

## **National Film Corporation of Sri Lanka – 2020**

---

### **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 2020 comprising the statement of financial position as at 31 December 2020 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 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 Corporation as at 31 December 2020, 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 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 of the Corporation.

#### **1.4 Audit Scope (Auditor's Responsibilities for the Audit of 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 Corporation'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 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 the Corporation 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 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 Corporation has performed according to its powers, functions and duties; and
- Whether the resources of the Corporation 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 Accounting Standards

The following observations are made.

	<b>Non-compliance with the reference to particular standard</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a)	Although employee receivable loans within 12 months should be classified as current assets and values to be repaid after more than 12 months as non-current assets and recorded in the financial statements as per paragraph No. 66 of Sri Lanka Accounting Standards No. 01, Rs. 19,532,289 as at 31 December 2020 was recorded as current assets without any classification.	I will make the relevant adjustments in the preparation of financial statements for the year 2021.	It should be complied with this standard.
(b)	Although the payable gratuity during the next 12 months should be shown as current liabilities and the value of the remaining gratuity payment as non-current liabilities at the time of allocation of employee gratuity as per paragraph 69 of Sri Lanka Accounting Standard No. 01, the total allocation of Rs. 51,335,633 was mentioned as non-current liabilities without such classification.	I will make the relevant adjustments in the preparation of financial statements for the year 2021.	It should be complied with this standard.

- (c) Although trade and other payables and financial liabilities are required to be shown separately in the Statement of Financial Position in accordance with Sri Lanka Accounting Standard No. 01, the total accrued expenses of Rs. 51,097,862 which are financial liabilities of the corporation during the year under review were recorded under other creditors. Corrections will be made through the accounts in the year 2021. It should be complied with this standard.
- (d) Although the allocations and payable taxes should be disclosed separately under the current liabilities in the Statement of Financial Position in accordance with the provisions of paragraph 54 of Sri Lanka Accounting Standard No. 01, when preparing the financial statements, Rs. 152,612 of the total value added tax payable by the corporation, Rs. 38,253 of total tax payable earnings and the total provisions for audit fees of Rs. 5,125,000 were mentioned under other creditors. It will be corrected in the year 2021. It should be complied with this standard.
- (e) Although the investments which have remaining period of 03 months or less until 31 December 2020 should be shown in the Statement of financial position and stated as cash and cash equivalent liquid assets in the Cash flow statement when accounting for Treasury bills and re-sale bills in accordance with paragraph 07 of Sri Lanka Accounting Standard No. 07, the total value of treasury bills to be matured during the 03 months as at 31 December 2020 amounting to Rs. 118,997,660 and the total value of 11 treasury bill re-purchases (Repo) amounting to Rs. 108,680,741.10 were not mentioned under cash and cash equivalent liquid assets. I will make the relevant adjustments in the preparation of financial statements for the year 2021. It should be complied with this standard.
- (f) When preparing the cash flow statement for the year 2020, the cash flow statement should be prepared on the basis of real cash inflows and real cash outflows as per Sri It will be corrected in the year 2021. The correct cash flow statement should be prepared according to the answer.

Lanka Accounting Standard No. 07. But the Corporation's cash flow statement had not been adjusted accordingly. In addition, when preparing the cash flow statement, the total cash flow of Rs. 105,000,000 generated from treasury receipts stated as a cash flow under cash flow generated from financial activities, but it was stated as a cash flow generated from investment activities.

- |     |   |  |   |
|-----|---|--|---|
| (g) | Although paragraph 79 (a) of Sri Lanka Accounting Standard No. 16 is required to disclose non-performing assets to the net book value of financial statements, adequate information was not disclosed in the financial statements about the idle and obsolete old assets located inside and outside buildings belonging to the corporation premises.  | I will make the relevant adjustments in the preparation of financial statements for the year 2021. | It should be complied with this standard.               |
| (h) | When the assets show damage conditions once in a while, If the book value is less than the market value by comparing the book value of the assets with the market value, the difference should be deducted in according to the Sri Lanka Accounting Standard No. 36. But, no such value comparison or adjustment was made.  | I will make the relevant adjustments in the preparation of financial statements for the year 2021. | It should be complied with this standard.               |
| (i) | Although the disclosure may be made in the financial statements and provisions made thereon in respect of contingent liabilities and trials under Sri Lanka Accounting Standard No. 37, there were no disclosures made for the 09 law suits pending in various courts, 05 investigations under the Industrial Disputes Act of the Department of Labor and 09 pending investigations by the Human Rights Commission. | I will make the relevant adjustments in the preparation of financial statements for the year 2021. | It should be complied with this standard.               |
| (j) | Cost of intangible assets should not be recognized as an expense as per paragraph 68 (a) of Sri Lanka Accounting Standard   | The intangible assets will be amortized annually and action will be taken to present them          | It is suitable to act in accordance with this standard. |

