Arthur C Clarke Institute for Modern Technologies - 2014

The audit of financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2014 comprising the statement of financial position as at 31 December 2014 and the statement of financial performance, cash flow statement and the statement of changes in equity for the year then ended and a summary of significant accounting policies and other explanatory information 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 Section 13(1) of the Finance Act, No. 38 of 1971 and Section 40(3) of the Science and Technology Development Act, No. 11 of 1994. My comments and observations which I consider should be published with the Annual Report of the Institute in terms of Section 14(2)(c) of the Finance Act appear in this report.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000-1810). Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute`s preparation and fair presentation of the financial statements 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 Institute's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No. 38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the Audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Arthur C Clarke Institute for Modern Technologies as at 31 December 2014 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

2.2 Comments on Financial Statements

2.2.1 Sri Lanka Public Sector Accounting Standards

Instances of non compliance with the standards are as follows.

Sri Lanka Public Sector Accounting Standards	Non compliances
Sri Lanka Public Sector Accounting Standard 03	The Accounting Policy followed by the Institute in respect of writing off of bad debts and provisions for doubtful debts amounting to Rs.5,354,108 in the year under review had not been disclosed in the financial statements.
Sri Lanka Public Sector Accounting Standard 09	Action had not been taken to disclose in the accounts, the fair value in respect of accessories, minor equipments and other stock items valued at the cost of Rs.4,077,452 from a long period.

2.2.2 Accounting Policies

The following observations are made.

(a) Even though it was disclosed that the accrual basis had been followed by the Institute in the preparation of financial statements, there were unusual variances between the project income of each year due to following the cash basis in the identification of project income.

(b) It was observed that the policy of writing off of bad debts and provisions for doubtful debts introduced by the Institute could not be followed continuously and consistently.

(c) In the adjustment of gratuity allowances based on actuarial valuation, the basic assumptions made had not been disclosed adequately in the financial statements. In the computation of gratuity provisions, the incomplete years as well had been computed as completed years. As such, the annual provisions had been over-computed by Rs.2,298,954 due to over-computation of the period of service of every employee by one year and the Management had not taken steps to adopt an appropriate accounting policy in the computation of gratuities.

2.2.3 Lack of Evidence for Audit

Stocks amounting to Rs.9,309,659 existed in the financial statements of the year under review and the stock verification reports relevant to those stocks were not presented to audit.

2.4 Non-compliances with Laws, Rules, Regulations and Management Decisions

Reference to Laws, Rules, Regulations and Management Decisions	Non-compliance
(a) Public Finance Circular No.380 of 19 January 2000	(a) Even though the plant and machinery required for the projects should be purchased using the surplus of the project, contrary to that, plant and machinery had been purchased from the Treasury provisions.
	(b) The over income generated from surplus of projects such as the battery test and RCCB test not covered by the Circular, had been disbursed among the direct and indirect staff related to the projects. Accordingly, a sum of Rs.2,588,339 had been so disbursed.
(b) Nation Building Tax Act, No.09 of 2009	Nation Building Tax amounting to Rs.150,592 had not been remitted to the Department of Inland Revenue.
(c) Payment of Gratuity Act, No.12 of 1983	The financial result had deteriorated by Rs.9.7 million as the gratuities had been computed in considering the allowances contrary to the Act and a sum of Rs.444,395 had been paid as arrears of gratuity payments in the year under review to officers who retired and left the service in the years 2013 and 2012 being erroneously computed once again.
(d) Chapter XXVIII of the Establishments Code of the Democratic Socialist Republic of Sri Lanka	Even though office hours should be from 8.30 a.m. to 4.15 p.m., it had not been complied with.

3. Financial Review

3.1 Financial Results

The financial result of the Institute for the year under review had been a surplus of Rs.7.2 million as compared with the corresponding surplus of Rs.5.9 million of the preceding year, thus indicating an improvement of Rs.1.3 million in the financial result. The increase of external project income by Rs.11 million and Government grants by Rs.18 million had mainly attributed to the improvement of the financial result.

3.2 Analytical Financial Review

Liquidity Ratios	2014	2013
Current Ratio	8.3:1	6.4:1
Liquidity Ratio	7.6:1	5.8:1

It was observed that an idle working capital remains in the Institute in analyzing the current and liquidity ratios.

4. Operating Review

4.1 Performance

The following observations are made.

(a) Even though it was planned to perform 50 activities by 05 Divisions of the Institute according to the Action Plan, it was observed that the number of activities not performed and performed halfway were only 27.

(b) In comparing the progress of each Division of the Institute with the Action Plan, it was observed that the progress had not been at a provable level and the progress could not be analyzed in the absence of including the activities of the Administration and Finance Divisions in the Annual Action Plan.

4.2 Operating Inefficiencies

The following observations are made.

(a) In the preparation of estimates for the projects carried out by the Institute, very high profit margins had been added and as such, it was observed that an unnecessary expenditure has to be incurred by the Government, particularly in respect of projects of Government Institutions.

(b) It was observed that during the past few years only similar projects had been carried out by each Division of the Institute and no attention had been paid towards carrying out new projects.

(c) Even though a Residual Current Circuit Breaker machine had been purchased by spending a sum of Rs. 12 million without preparing even a project feasibility report in the year 2013, the income earned in the year under review amounted to Rs.445,850 and that amount could not cover even the depreciation value of machines amounting to Rs.1,200,000.

4.3 Matters of Contentious Nature

Even though the revolving fund should be used for the purchase of necessary equipments for the projects and courses, a sum of Rs.7,363,000 had been utilized in short term investments contrary to that objective.

4.4 Personnel Administration

The approved cadre for the year under review had been 177 whereas the actual cadre had been 95. Accordingly, 82 posts or 46 per cent had been vacant and no action whatsoever had been taken to fill these vacancies. Moreover, it was observed that the existence of 63 per cent of vacancies in the top management for a number of years of this Institute, which functions with a view to fulfilling the objective of research and development activities, had directly affected the fulfilling of objectives of the Institute.

5. Accountability and Good Governance

5.1 Internal Audit

Even though an Internal Audit Unit had been established, it was difficult to maintain an adequate audit as only one officer had been attached thereto.

5.2 Procurement Plan

Goods valued at Rs. 7,549,000 included in the procurement plan prepared for the year under review by the Institute had been purchased. Even though a sum of Rs.7,600,000 had been allocated for the communication Division, out of that, only a sum of Rs.442,400 had been spent according to the procurement plan.

5.3 Budgetary Control

The following observations are made.

(a) The budgeted income statement, the statement of financial position and the cash flow statement had not been presented in terms of Section 5.2.1 of the Public Enterprises Circular No. PED/12 of 02 June 2003.

(b) Significant variances between the budgeted expenditure and the actual expenditure ranging from 11 per cent to 388 per cent were observed, thus indicating that the Budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in systems and controls observed during the course of audit were brought to the notice of the Chairman of the Institute from time to time. Special attention is needed in respect of the following areas of control.

(a) Accounting and Stock Control
(b) Project Management
(c) Fixed Assets Control
(d) Budgetary Control
(e) Planning and Progress Control