

Opinion

The audit of the financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the statement of financial performance, 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 reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2018, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

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 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 Public Sector Accounting Standards and for such internal control as management determines 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 Institute'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 intends to liquidate the Institute or to cease operations, or has no realistic alternative but to do so.

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

As per Sub-section 16(1) of the National Audit Act, No. 19 of 2018, the Institute 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 Institute.

1.4 Scope of Audit (Auditor's Responsibility for the Audit of the 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 audit 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, 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 Institute'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 Institute's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my audit 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 audit report. However, future events or conditions may cause the Institute 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 Institute and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Institute has complied with applicable written law, or other general or special directions issued by the governing body of the Institute;
- Whether the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Accounting Deficiencies

Audit Observation	Comments of the Management	Recommendation
-----	-----	-----
(a) Even though the operating income of the year for a project had been Rs.1,853,678, it had been shown as Rs.2,326,768 by overstating a	In entering code numbers of several invoices received for several other projects not relating to the Project	Correct accounting systems should be operated.

sum of Rs.473,090. Invoices 2012/2013/SSCCTV/NW received for other 17 projects SDB as pointed out by the amounting to Rs.473,090 had audit observation, into the been entered as receipts of computerized accounting invoices against the system, the said amount expenditure in the Expenditure had been credited to the Account relating to the said said account by a mistake. project, thus understating the Action is taken to rectify Expenditure Account by the it this year. same amount.

(b) Two receivable balances had Action is taken to correct Only expenditure relating been overstated by Rs.76,081 these overstatements in to the year should be and one balance had been this year and credited to accounts and understated by Rs.49,369 and understatements through correct accounting systems other expenditure had been accounts of the year 2019. should be operated. understated by Rs.49,369 indicated under current assets.

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

Reference to Non-compliance Laws, Rules, Regulations etc.	Comments of the Recommendation Management
(a) Section 13.3 of Chapter II An acting appointment should be made as a temporary measure only and until a substantive appointment is made. If the post continues to require the services of a full- time officer,	Action has been taken to fill vacancies at the institutional level and further action has been taken on the approval of the Board of Governors to appoint officers on acting basis as a temporary measure As the operational posts are the main posts of the Institute, action should be taken to fill vacancies without delay. Action should be taken on a proper approval to make revisions to the scheme of recruitment by analysing matters that

the substantive for performing duties. may affect the applying appointment should for relevant posts by be made without applicants. delay. However, necessary action had not been taken to fill vacancies in 03 posts for which acting appointments had been made from the years 2013 and 2015 to the year 2019.

- (b) Sections 12.5.4 and 12.7 of Chapter VII
- | | | |
|---|---|---|
| <p>If while an officer acts in a post he also holds a substantive post, he should be paid 25 per cent of the initial salary of the post in which he acts. Moreover, in terms of Section 12.7 of Chapter VII, he should be paid the allowances to which he is eligible on his substantive salary. However, contrary to that, a sum of Rs.4,584,116 had been paid to two officers as transport and fuel allowances entitled to acting</p> | <p>External applicants are not applying for vacancies existed in the senior level posts. As such, out of eligible officers of the Institute, these officers have been appointed on the approval of the Board of Governors of the Institute to act in the posts in which they are appointed to act, are superior to the substantive post they hold in addition to duties of their posts to avoid critical conditions which may occur in carrying out</p> | <p>An acting appointment should be made as a temporary measure only and until a substantive appointment is made. If the post continues to require the services of a full-time officer, the substantive appointment should be made without delay. As such, action should be taken to make substantive posts for the posts without delay.</p> |
|---|---|---|

posts. administrative and other activities. Transport and fuel allowances have been granted on the decision of the Board of Governors for expenditure to be incurred by themselves in carrying out duties and in official travelling relating to the acting post. According to the Establishments Code, action has not been taken to grant 25 per cent of the salary of the post in which he acts.

(c) Trade and Officers who have Mrs. G.H.C. Jayarani That action should be Investment completed 12 years had joined this taken in compliance with Policy Circular active service period Institute as an circular provisions and No. 01/2013 of are entitled to a duty Assistant Librarian that, in case of any 02 August free motor vehicle on 11.06.1991 and doubts in circular 2013 permit. However, according to the provisions relating to contrary to that, the Schemes of payment of allowances approval had been Recruitment and and receipt of benefits, it granted for the Promotion then is required to clarify importation of a duty existed, she has been them in consultation free motor vehicle appointed to the post with relevant authorities. under permit of Administrative

Management

Services. However, at present,

the post of Administrative Officer which was approved by the Department of Management Services in the years 2012 and 2016, can be applied only after being fulfilled the G.C.E. (O/L) qualification and with relevant experience.

The said new post is at the junior management level. Even though the designation of the said two posts, that is, the post of Administrative Officer existed then and the current post, is the same, those two posts cannot be considered as at the same level.