No. 38 and after identifying a fixed asset as a long term asset in the statement of financial position, it is necessary to assess their effective life time, perform annual amortization and identify the expense for the income statement accordingly. But, Rs. 6,587,305 of the total cost on intangible assets was accounted as expenses through the accounts in the year 2021.

- (k) The effective lifetime, depreciation basis and research and development expenses of the computer software system were not disclosed in the financial statements for the year under review according to the terms of paragraphs 118 and 126 of Sri Lanka Accounting Standard No. 38. When the preparation of 2021 financial statements, action will be taken to account intangible assets (Research and development expenses) as per standard No. 38. It is suitable to act in accordance with this standard and answer.

### 1.5.2 Accounting Deficiencies

Audit observation	Management Comment	Recommendation
Although the Corporation maintained a fixed assets register, 06 vehicles received from the Presidential Secretariat to the Corporation had not assessed and recorded in assets register and also not accounted.	Although registered in the name of the Corporation, due to the value has not been assessed, it will be assessed and recorded in future.	Vehicles that have not been assessed should be assessed and updated the assets register.

### 1.5.3 Unreconciled Control Accounts or Records

Subject	Value as per Financial Statements	Value as per corresponding records	Difference	Management Comment	Recommendation
-----	-----	-----	-----	-----	-----
	Rs.	Rs.	Rs.		
Film rental debtors	362,737,356	381,558,535	18,821,179	The observation is correct. I will find the reasons for the change in the future and correct it.	It should be corrected according to the answer.

#### 1.5.4 Going Concern of the Organization

Audit observation	Management Comment	Recommendation
<p>The General Treasury had provided for the salaries and capital expenditure of the Corporation since the year 2011 due to insufficient revenue and expenditure of the Corporation. The Corporation has been positioning continuous operating losses prior to receiving Treasury grants. It has been observed that at present there is uncertainty as to the continuation of the Corporation without the financial assistance from the Government or the realization of the legal process of obtaining film distribution and field regulatory powers to the Corporation.</p>	<p>The Corporation has had to obtain funding from the Treasury since the year 2001 to cover the Corporation's expenses due to the loss of the distribution commission, which was the Corporation's main source of income after the year 1999.</p>	<p>Action should be taken to improve the revenue of the corporation, to build stability in the existence of the Corporation and to carry out its functions in accordance with the Act.</p>

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

Reference to Laws, Rules, regulations etc.	Non-compliance	Management Comment	Recommendation
<p>(a) Financial Regulations (i) 103 (b) and 104 (1) (a)</p>	<p>There were no records of damage losses in respect of emergency accidents which were subject to these financial regulations and no complaints were noted in the police regarding motor accidents and no investigations were carried out in accordance with the Financial Regulations. The motor accident files were also not maintained in systematically.</p>	<p>Action has been taken to record the damage losses regarding the motor accidents. Steps will be taken to inform the insurance company regarding minor accidents and seek compensations. Action will be taken to conduct institutional investigations regarding the motor accidents.</p>	<p>Should be complied with this Financial Regulation.</p>

