

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 2021 comprising the statement of financial position as at 31 December 2021 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 2021, 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

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 Internal Control over the preparation of financial statements.

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Non-compliance with Sri Lanka Accounting Standards

<u>Non-compliance with reference to relevant standard</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) In relation to 02 bank accounts, unrecognized direct bank credits amounting to Rs.52,680 which were recognized in the months of January and February 2022 included in the Bank Reconciliation Statement as on 31st December 2021, in accordance with Paragraphs 03 and 08 of Sri Lanka Accounting Standard No. 10 in the financial statements of the 2021 had been entered in a suspense account without adjustment.	All corrections have been made when the 2022 final accounts are submitted for audit.	Actions should be made to the balance of the suspense account as per the provisions of the standard.
(b) According to paragraph 34 of Sri Lanka Accounting Standard No. 16, the Corporation's property, plant and equipment should be re-valued once in 03 or 05 years based on changes in the fair value over time, but the corporation had not done a revalue of land and buildings.	Necessary arrangements to obtain land and building valuation reports are in progress.	Actions should be done according to the terms of the standard.

(c)	Fixed assets totalling Rs.171,764,741 were fully depreciated due to non-annual review of effective life time for non-current assets in accordance with paragraph 51 of Sri Lanka Accounting Standard No. 16, but were still in use and as per para No. 79(b) of the Standard Those assets had not been disclosed in the financial statements. Accordingly, the estimated error of the useful life of those assets had not been revised in accordance with Sri Lanka Accounting Standard No. 08.	The observations are correct. The fixed assets of these values are currently not in use and the assets that can be displayed as artefacts are currently held for display in the studio.	Actions should be done according to the terms of the standard.
(d)	The total value of slow moving and non-moving stock of the Corporation as on 31 December 2021 was Rs.8,597,176. Although paragraph 79 (a) of Sri Lanka Accounting Standard 16 requires disclosure of idle assets in the financial statements at their net book value, adequate disclosure was not made of idle assets and obsolete old assets within the premises of the Corporation and in buildings owned by the cCrporation outside.	The observations are correct.	Actions should be done according to the terms of the standard.

1.5.3 Accounting Deficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
Although the value of the total assets in the statement of financial position obtained by the computer accounting software (Quick Book) of the Corporation for the reviewed year was Rs.902,469,609, in the statement of financial position submitted to the audit, it was stated as Rs.1,041,333,428 and according to the comprehensive income statement obtained by the computer accounting software, there was a deficiency of Rs.6,715,038, but in the comprehensive income statement submitted to the audit, it was shown as a surplus of Rs.9,417,553, so there was a difference of Rs.154,996,410 between the balances.	The observation is correct. I found the reasons for the difference between the financial statements obtained from the QB accounting software and the financial statements submitted to the audit and I propose to correct them.	Actions should be taken to confirm the correctness of the data obtained from the computer accounting software (Quick Book) and the difference should be corrected.

1.5.4 Unreconciled Control Accounts or Records

<u>Item</u>	<u>Value as per financial statements</u>	<u>Value as per corresponding records</u>	<u>Difference</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
	Rs.	Rs.	Rs.		
(i) Film rental debtors	395,060,050	375,003,940	20,056,110	The observation is correct	The difference should be identified and corrected
(ii) Creditor Balance	294,809,272	263,037,778	31,771,494	The observation is correct	The difference should be identified and corrected

1.5.5 Contingency of Organization

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>With the abolition of the film distribution monopoly held by the Corporation in the year 1999, the Corporation's main source of income was the loss of distribution Commissions and the Corporation's sources of income were lost due to the closure of theatres due to the Covid-19 pandemic. Due to the failure of the Corporation to recover outstanding loan balances, a weakening of cash flow was observed. Since the revenue was not enough to cover the expenses of the corporation from the year 2001, provision had been made for employee salaries and capital expenditure from the treasury. During the year under review and during the past 05 years, the corporation was in a state of continuous operating losses before receiving treasury grants, and it was observed in the audit that there is currently uncertainty in the continued operation of the Corporation without the financial support of the government and short-term deposit interest income.</p>	<p>The observations are correct</p>	<p>Actions should be taken to improve the Revenue of the Corporation, to recover outstanding loan balances, to build a stability of the existence of the Corporation, and to perform the functions as per the Act.</p>