2. Financial Review

2.1 Financial Results

The operating result of the Institute for the year under review had been a surplus of Rs.5,501,052 as compared with the corresponding surplus of Rs.1,084,738 in the preceding year, thus indicating an improvement of Rs.4,416,314 in the financial result. The increase in the receipts of recurrent provisions by Rs.1,825,924 and the non-utilization of provisions of Rs.5,120,440 received for the Asbestos Project had been the main reason for the said improvement.

3. Operating Review

3.1 Management and Operating Inefficiencies

Audit Observation	Comments of the Management	Recommendation
(a) A research project for the production of a low cost machine for the tea colour grading had been commenced in the year 2012 and an expenditure amounting to Rs.4,209,066 had been incurred therefor by 31 December 2016. Agreements had been entered into for the manufacture of this machine at a cost of Rs.8,000,000 with a private institution in the year 2016 due to failure in the mechanism followed so far. Even though a Technical Report should be obtained after completing	Agreements have been entered into with the E-Net Institute for the Xilinx FPGA High Technology Electronic Sub-system of the said project. According to the said agreement, mechanical productions to be provided by the Arthur C Clarke Institute have been mentioned and accordingly, deliverables from the E-Net Institute to our Institute have been mentioned. More time had been spent for mechanical accessories which should be completed by our Institute relating to 02 nd stage of the said agreement. It is rare to	Before commencing specific research projects, it should be ensured whether those are under scope of the Institute. That a feasibility study should be carried out for activities such as the cost, benefits, time and use of output before commencing the project.

the machine by August 2017 in terms of the Agreement of this Project which comprised of 4 stages, only works at the second stage had been completed even by May 2019. No equipment whatsoever used for this project up to the year 2016 had been used after the agreement entered into with the private institution.

- find such workshops equipped with facilities for the manufacture of such complex parts. Even more time is taken therefor. As such, more period had lapsed for the completion of the 02nd stage. Subsequently, agreement for the stage 03 had been entered into in April 2019. Relevant tests are now being carried out by using samples obtained from tea factories.
- (b) A Memorandum of Understanding had been entered into with a China Agency for a project of establishment of a National Centre for obtaining and distribution of Earth Observation Data and no plan whatsoever had been prepared therefor. Moreover, a land had been selected therefor without being carried out a feasibility study on the land and a sum of Rs.3,545,744 had been granted to the Urban Development Authority in the year 2016 for the construction of a fence around the said land
- A feasibility study had been carried out on lands located at Mahenwatta area, Pitipana, Homagama by the Urban Development Authority for the proposed National Centre for obtaining and distribution of Earth Observation Satellite Data and a suitable land was selected therefor. The maximum height of buildings expected to be constructed in the future on lands by centralizing the said selected land had been decided and informed the Urban Development Authority thereon. A communication tower had been erected on a private land situated near the
- That a proper feasibility study should be carried out by taking into consideration the matters such as the requirement of such a project, social and economic impacts thereof and that, action should be taken in accordance with the Action Plan.

without any legal said selected land. Engineers ownership. However, it has of the RADI who are the other been mentioned at the parties of this project had inspection carried out by the enquired on the capability of China Agency that the said obtaining another land at the land is not suitable for the inspection of the selected project and as such, action land. Accordingly, a suitable should be taken to select land situated in Horagala area, another land. Even though Padukka, of the Techno City this money should be shown Project had been again in accounts receivable, selected and the Chinese those had been shown in the Engineers have expressed financial statements as their consent therefor. constructions in progress. Action had not been taken even by May 2019 to commence the project by vesting a land properly.

- (c) Action had not been taken to identify unusable stocks and slow moving stocks out of stocks costing Rs.4,104,433 that remained unutilized since the year 2012 and dispose of them or make provisions in the financial statements.
- Even though the observation made by the Audit in respect of maintenance of idle stocks, is correct, stocks of electronic accessories are to be maintained in a certain extent as this Institute is a research institute by which researches and development projects are implemented. In the commencement of projects as well as in maintenance of projects and in carrying out repairs, it is difficult to purchase the relevant special
- In the purchase of items of stocks, purchases should be made by identifying the requirement of them and action should be taken in accordance with circular provisions.

accessories at the local market. As such, these stocks should have been maintained.

- (d) Even though 03 purposes such as the project of Agricultural Drought Monitoring and Early Warning System, collection of data in the data bank of identifying spectra and creation of a geological website had been completed, an appropriate procedure was not available for practically using them in the country.
- About 90 per cent of the Agricultural Drought Monitoring and Early Warning System has been completed and activities of the final stage have been delayed due to inadequate contribution of other Government institutions connected thereto. Comparison of information obtained from satellite data with those of the cultivated land is being carried out by using Google Drives with the assistance of Science and Technology Officers of Vidatha Centres.
- Adequate measures should be taken for achieving the objectives of the Institute efficiently.