- |      |  |   |  |   |
|------|--|---|--|---|
| (ii) | Financial Regulations 502 (2) and paragraph 2(b), (e) of the Treasury Circular No. 842 of 19 December 1978<br>Of the Democratic Socialist Republic of Sri Lanka. | A fixed assets register containing departmental numbers for the Corporation's fixed assets had not been maintained as per this Financial Regulation and Circular.   | The fixed assets register is maintained. Officials have been instructed to update it further.  | Should be complied with Financial Regulations 502 (2) and paragraphs 2(b), (e) of the Treasury Circular No. 842 of 19 December 1978.  |
| (b)  | Paragraph 11 of the Public Finance Circular No. 01/2020 dated 28 August 2020.  | The report of the board of Survey for the year 2020 with respect to the total fixed assets of Rs. 619,640,309 was not submitted to the audit till October 2021 according to the financial statements of the Corporation.                          | The survey boards have been appointed for the year 2020 on 06 January 2020. This process was delayed due to changes in the administration.   | The survey Board reports for the year 2020 have not been submitted for audit till 10 November 2021 and action should be taken to complete the survey and submit those reports to the Auditor General. |
| (c)  | Public Administration Circular No. 09/2009 dated 16 April 2009 and 09/2009 (i) dated 17 June 2009.   | Salaries and allowances amounting to Rs. 3,098,046 had been paid to the officers holding 03 senior managerial level posts in the Corporation without the use of fingerprint machines on arrival and departure in accordance with these circulars, | The 1199 <sup>th</sup> Board of Directors meeting on 20 April 2021 decided to conduct an inquiry about the appointment of acting and performing duty basis. This observation is correct and a request has been made to the Secretary to the Ministry to look into this matter. | It is suitable to look into these payments and not using finger print machine when reporting to work and take appropriate and suitable action based on the answers.                                   |
| (d)  | Section 4.2.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.  | Although the corporate plan and budget had to be periodically reviewed with the actual performance data in accordance with this section, it had not been complied with.   | Progress is asked and reviewed at each Board of Directors meeting. However, the Board of Directors is yet to be informed of this matter.   | Act in accordance with Section 4.2.2 of the Public Enterprises Circular No. PED/12 dated 02 June 2003.  |



## 1.7 Information Technology (IT) General Controls

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>The Corporation purchased the “Quick Book” software system without a formal procurement system for computerized accounting in the year 2019. The institute does not have an IT division and trained staff and has not introduced formal internal control system strategies. Manual writing of ledger books was discontinued from 2020 onwards in line with the computerized accounting system and there were problems with the reliability of the data and information obtained due to its unique ability to enter and remove statistics for the 2019 financial year till October 2021. Furthermore, the computerized accounting system was at risk due to not securing backups of data, not being able to re-install them when needed, not having efficient hardware for the system and having limited access to the system by both internal and external auditors.</p>	<p>The observations are correct and I will take the necessary action to correct them, implement the necessary system control strategies, train management staff and purchase security equipment in future.</p>	<p>When using the “Quick Book” programme used to keep accounts in the institution, the observations made in the relevant audit query should be corrected and used along with training and internal control strategies.</p>

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 1,139,436 and the corresponding surplus in the preceding year amounted to Rs. 31,235,609. Therefore a deterioration amounting to Rs. 30,096,173 of the financial result was observed. This was mainly due to the decline the revenue of film distribution by Rs. 31,617,442 or 67 percent this year over the previous year and the Corporation had a total operating loss of Rs. 90,000,000 during the year under review and due to that there was a surplus of Rs. 1,139,436.

### 3. Operational Review

#### 3.1 Uneconomic Transactions

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Due to the calculation and payment of Employees' Provident and Employees' Trust Funds irrespective of the cost of living allowance during the period from January 2006 to December 2015, Rs. 20,352,762 and Rs. 2,763,752 less contributions were made to those funds respectively. In order to repay the arrears, surcharges had to be paid and agreed for the arrears payment at the 1193<sup>rd</sup> Director Board meeting held on 21 October 2021. Accordingly, the total amount of Rs. 34,674,771 for the surcharge and contributions had been paid by 28 June 2021 and accordingly, the Corporation had to bear an uneconomic expense of total of Rs. 11,558,257 as a surcharge.</p>	<p>These surcharges have to be paid due to the calculation of EPF and ETF and payment of premiums irrespective of the cost of living allowance. These arrears will be paid on 11 February 2019 and all arrears will be paid on 27 June 2021.</p>	<p>When calculating EPF and ETF premiums, action should be taken to accurately calculate and send reports, make payments on time and avoid surcharges.</p>

#### 3.2 Identified Losses

The following observations are made.