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

<u>With reference to laws, rules, regulations etc.</u>	<u>Non-compliance</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i) Financial Regulations 1645(a) and Common Form 267	Log books for vehicles had not been kept up-to-date as per this financial regulation and common form 267, and monthly summary details of journeys had not been recorded in the log books.	Instructions are given to rectify the deficiencies in the log books.	Actions should be done according to the financial regulations.
(ii) Financial Regulations 1645(b), 1646 and Common Form 268	Running charts had not been maintained properly as per these financial regulations and records had not been recorded and regularly checked as per common form 268.	Actions will be done to check the log books and related reports.	Actions should be done according to the financial regulations.
(b) Paragraphs 2(a) and (b) of Asset Management Circular No. 05/2020 dated 02 October 2020	By the year 2021, the corporation had 14 motor vehicles, and since the year 2020, 06 vehicles had been taken out of service. By the year 2022, only one motor vehicle had been in service and no action had been taken to repair and put into use or dispose of non-running vehicles as per this circular.	The board of directors of the Corporation has given instructions to repair all the vehicles and put them into operation. Steps have been taken to repair according to the financial position of the Corporation.	Actions should be done according to the circular.

1.7 Information Technology (IT) General Controls

<u>Audit Observation</u>	<u>Comment of the Management</u>	<u>Recommendation</u>
(a) The "Quick Book" computer software system has been used by the Corporation since 2020 for computerized accounting. General internal controls and system control strategies had not been introduced for this system, which was used without an IT division and without a supervisor responsible for the monitoring and control of the software system. Along with this computerized accounting system, manual books were stopped in the year 2020, and due to the special ability of the system to enter data and information in the system and to remove data from the system in the past, there had been problems with the reliability of the financial figures submitted to the audit. The risk in this computerized accounting system, which was also shown by the Auditor General's report of the previous year, no action has been to minimize the risk in the system due to the fact that additional copies of computer data are not kept safely and cannot be re-entered into the system, there is no efficient hardware for the system, and the limited opportunity for an external auditor to access the system.	Necessary actions are being done to correct the weaknesses pointed out in the audit regarding the accounting software system.	In the use of the "Quick Book" software used to keep accounts in the organization, training and internal control techniques should be introduced and the problems pointed out by the audit query should be corrected and the computer software should be used.
(b) The Corporation had used 03 unrelated computer software namely Quick Book, CEFA and Visual Basic respectively for keeping accounts, keeping records of film rental income and keeping records of employee benefits including salaries and employee provident fund payments. Due to the lack of automatic exchange of data and information between these software, there was a high chance of errors and frauds, and the internal audit of the organization was completely disabled in the year 2022, and the computerized internal control and system control strategies were reduced, so the computerized accounting figures data and reports lacked reliability, they were comparatively could not be checked.	These programs run as independent systems. A separate computer program should be developed for automatic information exchange between these programs. Improvements will be made as indicated in the future.	Internal control strategies and internal control methods should be developed and introduced, and these reports should be prepared in such a way that they can be compared using system control strategies to conduct an internal audit.

2. Financial Review

2.1 Financial Result

The operating result of the year under review of the Corporation amounted to a surplus of Rs. 9,417,553 and the corresponding surplus in the preceding year amounted to Rs. 1,139,436. Therefore an improvement amounting to Rs. 8,278,117 of the financial result was observed. This improvement was mainly due to the grant of Rs.100,000,000 received from the treasury for recurrent expenses during the year under review, and due to this, the total operating loss of the Corporation was covered by Rs.90,582,447 and a surplus of Rs.9,417,553 was created.

