

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Arthur C. Clarke Institute for Modern Technologies (“Institute”) of for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 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 the Financial 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 Institute as at 31 December 2022 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards .

1.2 Basis for Qualified Opinion

My opinion is qualified based 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 Public Sector 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 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 intend 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 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.

1.4 Auditor's Responsibility on the Audit of Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional skepticism 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 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 the Institute on 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. However, future events or conditions may cause to cease to continue as a going concern.
- Evaluate the 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 it has performed according to its powers, functions and duties; and
- Whether the resources 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 Preparation of Financial Statement

1.5.1 Accounting Deficiencies

Audit Observations	Comments of the Management	Recommendation
(a) Although the physical stock verification balance carried out by the Institute as at 31 December 2022 was Rs.4,508,103, a difference of Rs.1,176,506 was observed because of indicating the stock value as Rs.5,684,610 in the financial statements.	In preparing the income and expenditure accounts of our Institute, the opening and closing stock values are indicated based on the stock ledger and they are not stock balances that perform operational functions like the stocks of manufacturing, trade and other profit-based commercial establishments.	Physical stock verification balances should be considered in preparing financial statements.
(b) The equipment use in the Institute valued Rs.1,392,996 had been shown in the financial statements as stock without being recorded as fixed assets.	These equipment can be stated as the items not related to direct operational functions. Therefore, they have been classified under stocks. Hence, the above stock values are represented by items that do not change constantly according to the type and nature of the organization.	All fixed assets should be precisely identified.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Observations	Comments of the Management	Recommendation
Receivable balances totalled to Rs.5,735,439 remaining for more than 02 years had not been recovered even by the end of the year under review.	Sixty six (66) per cent of the amount receivable represents the amount due from Telecommunication Regulatory Commission of Sri Lanka which is Rs.3,205,677. Necessary arrangements have been made by now to get that amount. Reminders have been made on 04 occasions in the year 2022 for other invoices. Reminders have been made from time to time about the values to be charged for the services rendered to the private sector. As those companies are not currently in operation, there are difficulties in taking actions against them.	Actions should be taken to recover the balances receivable as soon as possible.

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

Reference to Laws, Rules, Regulations etc.	Non-compliance	Comments of the Management	Recommendation
(a) Financial Regulations of the Democratic Socialist Republic of Sri Lanka Section 134 (1)	The Deputy Director (Internal Auditor) who is the Head of the Internal Audit Division of the Institute has been working on acting basis in the	This appointment was made on the necessity of maintaining the functions of the Institute without interruption, on the approval of the Board of Directors HR/AD dated 05.01.2020. The recruitment of employees has been	Arrangements should be made to fill the vacancies to carry out the affairs of the Institute without being interrupted.

post of Senior Deputy Director (Finance) since 10 March 2020 .

temporarily stopped based on the circular provisions issued by the government from time to time from the year 2021 and therefore, it has not been possible to make recruitments.

(b) Paragraph 6.6 of the Operational Guidelines Manual on Public Enterprises No. 2021/01 dated 16 November 2021

Although a copy of the Draft Annual Report for the year under review should be submitted to the Auditor General within sixty days, The aforementioned report had not been submitted by the date of audit, 10 May 2023 .

Arrangements have been made to submit the Drafts of the Annual Report related to the year 2022 to the Auditor General. It has been noted that the Draft of the Annual Report will be submitted within 60 days after the end of the year from the year 2023 .

Reports should be submitted on the due date.

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 25,919,175 and, the corresponding surplus for the preceding year was Rs. 5,349,487. Accordingly, a growth of Rs. .20,569,688 in the financial result was observed. Although the government grants had decreased by Rs. 7,642,199, the increase of other income by Rs. 22,442,286 and decrease of other expenditure by Rs. 9,048,564 had mainly attributed to this growth.

3 Operating Review

3.1 Management Inefficiencies

Audit Observations	Comments of the Management	Recommendation
(a) An expenditure of Rs.1,755,825 which was agreed by the Institute exceeding the capital grants received from the General Treasury in respect of the year under review, had been mentioned as an expenditure payable and the same as an income receivable .	We observe that the values of those accounts are not revealed by setting off the value of a debit balance with the value of a credit balance as per accounting principles.	Capital grants should be accurately accounted for.

<p>(b) Actions had not been taken even at present to utilize the non-moving stock of Rs. 2,717,267 remaining on the nature of the project and the utilization requirement for more than 03 years, to a useful function of the Institute .</p>	<p>The usage requirements of the electronic items arisen from time to time depending on the nature of projects. Likewise, the ability to directly purchase such electronic items from the open market has absence due to the current economic crisis exist. If those technical and electronic items have to be bought from the market at present as the price will be several times more than this, the stocks have to be maintained as per the nature and requirement of the projects.</p>	<p>Appropriate actions should be taken on unusable stocks.</p>
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3.2 Idle or Underutilized Property, Plant and Equipment

Audit Observations	Comments of the Management	Recommendation
<p>An Unmanned Aerial Vehicle valued at Rs. 10,564,677 had been purchased in August 2016 with the purpose of obtaining photographs for archaeological exploration and excavation works of the Department of Archaeology. Before the purchase of the aircraft, two officers had also been given foreign training by incurring an expenditure of Rs.110,322 for its operation. Nevertheless, it had remained in idle without being used for the relevant task from the date of purchase until the date of audit, 10 May 2023 .</p>	<p>Although the recommended altitude for safe flight of the aircraft is 400 feet (122 meters) it could not be used for its intended purpose because the Sri Lanka Civil Aviation Authority has restricted the aircraft's maximum flying height to 60 meters (200 feet) in the year 2016. The Civil Aviation Authority of Sri Lanka has informed us that the new regulations were formulated in November 2022 for the maximum flight height of UAV aircraft to be 400 feet.</p> <p>Even though the Company that manufactured the aircraft was informed that because there is an error in the software related to the flight planning system of the UAV aircraft, since that Company has been sold to another company and also the above</p>	<p>Necessary measures should be taken and the respective aircraft should be used.</p>

problematic software used by the original company is no longer used by the new company for its products, it was also informed that they are unable to correct the above error. We are making an effort at present to correct the software error in the UAV aircraft with the support of the Technical Divisions of the Institute.