

Transactions of the Sri Lanka National Film Corporation - 2021

The audit of the operational affairs of the Sri Lanka Film Corporation for the year ended 31 December 2021 was carried out under my direction in pursuance of 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. According to the Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka, my comments and observations which I consider should be report to Parliament appear in this report.

1.2 Responsibilities of Management and Those Charged with Governance for the Submission of Financial Statements

According to section 16(1) of the National Audit Act No. 19 of 2018, every audited entity should be maintained proper books and records of its income, expenditure, assets and liabilities to enable it to prepare annual and periodic financial statements in relation to that entity. According to section 16(2) of the said Act, the annual financial statements in relation to the each audited entity should be submitted by the Chief Accounting Officer to the Auditor General together with the annual performance reports of the said entities within such period as may be prescribed by rules. According to the section 38(1) (d) of the said Act, it shall be ensured that the annual reports and other financial statements are prepared within the required time and in addition, the Chief Accounting Officer should ensure that annual reports related to the audited entity are submitted to the Parliament.

2. Report on the Legal and Regulatory

The National Audit Act No. 19 of 2018 includes special provisions regarding the following requirement.

- I obtained all the information and explanations other than the financial statements required for the audit as per the requirements mentioned in section 12 (a) of the National Audit Act No. 19 of 2018.

2.1 Financial Statements

Audit Observation	Management Comment	Recommendation
Although the financial statements and draft annual report should be submitted to the Auditor General for audit within 60 days of the end of the financial year according to section 16(2) of part III of the National Audit Act No. 19 of 2018 and section 6.5.1 of Public Enterprises Circular No. PED/12 dated 02 June 2003; the financial statements of the corporation for the year 2021 had not been submitted for audit as at the date of this report.	According to the decision of the Board of Directors held on 11 November 2022, the financial statements of the year 2021 will be submitted to the Audit and Management Committee and based on its recommendations; I will submit the Board of Directors' approval to the audit.	Action should be taken to submit financial statements as per Audit Act and circulars.

2.2 Unreconciled Control Accounts or Reports

Subject		As per Schedule	As per Ledger	Difference	Management Comment	Recommendation
		Rs.	Rs.	Rs.		
(a)	Debtors	395,060,050	375,003,940	20,056,110	Observation correct.	is Should be identified the difference and corrected.
(b)	Creditors	294,809,272	263,037,778	31,771,494	Observation correct.	is Should be identified the difference and corrected.

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

The following non-compliances are made.

	Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Code of Financial Regulations of the Democratic Socialist Republic of Sri Lanka			
(i)	Financial Regulations 1645(a) and General format 267	Log books for vehicles were not maintained up-to-date as per this Financial Regulation and General format 267 and monthly summary details of running were not recorded in the log books.	Instructions are given to rectify the deficiencies in the log books.	Should be act as per the Financial Regulations.

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| (ii) | Financial Regulations 1645 (b) 1646 and General format 268 | Running charts were not maintained properly as per these Financial Regulations and records were not noted and regularly checked as per the General 268 format. | Will be checked running chart books and related reports. | Should be act as per the Financial Regulations. |
| (b) | Paragraphs 2(a) and (b) of Assets Management Circular No. 05/2020 dated 02 October 2020 | The corporation had 14 motor vehicles since the year 2020 and 06 vehicles had been taken out of service by the year 2021. Only one motor vehicle was in service by the year 2022 and non-running vehicles had not been repaired and use into service or disposal as per the circular. | The Board of Directors of the corporation has given instructions to repair all the vehicles and put them into running. Steps have been taken to repair according to the financial position of the corporation. | Should be act as per the circular. |

2.4 General Controls of Information Technology (IT)

The following observation is made.