3. Operational Review

3.1 Identified Losses

<u>Audit Observation</u>	<u>Comment of the Management</u>	<u>Recommendation</u>
(a) As on 31 December 2021, letters for confirming the balances of creditors were called from 69 theatres with a total value of Rs.68,456,027, and 27 letters confirming the balance were returned to the Corporation due to the closing of the theatres, demolition and the absence of theatres at those addresses. Accordingly, the irrecoverable amount owed to the Corporation on those 27 theatres was Rs.23,380,463.	The observation is correct.	The process of recovery of loan premiums and interest should be carried out by the top management in a formal and efficient manner, and actions should be done by the management to recover and settle old outstanding balances and follow strict control actions to recover the outstanding balances given in the future and services without bad debts.
(b) As on 31 December 2021, 105 film production debtors with a total value of Rs. 71,334,541 called for letters confirming the debtor balance, and 22 of those letters were returned to the Corporation due to non-acceptance due to various reasons. Accordingly, the amount of irrecoverable production debt to the Corporation was Rs.20,401,950 on 22 unconfirmed production debtors.	The observation is correct.	The process of recovery of loan premiums and interest should be carried out by the top management in a formal and efficient manner, and actions should be done by the management to recover and settle old outstanding balances and follow strict control actions to recover the outstanding balances given in the future and services without bad debts.

3.2 Management Inefficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) As of 31 December 2021, a total of Rs.81,499,905 was due from loans given for film production and renovation of cinemas and a sum of Rs.456,503,845 including a sum of Rs.375,003,940 as arrears due to the corporation from cinemas was receivable. Due to the allocation of Rs.333,443,132 out of the total receivables as surcharges and doubtful loans, the recoverable net debt balance as of 31 December 2021 was Rs.123,060,713 or 27 percent of the total debtors. Actions had not been taken to recover the arrears.	No loans have been contractually issued in the year 2021 for film production and theater renovation. All steps are being taken to recover the arrears.	The process of collecting loan installments and interest should be implemented formally and efficiently by the top management and Top management should actions to recover old outstanding loan balances and settle them and follow strict control measures to recover the debtor balances without bad debts on the future money.
(b) According to the financial statements submitted to the audit as on 31 December 2021, out of the accrued expenses of Rs.53,565,690, the accrued expenses of Rs.2,262,126 were for payments for transactions that took place 05 years ago. Accordingly, actions had not been made to settle the accrued expenses early.	Actions have been made for settlement in the year 2022.	Actions should be made to settle the accrued expenses early.
(c) A Debt Recovery Committee had been appointed in the year 2021 to recover the arrears due to the Corporation. The Public Enterprises Department had also given instructions to recover the outstanding loans and arrears of 10 years close to 31 December 2021 according to a formal system. However, the debt recovery committee recommendations had not been issued till the audit date of 31 March 2023, and the arrears had not been recovered as per the instructions of the Public Enterprises Department.	The recommendations of the Debt recovery committee appointed in 2021 have not been submitted so far. The recommendations will be acted upon as soon as they are submitted.	Actions should be taken to recover the arrears by following the directions of the Public Enterprises Department and the Debt Recovery Committee.

- (d) Several buildings including the Head office had been built and the main office of the corporation had been kept there without taking over the legal ownership of the land of 1.1235 hectares in the area of lot number 01 of survey plan bearing මු.නි.කො.9848 in the domain of Kurunduwatta grama niladari under Timbirigasaya Divisional Secretariat Division. The head office of the corporation was built and several buildings including the head office were built and the head office of the corporation was maintained there without taking over the legal right of the land of 1.1235 hectares of the land of 1.1235 hectares in the area of lot number 01 of Pimbure bearing මු.නි.කො.9848 in the domain of Kurunduwatta grama niladari under Timbirigasaya Divisional Secretariat Division.
- Actions are being made to take over this piece of land where the corporation is located. Actions should be taken to take legal ownership of the land.
- (e) According to lease agreement number 4660, the first floor of the two-storied building located at premises number 224 belonging to the Corporation had been given to Salasine Television on the basis of rent of Rs.315,000 per month until 14 January 2019. The building was handed over back to the Corporation on 28 March 2022 without updating the lease agreement and without paying the arrears amounting to Rs.12,111,000. The arrears were not collected until May 2023, and the building was not put into productive use after 28 March 2022.
- The file has been referred for legal action to recover the dues to the corporation. According to the decisions of current board of directors of the Corporation, the arrears should be collected from the lessee and the Corporation's top management as a signatory party should make arrangements to implement the relevant agreements.
- (f) The single-storied building located at premises number 224 belonging to the Corporation had been given to the Public Performance Board on lease basis since 2007. The lease agreement No. 4711 signed between the two parties on 23 January 2017 had expired on 31 December 2018. In violation of the terms of the lease agreement, the Public Performance Board had demolished the building and built a
- The Board of Directors and the Corporation will proceed to submit a Board Paper to the new Board of Directors to make a decision regarding the term of the Lease Agreement to enter into a new
- Actions should be done by management to take appropriate action for the responsible parties on this matter, promptly enter into a formal written agreement, and protect the assets of the corporation.