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>(a) The Corporation had 14 vehicles including 09 cars, 02 double cabs, 02 vans and a lorry during the year under review. 07 of those vehicles had been taken out of running by the first quarter of 2020 and the lorry had been out of running since 1998. All these vehicles which were parked unsafely in the Corporation premises were being decomposed in various places within the Corporation until October 2021 due to failure to usage after repairing or dispose according to the circulars.</p>	<p>Will be given the attention for this, a detailed report will be obtained on all vehicles owned by the Corporation in future and action will be taken accordingly.</p>	<p>Action should be taken to dispose of unused and non-repairable vehicles, while repairable vehicles should be repaired and used for running.</p>

- |     |   |             |   |
|-----|---|-------------|---|
| (b) | The total stock amounting to Rs. 870,659 gross photographs and chemicals has been unusable as at 31 December 2020 since the year 2014 due to expiration and non-usage in present and although it was pointed out in the Auditor General's Report in the previous year, no action had been taken in this regard.   | No answers. | Correct information on these unusable items should be identified in the board of survey and removed in accordance with the decisions of the Board of Survey Committee and existing regulations. |
| (c) | 7,917 Movie magazines over 05 years in the Corporation's main warehouse were decaying due to failure to remove them without sale. Further, about items of expired and unused were stored in the warehouse. In addition, the cost or present value of the stock was not recorded in the documents of the Corporation. No action had been taken to resolve this issue as pointed out in the previous year's report. | No answers. | Correct information on these unusable items should be identified in the board of survey and removed in accordance with the decisions of the Board of Survey Committee and existing regulations. |

**3.3 Management Inefficiencies**

-----  
The following observations are made.

Audit observation -----	Management Comment -----	Recommendation -----
(a) The Internal Audit Division of the Corporation had issued 28 internal audit queries in the years 2019 and 2020 and only one audit query had been answered till 31 October 2021, so it was observed that the corporation's top management was not using internal auditing effectively for the administration and management of the institution.	I accept the observation.	Steps should be taken to answer internal audit queries and to correct any observations made thereby.
(b) The Corporation had maintained 08 current accounts as at 31 December 2020 and the total bank balance was Rs. 23,030,540 according to the cash book of those current accounts as at that date. Accordingly, it was observed that the inactive retention of cash of the Corporation amounting to Rs. 23 million was an inefficiency of financial management.	The observation is correct.	Management should take action to effectively invest the current balance of the current account in short term or not to maintain a long time high value balance in the current account
(c) The single storey building at No. 224	There is no legal officer in	Management should pay

belonging to the Corporation has been leased out to the public performance board since 2007. The lease agreement No. 4711 which was signed at last time between the two parties on 23 January 2017 had expired on 31 December 2018. The public performance board had demolished the building in violation of the terms of the lease agreement and constructed a new two storey building of 2576 square feet. Basic work on new building began on 17 May 2016, but it has not yet been completed. It was observed that the electricity and water bills for this new building which was constructed by the public performance board without a formal written agreement were being used the building by themselves with paying in their own name. Although 02 years and 10 months have elapsed since the termination of the agreement, the Corporation had not obtained a government assessment report for the new building, assessed the new rental, entered into a formal lease agreement and recovered the arrears.

- (d) As per the lease agreement No. 4660 of the first floor of the two storied building located in the premises No. 224 belonging to the corporation, the Corporation had provided a monthly rent of Rs. 315,000 up to 14 January 2019 to the Selacine Rupavahini Corporation. According to the Director Board's decision No. 1195 dated 21 December 2021, it had decided to issue a summons to set up a film school and remove the Selacine institution from the building. Selacine institute has collected total amount of Rs. 4,111,810 in arrears of rent, water and electricity bills up to now. The building proposed to start a film school had not been handed over to the Corporation till the date of this report.

the Corporation and will pay more attention to this matter and reply in future. Due to the inability to obtain the actual cost of construction, a formal agreement has yet not been reached.

No answers.

attention to this observation and take appropriate action on the parties responsible for it, expeditiously enter into a formal written agreement, recover the arrears and protect all assets of the Corporation.

In accordance with the decisions of the present Board of Directors of the Corporation, action should be taken to remove or retain the relevant lessee, to make the building available for use in accordance with the written agreement until removal, to recover the arrears expeditiously prior to the removal of the lessee and to execute the agreement relating to top management as a signatory party to the agreement.