Audit Observation	Management Comment	Recommendation
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(a) The corporation had been using “Quick Book” software system since the year 2020 for computerized accounting. Formal internal controls and system control strategies were not introduced for this system, which was used without an Information Technology Division and without a supervisor responsible for the monitoring and control of the software system. Parallel to this computerized accounting system, book keeping in writing was stopped in the year 2020 itself and the system’s unique ability to enter data and information historically	Necessary action is being done to correct the weaknesses pointed out in the audit regarding the accounting software system.	When the use of the “Quick Book” programme used to keep accounts in the institution, training and internal control strategies should be introduced and the report problems pointed out by that by the audit query should be corrected and the programme should be used.

and remove data from the system has to led to problems with the reliability of financial figures submitted for audit. Due to that backup of computer data are not kept safely and cannot be re-entered into the system and no efficient hardware for the system and limited access for the external auditor to the system, no steps were taken to mitigate the risk in this computerized system, which was also pointed out by the Auditor General's report of the previous year.

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| <p>(b) The corporation had used 03 unrealized computer softwares namely Quick Book, Cefa and Vishul Basic for accounts for keeping records of film rental income and records of employee benefits including salaries and employee provident fund payments respectively. Due to lack of automatic transfer of data and information between these software, errors and frauds were more chance to occur and the internal audit of the institution was completely malfunctioned in the year 2022 and computerized accounting figures data and reports were unreliable due to the lack of computerized internal control and system control measures and they could not be compared.</p> | <p>These programmes run as independent systems. A separate computer programme should be developed for automatic information transfer between these programmes. Improvements will be made as indicated in future.</p> |
| | <p>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.</p> |

3. Operational Review

3.1 Identified Deficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) Balance confirmation letters were called from 69 cinema halls with a total value of Rs. 68,456,027 as at 31 December 2021 and 27 balance confirmation letters had been</p>	<p>Observation is correct.</p>	<p>The process of collecting loan premiums and interest should be implemented by the top management in formal and efficient manner</p>

returned due to closure, demolition and non-availability of cinema halls at those addresses. Accordingly, the unrecoverable amount to be charged to the corporation on those 27 cinema halls was Rs. 23,380,463.

and top management should also take steps to recover old outstanding balances and settle them and adopt strict control measures to recover balances given on future payments and services without bad debts.

- (b) 105 Film production debtors with a total value of Rs.71, 334,541 called letters for confirm the debtor balance as at 31 December 2021 and 22 of those letters were returned to the corporation due to non-acceptance due to various reasons. Accordingly, the amount of unrecoverable production loan to the corporation was Rs. 20,401,950 on 22 unconfirmed production debtors. Observation is correct.

The process of collecting loan premiums and interest should be implemented by the top management in formal and efficient manner and top management should also take steps to recover old outstanding balances and settle them and adopt strict control measures to recover balances given on future payments and services without bad debts.

3.2 Management Inefficiencies

The following observation is correct.

Audit Observation	Management Comment	Recommendation
<p>(a) A total amount of Rs. 456,503,845 should have been received by the corporation as at 31 December 2021, including a total of Rs. 81,499,905 from loans given for film production and renovation of cinema halls and a total of Rs. 375,003,940 as arrears to be received to the corporation from cinema halls. Due to the allocation of Rs. 333,443,132 out of the total receivables as surcharges and provision for doubtful debts, the recoverable net loan balance as at 31 December 2021 was Rs.</p>	<p>No loans have been contractually issued in the year 2021 for film production and cinema halls renovation. All steps are being taken to recover the arrears.</p>	<p>The process of collecting loan premiums and interest should be implemented by the top management in formal and efficient manner and top management should also take steps to recover old outstanding balances and settle them and adopt strict control measures to recover balances given on future payments and services without bad debts.</p>

123,060,713 which was 27 percent of the total debtors. The arrears were not recovered.