new two-storied building of 2576 square feet. Although it has been passed more than 03 years since the lease agreement was cancelled, the attention of this observation which has been pointed out in the previous year's Auditor General's report, an assessment report had not been obtained for the new building, the rent was assessed, and a formal lease agreement had not been entered into.

(g) On 05 April 2019, a bilateral agreement was reached to hand over the construction and consultancy work to the State Engineering Corporation for the construction of a museum and a library in the Corporation premises in the name of Mr. "Lester James Peiris" at an estimated total value of Rs.99,965,061. A total amount of Rs.3,134,107 had been paid on 31 December 2021 for this construction, which was started without the approval of the Urban Development Authority and the Council of Ministers. The report of the Auditor General for the previous year also pointed out that this construction work had been abandoned for more than 03 years, and the building was being destroyed due to the severe deterioration of the iron rods in the building where the construction started.

(h) As of 31 December 2021, 15 cases in which the Corporation was the defendant, 05 labor complaints, 09 human rights complaints filed by film and television drama directors and producers at the Human Rights Commission office, are pending in various courts, and the investigations have not been able to give final decisions. Due to the fact that these investigations have been pending for many years, the absence of officers holding permanent positions in several high positions of the Corporation and

Lease Agreement between the Board of Public Performance and the Corporation.

The Thimbirigasaya Divisional Secretary has been directed to prepare a new deed for the land on which the construction of this building has started. According to the procurement decisions, a draft Cabinet memorandum was submitted to the line ministry in 2020, but the project has stopped midway due to the lack of further action by the ministry.

Acting appointments have been made to the nearest officer for the vacant posts pending the conclusion of judicial proceedings. Vacancies will be filled up as per the changes in the organizational structure and recruitment

Actions should be taken according to instructions of the Committee on Public Enterprises held on 19 July 2021.

According to the instructions of the Public Enterprises Committee held on 19 July 2021, this investigation should be completed early and action should be taken to minimize employee problems.

having to spend the duty time of the officers engaged in judicial work had adversely affected the functioning of the corporation.

procedure after staff reorganization.

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| <p>(i) A film conservatory was maintained at the Dalugama Sarasavi Studio in Kelaniya to conservation the raw film of old films. During the physical audit conducted at the film conservatory, written evidence had not been submitted to the audit about the raw film stocks kept for preservation, and the raw film of some films that had been preserved were completely or partially missing. It was also not possible to observe the quantitative details of the missing raw film due to not maintaining an up-to-date list of raw film The management did not take any actions to protect the film rolls.</p> | <p>Some of the film rolls have been completely or partially destroyed. action have been made a report them and take action in future stock verifications.</p> | <p>The list of raw film should be maintained and efforts should be made to protect film rolls.</p> |
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3.3 Operational Inefficiencies

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>(a) In terms of Section 4 (g) of the Sri Lanka National Film Corporation Act No. 47 of 1971, the Corporation had not taken adequate actions to promote the demand and trade of films within or outside Sri Lanka for films produced in Sri Lanka.</p>	<p>At present, the film production teams themselves are doing the promotional activities.</p>	<p>Actions should be taken according to the provisions of the Act.</p>
<p>(b) According to Section 4 (h) of the Sri Lanka National Film Corporation Act No. 47 of 1971, no market research had been conducted in relation to films in Sri Lanka and outside Sri Lanka.</p>	<p>The activity could not be started due to insufficient provision for this activity</p>	<p>Actions should be taken according to the provisions of the Act.</p>
<p>(c) A one-year diploma course in Cinematography had been started with the objective of preparing the academic, conceptual and technical foundation necessary for the creation of a superior Sri Lankan film culture related to film distribution and exhibition. In the year 2020, students had not been enrolled due to the Covid epidemic situation, and in the year</p>	<p>The syllabus was developed to make the cinema diploma course more advanced, and the facilities could not be completed due to financial</p>	<p>The one-year diploma course in cinematography should be developed into a film school and work should be done to increase the revenue of the</p>