- (e) The total uncollected arrears paid by the Corporation for film production and cinema modernization were Rs. 85,174,055 according to the outstanding loan balance report as at 31 December 2020. A total value of Rs. 23,983,079 given for the unreleased films was included in that value. Accordingly, it was observed that the total value of Rs. 72,712,671 or 85.4 percent of unrecoverable loans and interests from the total value of Rs. 85,174,055 which was given for the film production, cinema modernization and unsorted production debtors and it had not been able to recover that money from a long time.
- The only source of recovering film production loan is the income of film shows. Movies have not been shown in cinema halls in most of 2020.
- The process of lending, maintenance of loan files, loan agreements and loan installments and interest collection should be implemented systematically and efficiently by the top management and top management should take steps to recover and settle the outstanding old balances, adopt strict control strategies and recover the outstanding debts without bad debts on cash and services provided in future except old balances.
- (f) Out of the arrears receivable to the Corporation from the cinema halls, the expected total value that cannot be recovered by 31 December 2020 is Rs. 284,502,137 according to the debt balance report submitted by the Committee On Public Enterprises (COPE) and it was 73 percent out of the total arrears of from cinema halls. Further, it was observed that the expected recoverable arrears amounted to Rs. 102,839,035 and this figure was 27 percent from the total arrears. Top management also had failed to recover this money.
- The money could not be recovered as the cinema halls were closed during the Covid 19 epidemic and these funds will be recovered when they are operational in normal condition.
- The process of lending, maintenance of loan files, loan agreements and loan installments and interest collection should be implemented systematically and efficiently by the top management and top management should take steps to recover and settle the outstanding old balances, adopt strict control strategies and recover the outstanding debts without bad debts on cash and services providing in future except old balances.
- (g) The total arrears of Rs. 7,659,366 by 31 December 2020 which were more than 19 years old from the 137 cinema halls that were closed down in 2001 without being
- The observation is correct.
- The outstanding balance of these closed cinema halls for a long time is a bad debt and those

applied to any board. Further, the total amount due for the cinema halls which were closed till 31 December 2020 was Rs. 138,022,871 after dividing into boards and accordingly, the total arrears amount was Rs. 145,802,930 without recovering from the closed cinema halls.

balances should be further investigated and settled.

- |     |  |                             |  |
|-----|--|-----------------------------|--|
| (h) | The total amount of loans and interest due from all cinema halls operating in all cinema boards was Rs. 241,538,242 as at 31 December 2020. Out of that amount, the total interest amount is Rs. 136,881,529 and the total arrears were Rs. 104,656,713. It was observed that there was a unrecoverable arrears and interest amounting to Rs. 142,046,109 or 58 percent from the total amount of Rs. 241,538,242 according to the debt report. | The observation is correct. | The process of lending, maintenance of loan files, loan agreements and loan installments and interest collection should be implemented systematically and efficiently by the top management and top management should take steps to recover and settle the outstanding old balances, adopt strict control strategies and recover the outstanding debts without bad debts on cash and services providing in future except old balances. |
| (i) | The outstanding loan advance balance as at 31 December 2020 was Rs. 539,222 due to deficiencies in the system of payment and recovery of employee loan advances. Further, the management had not taken action to recover the unpaid loan advance of Rs. 531,420 for more than 05 years.  | The observation is correct. | Action should be taken to recover this debt according to the stated answer.  |
| (j) | The total amount of unpaid wages in the unpaid salary in the unpaid salary account was Rs. 1,331,443 for more than 05 years including unpaid salary amounting to Rs. 387,231 prior to the year 2001 and no action had been taken to identify or pay back to the relevant persons.  | The observation is correct. | Action should be taken to identify unpaid salary and take action to repay or re-added to the revenue.  |

- |   |  |   |
|---|--|---|
| <p>(k) The Corporation had delegated the monopolized power of distribution of films to 04 private distribution boards according to the No. DMS/360/NFC/P issued by the Secretary, of the Ministry of Finance and planning and “National Film Policy and Guidelines on 17 June 1999” (Nilaweera Report). The approval had been given abolish the “Nilaweera Report” by the Cabinet decision No. 20/0581/205/019 dated 18 March 2020 due to those boards did not do the film distribution in properly. Due to the legal action taken by the private boards on that decision, the “Film Distribution and Exhibition Methodology” prepared by the corporation had been formally referred to the Cabinet for approval and approval was given by the Cabinet Decision No. 21/1024/305/022 dated 14 June 2021 to implement the methodology related to the distribution and exhibition. It had a detrimental effect on the functioning of the Corporation and the development of the film industry due to that no action has been taken to publish the contents by the gazette in accordance with the aforesaid approval.</p> | <p>There were no answers.</p>  | <p>It is appropriate for the top management to implement the Cabinet Decision given by the Cabinet Ministers on 14 June 2021 and issue the gazette notification thereon for the development of the Corporation.</p> |
| <p>(l) The governing body had initiated disciplinary inquiries and judicial proceedings against several officers including two officers and employees of the corporation during the year under review. There were some instances where there were no permanent officers in the managerial posts of the corporation due to non-completion of these investigations expeditiously in accordance with the existing rules, circulars and Establishment Code and it had adversely affected the functioning of the corporation.</p>  | <p>The agency has given a long answer giving reasons for the delay. Further, various reasons have been given for the delay in testing. It was also stated that the investigations will be completed immediately.</p> | <p>This investigation should be completed expeditiously and action should be taken to minimize employee problems as per the directions of the Committee on Public Enterprises held on 19 July 2021.</p>             |