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| (b) | A debt recovery committee had been appointed in the year 2021 to recover the arrears to be received 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 recommendations of the debt recovery committee were not issued till the date of audit in the year 2022 and the recovery of outstanding loans was also not done as per the instructions of the Public Enterprises Department. | The recommendations of the debt recovery committee appointed in 2021 have not been submitted yet. The recommendations will be acted upon as soon as they are submitted. | Action should be taken to recover the arrears by following the directions of the Public Enterprises Department and the debt recovery committee. |
| (c) | The head office of the corporation was located in Kuruduwaththa Grama Niladhari domain of Thimbirigasyaya Divisional Secretariat plot No. 9848 python and land of 1.1235 hectares with the size of Lot No. 01. Several buildings including the head office of the corporation were constructed without taking legal right of this land to the corporation and the head office of the corporation was maintained in there. | Arrangements are being made to take over this plot of land where the corporation is located. | Action should be taken to get legal right of the land. |
| (d) | According to lease agreement number 4660, the first floor of the two-storied building located in premises number 224 belonging to the corporation was given by the corporation to Selacine Television Institute on the basis of rent of Rs. 315,000 per month until 14 January 2019. The building was handed over to the corporation on 28 March 2022 without updating the lease agreement and without paying | The file has been referred to the corporation for legal action to recover the chargeable amount. | According to the current board of director decisions 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. |

the arrears amounting to Rs. 12,111,000. The arrears was not collected until October 2022 and the building was not use to effective work after 28 March 2022.

- (e) According to the lease agreement No. 4797 of the two-storied building located in premises No. 224 belonging to the corporation, it had been given to the SAARC cultural center on lease basis at Rs. 345,000 per month for 02 years until 31 December 2021. The lease term had expired on 31 December 2021, but it was observed that the building was being used without entering into a new lease agreement in writing till October 2022.
- Basic activities related to entering into a new lease agreement between the SAARC cultural center and the corporation has been done.
- Arrangements should be made to enter into a new lease agreement and collect the arrears.
- (f) The one-storied building located at premises No. 224 belonging to the corporation had been given on lease basis to the public theater control board since the year 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 building had been demolished and built a new-story building of 2576 square feet. Although more than 03 years have passed since the cancellation of the lease agreement, no attention has been paid to this observation which has also been pointed out in the previous year's Auditor General's Report, no action had been taken to get an assessment report for the new building, assess the rent and enter into the formal lease agreement and assessment and recovery of tax arrears for the year 2021.
- A board paper will be submitted to the new Board of Directors and the public theater control board to decide about the duration of the lease agreement.
- Management should be taken to get appropriate action for the responsible parties on this matter, promptly enter into a formal written agreement, recover the arrears and protect the assets of the corporation.

- (g) A two party 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 “Dr. Lester James Peiris” at an estimated total value of Rs. 99,965,061 and it was commenced on 05 April 2019. A total of Rs. 3,134,107 as at 31 December 2021 had been paid for this construction, which was commenced without the approval of the Urban Development Authority and the Cabinet Ministers. The previous year’s Auditor General’s report also pointed out that this construction work had been abandoned for more than 03 years and the building was being destroyed to the severe deterioration of the iron rods in the building where the construction was commenced.
- The Thimbirigasyaya Divisional Secretary has been referred to prepare a new deed for the land which the construction of this building has commenced. According to the procurement decisions, a draft cabinet memorandum was submitted to the line ministry in 2020, but the project has stopped on the way due to the lack of further work by the ministry.
- Should be act in according to the instructions given in the Committee on Public Enterprises held on 19 July 2021.
- (h) 15 cases in which the corporation was the defendant, 05 labour complaints, 09 human rights complaints filed by film and television drama directors and procedures at the Human Rights Commission office, which are still pending in various courts as at 31 December 2021 were being examined that have not been able to give final decisions. Due to that these investigations have pending from many years, no officers holding permanent positions in several top positions of the corporation and having to spend the duty time of the officers engaged in judicial work had adversely affected the functioning of the corporation.
- Acting appointments have been made to the nearest officer for the vacant posts pending completion of judicial proceedings. Vacancies will be filled up as per the changes arise in recruitment procedure and organizational structure after the staff reorganization.
- According to instructions of the Committee on public Enterprises held on 19 July 2021, this investigation should be completed promptly and action should be taken to minimize employee problems.