2021, 43 students had been enrolled and the course started on 27 March 2021 and this course was completed on 27 September 2022. Although projects were prepared and the syllabus was also prepared to develop this diploma into a cinema school, it was not possible to implement those activities until March 2023.

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| (d) "Methodology related to film distribution and exhibition" was approved by the Cabinet Decision No. අම/21/1024/305/022 dated 22 June 2021, and according to that approval, this methodology was used to take over the film distribution process to the corporation. It should have been gazetted, but the fact had not been gazetted till October 2022. | It has been directed to the minister in charge on 17 August 2021 to publish the film distribution and screening scheme through a gazette. | For the betterment of the corporation, it is appropriate for the top management to act to implement the Cabinet decision given by the Cabinet on 22 June 2021 and to issue the Gazette for the same. |
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3.4 Abandoned or Underutilized Property, Plant and Equipment

<u>Audit Observation</u>	<u>Comments of Management</u>	<u>Recommendation</u>
(a) Kelaniya Dalugama Sarasavi Studio had not taken action to clean the ponds in the premises of the studio and to maintain them suitable for a studio, and to clean and maintain the stream flowing through the premises. Also, there was a dilapidated single-story building on the studio premises that needed to be demolished. The top management did not pay attention to install a name board at the entrance to the studio and to maintain the studio area in a scenic way suitable for a studio, and this studio premises located in an urban environment and the land belonging to it had not been act to be used in a function that could gain economic benefits for the corporation and remained as un-utilized fixed assets.	Action is underway to restore the pond, clean up the canal and demolish the building within the studio grounds. The work related to the landscaping of the studio will be done by the Urban Development Authority.	Studio land and buildings should be put to productive use and act to increase revenue.

(b) As of 31 December 2021, a stock of film rolls and chemicals with a total value of Rs.870,659 remained in the main warehouse due to expiration since 2014 and not being used at present, and the previous year's Auditor General's reports also indicated that these non-current assets had not been disposed of.	A portion of this stock is kept as exhibits, and the remainder is early disposed of.	Correct information about these unusable stocks of film rolls and chemicals should be identified during stock surveys and they should be disposed of according to the decisions of the stocks verification board and according to the existing rules and regulations.
(c) A 4K DCP Projector had been purchased by paying Rs. 11,460,155 for the activities of the "Tarangani" cinema hall belonging to the Corporation. However, the Corporation was unable to purchase the spare parts needed to make this machine operational until the year 2022. As this projector could not be made operational, the money spent on its purchase and the "Tarangani" theater had become non utilized assets.	The machine will be sent to the agent for repair and a test report and estimate will be obtained and acted upon accordingly..	This projector should be made functional and used to generate revenue for the "Tarangani" cinema.

3.5 Procurement Management

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
(a) According to the 2021 approved revised budget report, the estimated amount allocated for the project of establishing a computer system (E-Ticketing) for streamlining the import, distribution and registration of films had been Rs.11,000,000. As of 31 December 2021, the physical performance was 40 percent, while the financial progress was 0 percent. During the year under review, only the selection of an agency on the basis of quotations for the initial procurement of the respective project had been done.	The supplier of this project has been selected on 19.04.2022. Accordingly, payments have been started in the year 2022.	The procurement work should be done early and actions should be made to install the computer system.