3.2 Idle or Underutilized Properties, Plant and Equipment

Audit Observation	Comments of the Management	Recommendation
<p>(a) In the examination carried out on equipment, accessories and systems purchased by the Arthur C Clerk Institute for the Research and Development Projects, it was observed that 06 assets valued at Rs.24,081,518</p>		

had remained idle without utilizing.

- (I) Webhost 6 pro software dongle with server documents The Webhost 6 Software had been purchased for research activities of the year 2012 and it is still used in robotics technology researches. The said software is used at present in computers of the laboratory. In the purchase of equipment and accessories, purchases should be made by identifying the requirement and with prior approval therefor.
- (II) Unmanned Arial vehicle 555FF with accessories Procurement activities had been commenced in the year 2015 and the UAV drone of QuestUAV Agropro-200 type manufactured in QuestUAV Ltd. in Britain, had been purchased with the approval of the Ministry of Defence, which is able to fly up to 150 meters(500 feet). After purchasing this UAV Drone, the approval of the Office of the Chief of Defence Staff had not been received to fly over a recommended minimum height (400 feet). As such, action is being taken to enter into a Memorandum of Understanding with the

Civil Aviation Authority
of Sri Lanka.

- (III) Ander Brand Apogee The telescope should have
Aspen G 900 Compact 9.3 been modernized required
megapixel scientific CCD to observation activities at
camera / MEADE Brand latitude of Sri Lanka and
LX850 ACF 14” those activities have been
Astronomical Telescope successfully completed
and Accessories locally and the said
telescope and its camera
are now being used for
research activities.
- (IV) Dell Inspirer 155000 series These Laptop computers
laptop are being used for courses
conducted by the Institute
in the laboratory.
- (V) Celectron Brand The said 10 telescopes
OMNIXLT 150 Newtonian were purchased with the
telescope objective of using them
for the International
Astronomy Olympiad
Competition and it was
successfully used for the
said competition.
Moreover, night sky
observation workshops as
well are expected to be
conducted by using these
telescopes.
- (b) The Light Measurement System valued at That only projects
Rs.15,479,510 which is used 17 October 2017 to the coming under the scope
for performance test and date mentioned in the of the Institute should be
selected and

Energy Efficiency Test of CFL and LED bulbs, one of the main services carried out by the Industry Services Division (ISD), had remained inoperative from 17 October 2017 to May 2019, the date of Audit, due to defects in equipment incidental to the said System.

audit observation due to various defects not connected to each other as mentioned in the audit observation due to defects occurred in two ways at two instances in the Light Measurement System and equipment incidental thereto and due to expiry of the guarantee period of the relevant System. The said equipment had been manufactured for special purposes and as such, a high degree of expertise is required to repair defects of the said system. As such, a considerable period is required in taking action on the said equipment with the Labsphere Inc. which is the production company in United States, through the supplier.

implemented. That all matters such as the cost, time and technology relating to repairs should be considered. In the procurement process, matters such as maintenance, repairs and technology of a machine should be considered and necessary steps should be taken therefor.

4. Accountability and Good Governance

4.1 Annual Action Plan

Audit Observation	Comments of the Management	Recommendation
(a) One hundred functions valued at Rs.100,000,000 had been included in the Action Plan of the year 2018 and out of those, 18 functions had not been performed and as such, expected targets had not been achieved.	Six courses, 4 programmes on human resources development, planned in the year 2018 have been mentioned as functions in the audit observation. Accordingly, the number of incomplete projects stood at 08. Moreover, incomplete functions mentioned as certain projects are not technical functions or projects but programmes to be conducted. Ex: Apply for Patents, Industrial Visits, open day programme, Sir Arthur C Clarke Memorial Lecture etc. Moreover, Certain projects could not be completed as expected during the year under review due to common issues such as recruitments made for technical staff and placing them on existing salary steps, technical issues occurred in researches,	Action Plans should be prepared correctly and realistically and priority should be given to achieve those plans.

delays in purchasing technical accessories etc.

- (b) Provisions made for certain functions and actual cost incurred therefor had not been indicated separately and as such, the financial progress could not be identified. According to activities of Technical Divisions of the Institute, high technology equipment needed therefor are common in nature and those are utilized in many projects implemented in that year or ensuing years. As such, capital expenditure could not be identified separately for those purposes and only capital expenditure which can be estimated specially for projects, has been indicated separately for each purpose. Action Plans should be prepared correctly and realistically and priority should be given to achieve those plans.
- (c) Even though 13 courses had been planned to be conducted for providing modern technical knowledge for external parties by the Institute, out of that, 06 courses had not been conducted. Out of 13 courses planned to be conducted in the year 2018, six courses could not be conducted due to maintenance activities of the auditorium of the Institute carried out in the year 2018 and attachment of staff of each technical division to other priority projects. Moreover, out of those 6 courses, adequate number of applications had not been received for 02 courses of the Communication Action Plans should be prepared correctly and realistically and priority should be given to achieve objectives thereof.

Division. As such, those courses could not be conducted.