Arthur C Clarke Institute for Modern Technologies - 2013

The audit of financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2013 comprising the Statement of Financial Position as at 31 December 2013 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 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 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 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 2013 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

The following observations are made.

(a) Sri Lanka Public Sector Accounting Standards - 02

Although the cash flow statements should be prepared by disclosing cash inflows and outflows during the year under review in accordance with the Standard the following deficiencies were observed.

(i) Only the net cash flow had been included by setting off the gratuity paid during the year against the annual provision for gratuity.

(ii) According to the statement of financial position the provision for depreciation for the year on Property Plant and Equipment amounted to Rs.19,358,850 while it was shown in the cash flow statement as Rs.20,051,131.

(b) Sri Lanka Public Sector Accounting Standard - 03

Accounting policies should be introduced in such a manner that the financial position and the financial performance be reliably represented. Nevertheless, a policy in respect of making provision for doubtful debts arising from long outstanding loan balances had not been introduced.

(c) Sri Lanka Public Sector Accounting Standard - 07

Depreciation of an asset should be started since the time it was brought to usable position. Contrary to that, the basis of full depreciation for the year of purchase and not depreciating for the year of disposal had been applied.

2.2.2 Accounting Policies

The following observations are made.

(a) According to the accounting policy 1.4, following the accrual basis had been indicated. But the project income had been brought to account on cash basis.

(b) Even though the depreciation percentage should be determined in considering the useful life of an asset, an appropriate depreciation policy had not been adopted in respect of computers and accessories.

2.2.3 Accounting Deficiencies

The following observations are made.

(a) The expenditure of recurrent nature amounting to Rs.483,175 incurred on training had been brought to accounts as a prepaid expense under current assets instead of being written off against the profit of the year under review.

(b) A sum of Rs.174,497 to be incurred from the Treasury Grants Account had been charged to the Foundation for the International Non-Governmental Development of Space (FINDS) Account. Although that expenditure had been shown as receivable to the Fund Account under current assets, it had not been posted as a current liability in the Treasury Grants Account and as such the balancing of financial statements had become questionable.

2.2.4 Accounts Receivable and Payable

The following observations are made.

(i) The unsettled creditors balances amounting to Rs.392,208 older than 3 years included refundable deposits amounting to Rs.243,246 older than 5 years and action had not been taken to bring it into government revenue in terms of Financial Regulation 571(2).

(ii) Action had not been taken to settle the Value Added Tax, Nation Building Tax, Pay As You Earn Tax and Stamp Duty totaling Rs.2,140,054 which should have been settled during the year under review.

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

In terms of Financial Regulation 371(2) of the Financial Regulations of the Democratic Socialist Republic of Sri Lanka advances given for special purposes should be settled immediately after the completion of the purpose for which it was given. However advances totaling Rs.74,463 had been settled in 9 instances after delays ranging from 25 to 95 working days.

3. Financial Review

3.1 Financial Results

Operation of the Institute for the year under review had resulted in a surplus of Rs.5.9 million as compared with the surplus of Rs.18.7 million for the preceding year thus indicating a decrease of Rs.12.8 million in the financial result. Decrease in external project income by

Rs.16 million and increase of personal emoluments by Rs.6 million as compared with the preceding year had been the main reasons for the decrease of financial results.

3.2 Analytical Financial Review

The current ratio and the liquidity ratio had been at a high level as 1.6 thus indicating that current assets management had not been at the optimum level.

4. Operating Review

4.1 Performance

The following observations are made.

(a) None of the activities expected for implementation in the year under review had been quantitatively estimated in the Action Plan for the year under review by showing the performance indicators. As such it could not be evaluated whether the progress achieved had been at the expected level.

(b) None of the activities relating to the researches of the Robot Machine Laboratory had been done in the year under review.

4.2 Management Inefficiencies

A sum of Rs.12,960,213 had been spent on 25 June 2013 for the purchase of a Residual Current Circuit Breaker including bank charges, training and other expenses. A feasibility study and cost benefit analysis had not been carried out in this connection. This equipment had not been utilized for the intended purpose even by 01 August 2014.

4.3 Underutilization of Funds

Surplus money amounting to Rs.2,215,199 exceeding the requirement for daily operations of the Institute remained idle in a current account.

4.4 Personal Administration

The total approved cadre for the year under review had been 176 whereas the actual cadre had been 83. Accordingly 93 posts or 53 per cent had been vacant. Action had not been taken to fill those vacancies even by 30 April 2014.

5. Accountability and Good Governance

5.1 Action Plan

The Action Plan prepared by the Institute for the year 2013 had not been prepared in accordance with Section 5.1.2 of the Public Enterprises Circular No. PED/12 of 02 June 2003. As the financial information for each activity had not been included therein, it was not possible to ensure whether the targets expected from recurrent and capital expenditure budgets had been achieved.

5.2 Internal Audit

As only the Internal Auditor had been attached to the Internal Audit Unit established it had not been possible to achieve the activities expected from the Internal Audit.

5.3 Budgetary Control

Significant variances between the budgeted expenditure and the actual expenditure ranging from 8 per cent to 92 per cent were observed, thus indicating that the Budget had not been made use of as an instrument of management control.

6. Systems and Controls

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

(a) Budgetary Control
(b) Planning and Progress Review
(c) Assets Management
(d) Motor Vehicles Control
(e) Advances Control
(f) Debtors and Creditors Control
(g) Stock Control
(h) Accounting