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| <p>(b) A 5.1 sound reproduction system had been purchased for the Kelaniya Dalugama Sarasavi Studio and had been paid a total of Rs.857,050 in the year 2021. In carrying out the said procurement activity, procurement tasks such as pre-procurement activities, total cost estimate approvals and invitations to bidders as per Sections 2.5.1 (d), 4.3.2 and 5.3.2 of the Government Procurement Guidelines Code had not been done.</p> | <p>This turned out to be a very urgent procurement task, and since the installation of this system, an income of Rs.2.3 million has been generated so far.</p> | <p>Procurement should be done in accordance with the Code of Procurement Guidelines.</p> |
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3.6 Human Resource Management

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>The approved number of employees of the Corporation was 186, and the actual carder was 119. As on 31 December 2021, 67 posts were vacant out of approved posts. Out of those vacancies, 10 posts were currently filled by an officer holding a permanent position in the Corporation on acting basis, covering duties such as other basis. . There were 03 senior level posts in the Corporation, and out of those 03 posts, 02 posts were appointed on such as other non-permanent bases. The non-recruitment and filling of these employee vacancies in the Corporation on a permanent basis for a long time had adversely affected its functioning and performance.</p>	<p>Acting/ Performance of duties appointments have been made to the immediate officer concerned for the posts which could not be filled due to various reasons. Vacancies will be filled after staff reorganization.</p>	<p>The role of the organization should be fulfilled by managing the employees according to the current instructions of the government.</p>

4. Accountability and Good Governance

4.1 Presentation of Financial Statements

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>Although 60 days after the end of the financial year in terms of section 877 (2)(d) of the Finance Regulations inserted by paragraph 15.1 of</p>	<p>year ending 31.12. 2021 had been prepared by the end of February 2022, since the Film Corporation, which was under the Ministry of Religion and Culture and Buddha</p>	<p>In accordance with the National Audit Act and the Financial Regulations,</p>

the Public Finance Circular No. 01/2020 dated 28 August 2020 and 16 (2) of Part III of the National Audit Act No. 19 of 2018, the financial statements and draft annual report should be submitted to the Auditor General for audit, the corporation's financial statements for the year 2021 had been submitted for audit on 21 February 2023 after a delay of one year.

Sasana, was placed under the Ministry of Mass Media, the approval of those financial statements was delayed until a new board of directors and an audit committee are appointed. Accordingly, the new directors were appointed and the 2021 financial statements presented according to the decision of the board of directors held on 11.11.2022 were presented to the audit committee and on that recommendation, they were again submitted to the board of directors for approval and given for the audit of the accounts in February 2023.

actions should be taken to submit the financial statements to the Auditor General on the due date.

4.2 Annual Report

<u>Audit Observation</u>	<u>Comments of the management</u>	<u>Recommendation</u>
Although the annual reports of the Corporation in 03 languages must be tabled in Parliament within 150 days of the end of the relevant financial year in accordance with Section 14 of the Finance Act No. 38 of 1971 and Section 6.5.3 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the reports had not been submitted to Parliament after 2015.	The 2015 – 2017 Annual Reports have been printed and forwarded to the Line Ministry for tabling in Parliament. Annual reports for 2018, 2019 and 2020 are being prepared.	The annual reports from the year 2015 to the year 2020 should be tabled in the Parliament without delay.

4.3 Corporate Plan

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
As per Section 4.2.2 of Public Enterprises Circular PED/12 dated 02 June 2003, the National Film Corporation had not prepared a Corporate plan covering the year 2021.	After consulting the line ministries, a three-year plan will be prepared and submitted for audit.	According to the Public Enterprises Circular No. PED/12 dated June 02, 2003, corporate plans should be prepared and approved and acted upon.

4.4 Internal Audit

<u>Audit Observation</u>	<u>Comments of the Management</u>	<u>Recommendation</u>
<p>Although in terms of section VII of the National Audit Act No. 19 of 2018 paragraph 40 (1) the concerned institution should have its own internal auditor, as of December 2021 the internal auditor and the officer who worked in the internal audit department left the corporation service and the internal audit department of the Corporation remained inactive. .</p>	<p>Although recruitment of an internal auditor was underway, the recruitment was suspended on the advice of the line ministry and government policy.</p>	<p>Internal audit should be done by appointing an internal auditor and employing the staff for the internal audit department or acting as per the instructions of the Treasury.</p>