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| (i) | According to report of the Committee on Public Enterprises held on 19 July 2021, the COPE committee had forwarded 14 orders to the corporation by a letter dated 05 August 2021. The orders were given specifying the specific times to be fulfilled and 07 of those orders had not been completed till the date of this report and the progress had not been reported to the COPE committee and the Auditor General. | The current situation of these orders was reported on 27 April 2022 and the action is being taken according to the committee orders. | Top management should be worked according to the orders mentioned in the letter dated 05 August 2021 as the report of the COPE meeting held on 19 July 2021. |
| (j) | An art conservatory was maintained at the Kelaniya Dalugama University studio to preserve the old films. It was observed during the physical audit conducted at the film conservatory that no written evidence was submitted to the audit about the film roll stocks kept for the preservation and the film roll stocks 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 records due to not maintaining an up-to-date list of gross film rolls. The management was not taken any measures to protect that gross film rolls. | Some of the gross film rolls have been completely or partially destroyed. I have noted to report them in future stock surveys. | List of gross film rolls should be maintained and action should be made to protect the gross film rolls. |

3.3 Operational Inefficiencies

The following observations are made.

Audit Observation	Management Comment	Recommendation
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(a) According to the terms of section (g) of the Sri Lanka National Film Corporation act No. 47 of 1971, the corporation had not taken adequate measures to promote the demand and trade of films within or outside Sri Lanka for films produced in Sri Lanka.	The film production teams themselves are doing the promotional work at present.	Action should be done as per the sections mentioned in the Act.

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| (b) | According to section 4(h) of the Sri Lanka National film Corporation Act No. 47 of 1971, no market research was conducted in relation to films in Sri Lanka and outside the Sri Lanka. | The work could not be started due to insufficient provision for this work. | Action should be done as per the sections mentioned in the Act. |
| (c) | A one year diploma course in cinematography was started with the objectives of establishing the academic, conceptual and technical foundation necessary for the creation of a superior Sri Lankan film culture. Students were not enrolled due to the covid epidemic situation in the year 2020 and 43 students were enrolled in the year 2021 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 prepared to develop this diploma into a cinema school, it was not possible to implement those activities until October 2022. | The syllabus was developed to make the cinema diploma course more advanced and the facilities could not be completed due to financial problems. | The one year diploma course in cinematography should be developed into a film school and work should be done to increase the income of the corporation. |
| (d) | “Methodology related to film distribution and exhibition” was approved by the Cabinet decision No. AMP/21/1024/305/022 dated 22 June 2021 and this system should have been gazette in order to take over the process of film distribution to the corporation as per the approval, but the above fact was not gazette till October 2022. | It has been referred to the minister in charge of the subject on 17 August 2021 to distribute films and publish the screening methods by a gazette paper. | It is appropriate for the top management to act to implement the cabinet decision given by the cabinet on 22 June 2021 and issue the gazette for the same for the betterment of the corporation. |

3.4 Inactive or under-utilized Property, Plant and Equipment

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
(a) The corporation had maintained 08 current accounts as at 31 December 2021. On that date, there was a favorable total balance of Rs.	The government has inquired the interest rates from the recognized financial institutions yet and arranged	Management should be act to invest the favorable balances in the current accounts effectively for the

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| <p>31,466,837 in those current accounts according to the cash book. The total favorable balance maintained according to the cash book of this current account throughout the year 2021 was Rs. 22,096,882. Accordingly, it was observed that a total amount of Rs. 22,096,882 remained inactive in 08 current accounts throughout the year 2021 without being used for any effective purpose.</p> | <p>to invest this money in the institutions with the highest interest rate.</p> | <p>short term or not to maintain a favorable balance in the current accounts in the long term.</p> |
| <p>(b) It had not taken action to clean the ponds in the premises of the studio in Dalugma,, Kelaniya university and maintain them as 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 was not pay attention to establish a name board at the entrance to the studio and maintain the studio premises as attractively and the studio and land belonging to it, which is located in the urban environment, remained non-current assets as they were not used for any purpose that could get economic benefits to the corporation.</p> | <p>Remediation of the pond, cleaning of the canal and demolition of the building to be demolished within the studio premises are being done. The work related to the landscaping of the studio will be done by the Urban Development Authority.</p> | <p>Studio land and buildings should be use as productive and work to increase revenue.</p> |
| <p>(c) A gross stock film rolls and chemicals with a total value of Rs. 870,659 as at 31 December 2021 were remained in the main warehouse since the year 2014 due to expiry and not being used as present and as indicated by the Auditor General's Report of the previous year, no action had been taken to dispose these inactive assets.</p> | <p>A part of this stock is kept as exhibits and the remained is being promptly disposed.</p> | <p>Correct information about this unusable stock of film rolls and chemicals should be identified during board of surveys and according to the existing rules and regulations.</p> |
| <p>(d) 7,917 Film magazines that are more than 05 years old and 450 types of</p> | <p>Special attention will be given to this in the year-end</p> | <p>Correct information about these unusable goods should</p> |