- (m) The COPE Committee had given 14 Committee orders to the Corporation on 05 August 2021 with the letter No. COPE/9/1/2020 in accordance with the report of the Committee On Public Enterprises committee meeting held on 19 July 2021. 10 Tasks assigned in accordance with the directives specified in the timeline had had not been completed and action had not been taken to report to the COPE Committee and the Auditor General in accordance with the given instructions up to date of this report.
- There were no answers.
- The top management should act in accordance with the Committee directives given in the letter dated 05 August 2021 according to the report of the COPE Committee meeting held on 19 July 2021.

### 3.4 Operational Inefficiencies

-----

The following observations are made.

Audit observation	Management Comment	Recommendation
(a) The institution had not been prepared an action plan for the year 2020, including the activities and the tasks expected to be performed. Accordingly, the financial and physical progress of the performance of the tasks included in the 2020 performance report submitted to the audit could not be observed during the audit.	It was difficult to comply with the action plan due to the Covid situation in 2020.	Management should be prepared action plans, implemented the activities of the organization in accordance with the plan and to improved performance.
(b) Launched a one year “Diploma Course in Cinematography” based on the academic, conceptual and technological foundation needed to create a superior Sri Lankan film culture. It is planned to enroll 50 students in the year 2020 for this course which will be implemented in two stages, but the students have not been enrolled. The number of applicants for the course had declined due to the use of outdated equipment, inadequate technical equipment and lack of modern auditorium facilities and although 94 students were enrolled in the 05 years from 2016 to December 2020, 22 students or 23 percent had completed the course by the end of the year under review.	Only 50 percent of the students enrolled in this course to complete and the course requested equipment, but that was unable to provide. Necessary equipment has been requested.	The Corporation should get action to increase the number of recruits for this diploma and to produce quality and talented diploma holders.



- |     |  |   |   |
|-----|--|---|---|
| (c) | The corporation had not taken to conduct market research on films in Sri Lanka and outside Sri Lanka in terms of section 4(d) of the National Film Corporation Act No. 47 of 1971. | Market research on Sri Lankan cinema will be expected to do in the year 2022. | Should be complied with section 4(d) of the National Film Corporation Act No. 17 of 1971. |
|-----|--|---|---|

### 3.5 Procurement Management

-----

The following observations are made.

Audit observation -----	Management Comment -----	Recommendation -----
(a) The corporation awarded a building construction contract valued at Rs. 99,965,061 to the State Engineering Corporation without utilizing the procurement process on 05 April 2019 in accordance with the government procurement guideline circular No. 08 dated on 25 January 2006. Based on the bilateral agreement signed between the two parties, a total of Rs. 3,134,107 had been paid on 28 August 2020 to a public corporation which was the contractor selected contrary to the procurement process and the construction had been halted up to now.	Observations 05 and 07 of the audit query are correct. This construction was carried out by the State Engineering Corporation. As an internal investigation into this irregularity has been initiated, further action will be taken under a specific procurement process in accordance with its decisions.	Procedures should be followed in accordance with the Procurement Guidelines.
(b) A 4K projector total amounting to Rs. 11,460,155 was purchased for the ‘Tharangani’ cinema hall owned by the corporation. The files related to this purchase were not maintained in a proper and transparent manner and the procurement process had not been followed in accordance with the government Procurement guideline circular No. 08 dated on 25 January 2006. This projector which had been installed for use in the ‘Tharangani’ cinema hall owned by the corporation had become inoperable on several occasions after installation by the year 2020/2021 and it is not in working condition now.	There were no answers.	Procurement should be done in accordance with the Procurement Guidelines.

