directors and since the information could not be found because of the relevant file was not handed over correctly during the retirement of the officers at that period, actions will be taken to obtain the approval for that in future. | Obtaining approval from the General Treasury for bank current accounts. |

2. Financial Review

2.1 Financial Results

The financial results of the year under review was a surplus of Rs. 31,235,609 the correspondence surplus of the preceding year was Rs. 1,402,245. Accordingly, an increase of Rs. 29,833,364 in the financial result was observed. The increase in revenue from illuminated film sales by Rs. 7,991,083, increase in receipts from Treasury by Rs.16,900,000 and the decrease in impairment adjustments by Rs. 21,980,382 had mainly attributed for this decline.

3. Operating Review

3.1 Uneconomic Transactions

	Audit Observation	Comments of the Management	Recommendation
(a)	Instead of investing on more favourable interest rates by calling Bids from State Banks in the primary market in the Treasury Bills and Treasury Bills Repo valued at Rs. 316,715,862, it had continued to invest in one bank.	It has been invested in the National Savings Bank which was a leading public savings bank.	Investments should be made at more favourable interest rates by calling Bids from State Banks.
(b)	Arrangements had been made to rent out the building No. 224 belonging to the Corporation to two Government institutions at a lower rent considering the request of those institutions without determining the rent as per the government rent assessment.	Observation is accurate.	Actions should be taken to recover rents for buildings on government rent assessment.
(c)	Even though a sum of Rs. 976,303 had been maintained in the current account of the Corporation for a Project under the Film Education for Children no project whatsoever had been carried out during the year under review.	The observation is accurate. It is expected to implement a programme for World Children 's Day in 2021.	Actions should be taken to implement the Project as planned.

3.2 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
(a)	Due to weaknesses in the existing internal control system regarding the assets management of the Corporation and their security, 107 computers and valuable office equipment had disappeared from the premises of the Corporation by 31 December of the year under review. Actions had not been taken to recover damages incurred in respect of those items identified during assets verification.	The Board of Directors has instructed to appoint a Committee in this regard and obtain a report on the relevant items.	Appoint a new Committee and obtain an accurate report.
(b)	Out of a sum of Rs. 263,940 for fines of inspections of cinemas by the end of the year under review, a sum of Rs. 182,798 or 70 per cent had not been recovered even by the end of the year under review.	Observation is accurate. Actions will be taken to recover the uncollected money in the year 2020.	Properly recover inspection fines.
(c)	The construction of a Museum and a Film School named Late Cinema Isiwara Dr. Lester James Peiris had been commenced on 05 April 2019 at an estimated cost of Rs. 99.9 million and the works had to be completed before 10 July 2019 . Even though the completed Museum had been scheduled to be opened on his birthday on 05 April 2020, the Project had not been completed and even the approval of the Urban Development Authority had not been obtained for that construction.	Arrangements are being made to divide the construction works into three phases and implement it in 2020 and 2021 because there were no sufficient provisions in 2019 .	Necessary actions should be taken to carry out the project activities as planned.

3.3 Transactions in Contentious Nature

	Audit Observation	Comments of the Management	Recommendation
(a)	Building rental revenue which is being charged from the Public Censor Board had declined by Rs. 420,000 during the year under review and a formal agreement entered into in between the two parties regarding the reduction of rent and the assessment report of the Chief Valuer regarding the building rent had not been submitted to audit.	Actions have been taken to construct a new two storied Corporation building with the approval of the Corporation where the Public Censor Board had located and the Corporation has not incurred any financial provision for this purpose. The monthly lease rent is in consistent with the assessment report as per the decision taken by the Board of Directors to extend the lease period to this institution subject to set off the total cost borne by the Public Censor Board for this construction from the monthly building rental. Nevertheless, it has been unable to reach a lease agreement in failure of issuing the monthly building lease rental assessment report by the Department of Valuation on the non-completion of the activities of the new building up to now .	It should act in accordance with the recommendations of the Chief Valuer of the Government.
(b)	Actions had not been taken to pay a sum of Rs.1,332,143 remained in the unpaid salary account for more than 04 years to the relevant persons or to take into income again.	It is stipulated to be corrected by the financial statements 2020 .	Actions should be taken to make payments identifying the payment parties and to make arrangements to take into income.

3.4 Idle and Underutilized Assets

	Audit Observation	Comments of the Management	Recommendation
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(a)	Average monthly balance maintained during the year under review of 9 bank current accounts owned by the Corporation was about Rs.29.2 million and the attention had not been drawn on earning extra income by investing those money in short term effectively.	The observation is accurate. As there was no prescribed chairman in the manner of the political situation, it was impossible to resort to short-term investments.	Retain sufficient funds for working capital requirements and the balance should be invested in short term.
(b)	Since the stock of photographs and chemicals totalling to Rs. 870,659 were out-dated since 2014, those had become unusable.	Although this stock of camera reels and chemicals were not currently in use due to digitalization, those have not become unusable.	Actions should be taken to utilize or dispose of the stock of chemicals.
(c)	A number of 7,917 movie magazines that had been in the main store for more than 5 years were dilapidating because of remaining without selling and lack of taking actions to remove them and 450 types of items which had out-dated and currently unused had also been stored in the warehouse covering the space as well. The cost or current value of the above inventory had not been stated in the documents of the Corporation.	Actions are being taken at the film talks and film-related events to sell the stock of movie magazines remained in the store unsold. Committees have been appointed to identify and dispose of unused items currently stored in the warehouse .	Actions should be taken to sell magazines and to implement Committee recommendations.

3.5 Human Resources Management

	Audit Observation	Comments of the Management	Recommendation
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	The number of staff vacancies in the Corporation was 52 as at 31 December of the year under review and the approved staff had not been reviewed as per the current requirements. Similarly, 7 essential staff posts have been in vacant for a long time and 4 officers had been	The observation is correct. The approved Scheme Of Recruitment of the year 2012 has been prepared in accordance with the New Guidelines of the Department of Management Services and the approval of	Actions should be taken to fill the vacancies in the essential staff posts.

appointed to these posts on acting basis and 3 officers on duty performance basis.

the Board of Directors has been obtained and it is stipulated to carry out recruitments promptly after submitting it to the Department of Management Services after obtaining approval.

4. Accountability and Good Governance

4.1 Tabling of Annual Reports

Audit Observation	Comments of the Management	Recommendation
The Annual Report 2018 had not yet been tabled in Parliament even by 15 September 2020 in terms of Public Enterprises Circular No. 6.5.3 of PED / 12 dated 02 June 2003 .	Even though the preparation of Sinhala language version of the Annual Report 2018 has been completed and the Tamil language version has not been received yet. The report of the year 2019 is being prepared.	Arrangements should be made to table annual reports in Parliament promptly.

4.2 Internal Audit

Audit Observation	Comments of the Management	Recommendation
Although there were 03 permanent audit assistant posts in the Internal Audit Division as per the approved staff, no appointments had been made to those positions by 31 December 2019. Accordingly, it was observed that an adequate attention had not been paid in respect of implementation of internal audit activities and delays in submitting internal audit reports to the Auditor General as well.	Observations are accurate. With new recruitments in 2019 , two permanent audit assistants have been attached.	Provide necessary assistants for internal auditing and conduct internal audit activities efficiently.