goods that are not being used at the time of expiration in the main warehouse of the corporation were kept in the storage space. The previous year's Auditor General's report had also indicated that the cost or present value of these materials could not be identified from the documents of the corporation and the management had not taken steps to dispose of these materials which were getting damaged.

board of survey.

be identified during the board of surveys and they should be disposed according to the decisions of the board of survey.

(e) Rs. 11,460,155 was paid and a 4K DCP projector was purchased for the works of the "Tharangani" cinema hall belonging to the corporation. However, the corporation was unable to purchase the separate 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 "Tharangani" cinema hall had become inactive asset.

The machine will be sent to the agent for repair and a test report and estimate will be obtained and acted accordingly.

This projector should be made into working condition and "Tharangani" cinema hall should be used for income generating activities.

3.5 Procurement Management

Audit Observation

Dalugama, Kelaniya University had paid a total of Rs. 857,050 and purchased a 5.1 sound deco system for the studio in the year 2021. When carrying out that procurement work, procurement functions 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 Code of Government Procurement Guidelines were not performed in accordance with the Code of Procurement Guidelines.

Management Comment

This turned out to be a very urgent procurement work and since after the installation of this system, an income of Rs. 2.3 million has been generated yet.

Recommendation

Procurement should be done in accordance with the Code of Procurement Guidelines.

3.6 Human Resource Management

Audit Observation

The number of approved employees of the

Management Comment

Acting/ Performing duties

Recommendation

Employee management

corporation was 186 and the actual number of employees was 119. There were 67 vacant posts out of the approved posts as at 31 December 2021. Out of those vacancies, 10 posts were currently filled by an officer holding a permanent position in the corporation on other basis such as acting, performing duties, covering duties etc. There were 03 senior level positions in the corporation and out of those 03 positions, 02 positions were appointed and employed on other non-permanent basis. 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.

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 structuring.

should be done according to the current instructions of the government and the duties of the organization should be filled.

4. Accountability and Good Governance

4.1 Annual Report

Audit Observation

Although the annual reports in 03 languages should 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 annual reports of the corporation were not submitted to the parliament after 2015.

Management Comment

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.

Recommendation

The annual reports from the year 2015 to the year 2020 should be tabled in the parliament without delay.

4.2 Corporate Plan

Audit Observation

The National Film Corporation had not prepared a corporate plan covering the year 2021 as per section 4.2.2 of the Public Enterprises Circular PED/12 dated 02 June 2003.

Management Comment

After taking instructions from the line ministry, I will prepare a three-year plan and submit it for audit.

Recommendation

According to the Public Enterprises Circular No. PED/12 dated 02 June 2003, corporate plans should be prepared and approved and acted accordingly.

4.3 Internal Audit

Audit Observation	Management Comment	Recommendation
Although the relevant institution should have its own Internal Auditor in terms of section VII part 40 (1) of the National Audit Act No. 19 of 2018, the internal audit division of the corporation remained inactive after the left of the internal audit and the staff of the internal audit division from the corporation till December 2021.	Although the process of recruitment of an internal auditor is being implemented, recruitment has been suspended on the instructions of line ministry and government policy.	Internal audit should be done by appointing an internal auditor or acting as per the instructions of the treasury and employing the staff for the internal audit division.