### 3.6 Human Resources Management

-----

The following observations are made.

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
-----	-----	-----
(a) The approved number of employees of the corporation was 186 and out of those approved posts, employees were recruited and attached for 129 posts. Out of the approved posts as at 31 December 2020 there were 57 vacant posts and out of these vacancies, an officer currently holding a permanent post in the corporation has been appointed to 12 posts on the basis of acting, performing duties and cover-up duties. There were 03 senior level posts in the corporation and out of those 03 main posts; officers were appointed for 02 posts on non-permanent secondary and acting basis. These vacancies and non-recruitment on permanent basis had adversely affected the performance and efficiency of the corporation.	I agree with the observation. A committee has been appointed on 10 August 2020 to conduct a manpower assessment of the corporation and revise the organizational structure and recruitment procedures.	Action should be taken to recruit and deploy officers on a permanent basis for essential posts to enhance the efficiency of the organization and it is suitable to identify the staff in timely and resolve the issue according to the answers.
(b) The recruitment procedure of the corporation was approved by the Department of Management Services on 14 September 2012. Although it had been taken long time to get the approval, recruitment problems had arisen due to that the qualification and recruitment procedures had not been amended on timely requirements and the common amendments of the Department of Management Services had not been incorporated and approved by that department and it was adversely affected to the longevity and management of the institution.	I agree with the observation.	Action should be taken to revise the recruitment procedure based on current needs and to obtain the approval of the department of Management Services.

#### 4. Accountability and Good Governance

##### 4.1 Tabling of Annual report in Parliament

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Annual Reports for the period from 2015 to 2019 had not been tabled in Parliament until October 2021.	The Annual Reports for the years of 2015, 2016 and 2017 were prepared and submitted to the previous Line Ministry. These reports have not been tabled in Parliament due to changes of the Ministries from time to time and I will look into the matter and table the reports for those years and the annual reports for the years of 2018 and 2019.	The Annual Reports from 2015 to 2019 should be tabled in Parliament without delay.

##### 4.2 Corporate Plan

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although the Corporate Plan should be submitted to the Auditor General in terms of section 5.1.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the strategic plan for the period from 2020-2025 had not yet been approved by the Board of Directors as at 19 July 2021 and it was later decided to prepare a strategic plan for the next 02 years from 2021, but that plan had not been prepared and approved until October 2021.	I accept the audit observation.	Corporate plans should be prepared in accordance with the Public Enterprises Circular No. PED/12 dated 02 June 2003 and approved and action should be taken accordingly.

### 4.3 Annual action Plan

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
It was estimated that Rs. 460,000,000 for the development of film industry, Rs. 250,000,000 for the establishment of cinema university, Rs. 50,000,000 for the electronic ticketing and Rs. 90,000,000 for the cinema museum under the budget prepared by the corporation for the year under review. These targets could not be implemented and completed during the year under review due to the inability to provide accurate panning and funding due to the spread of the Covid 19 epidemic in the country.	I will make the correct plans for the year 2021.	Action plans should be prepared annually and acted upon accordingly.

### 4.4 Internal Audit

<b>Audit observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
The Committees on Public Enterprises held on 24 March 2016 and 19 July 2021 had also instructed to strengthen the Internal Audit Division of the corporation. The former Internal Auditor of the corporation had retired in the year 2020 and a permanent officer had not been recruited for the post till October 2021. Although the corporation had an internal audit division, the management had not taken steps to strengthen the internal audit on the basis of the employment of one employee in that division.	Internal Auditor retired on 09 September 2020. That was working to recruit a new officer to fill the vacancy.	An Internal Auditor should be recruited for the Internal Audit Division and since there is currently only one officer in the division, action should be taken to at least one more employee.

#### 4.5 Sustainable Development Goals

-----

##### Audit observation

-----

According to the “United Nations’ agenda for the year 2030 on sustainable development”, the corporation was not aware of how it should act on its scope of work. The targets and indicators to be implemented were not identified. Furthermore, it was failed to generate the accurate database needed to measure performance, and there was no evidence that it was collaborating with other government institutions to prepare for achieving targets.

##### Management Comment

-----

I agree with the observation.

##### Recommendation

-----

Action should be taken to establish goals and indicators for sustainable development and work to achieve these goals.