

Arthur C Clarke Institute for Modern Technologies - 2015

The audit of financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2015 comprising the statement of financial position as at 31 December 2015 and the statement of financial performance, statement of changes in equity and cash flow statement 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

The 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 Auditing 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 judgement, including the assessment of the risks of material misstatements 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. Subsections (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 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 2015 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 Standard 01

Except for the assets being realized within a period of 12 months from the reporting date, all other assets should be classified as non-current assets. However, employee loan balances totalling Rs. 6,894,904 realized after a period of 12 months, had been shown as current assets.

(b.) Sri Lanka Public Sector Accounting Standard 02

The cash flow statement had not been prepared accurately due to the following deviations.

- (i) Although payments amounting to Rs. 48,022,878 and Rs. 7,058,727 had been paid in the year under review for the acquisition of fixed assets, and work in progress respectively, those payments had been shown as Rs. 30,272,000 and Rs. 361,000 respectively under the investment activities of the cash flow statement.
- (ii) Although the receipts of capital grants amounted to Rs. 62,959,000 in the year under review, a sum of Rs. 31,409,000 had been shown as receipts of capital grants under the financial activities. Furthermore, a sum of Rs. 5,179,550 remitted to the Treasury, had not been shown in the cash flow statement.

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, cash basis had been followed when the income of the projects subject to the distribution of income had been identified in terms of Public Finance Circular, No. 380 dated 19 January 2000. Accordingly, a

total of Rs. 3,830,700 relating to the projects and 18 works completed in the year under review and the years 2013 and 2014, had been accounted as differed income without being identified as income in the relevant years. Of that, a sum totalling Rs. 2,643,530 incurred on 03 projects completed in the year under review, had been shown as work in progress under current assets in the statement of financial position, instead of being accounted as expenses.

- (b.) The balance of the provisions made for doubtful debts amounted to Rs. 5,019,000 as at the end of the year under review, and the accounting policy followed by the Institute in respect of the provisions for doubtful debts, had not been disclosed in the financial statements.

2.3 Accounts Receivable

The balances older than 2 years and totalling Rs. 1,655,680 that remained receivable with respect to projects and courses as at 31 December of the year under review, had not been recovered even by August 2016.

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

The following non-compliances with Laws, Rules, Regulations, and Management Decisions, had been observed.

Reference to Laws, Rules, and Regulations	Non-compliance
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(a.) Payment of Gratuity Act, No. 12 of 1983	As special and interim allowances had been included in the earnings considered for paying gratuity, gratuity allowances amounting to Rs. 759,532 had been overpaid to 12 employees in the year under review.
(b.) Public Finance Circular, No. 380 dated 19 January 2000	Of the income generated from projects such as the battery test and RCCB test not covered by the Circular, a sum of Rs. 3,457,113 had been disbursed among the direct and indirect staff of the Institute as incentives.

2.5 Transactions not Supported by Adequate Authority

Without obtaining approval of the Treasury in terms of Public Finance Circular, No. PF/PE 5 dated 11 January 2000, a total sum of Rs. 993,596 had been paid under the approval of the Board of Control as year end allowances subject to a maximum of Rs.12,500 per employee.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the financial result of the Institute for the year ended 31 December of the year under review had been a surplus of Rs. 9,511,887 as compared with the corresponding surplus of Rs. 7,247,059 of the preceding year, thus indicating an improvement of Rs. 2,264,828 in the financial result of the year under review as compared with the preceding year. Even though the other income had decreased by Rs. 20,611,900 in the year under review as compared with the preceding year, the increase in the recurrent grants by Rs. 20,250,000, and the decrease in the other operating expenses except for depreciation by Rs. 2,626,447, had mainly attributed to the improvement of the financial result.

In analyzing the financial results of the year under review and 04 preceding years, the surplus of the year 2011 that amounted to Rs. 3,577,607 had reached a sharp improvement of Rs. 18,679,669 in the year 2012, whereas it had declined up to Rs. 5,957,641 in the year 2013. As compared with the year 2013, the financial result had slightly improved in the years 2014 and 2015 by Rs. 7,247,059 and Rs. 9,511,887 respectively. However, by considering the employee remuneration and depreciation on non-current assets, the contribution of the Institute in the year 2011 amounting to Rs. 56,148,788, had reached Rs. 112,390,896 in the year 2015 representing an increase of 15 per cent as compared with the year 2014.

3.2 Analytical Review

The current ratio of the Institute for the year under review was 9.4 whereas it was 8.3 as at 31 December of the preceding year, and 53 per cent of the current assets should comprise cash and cash equivalents. As this money had remained idle without being utilized, the Institute had not drawn its attention on the income that would have been generated by investing in the short-term investments.

4. Operating Review

4.1 Performance

In terms of Section 22 of the Science and Technology Development Act, No. 11 of 1994, the functions of the Institute include:

- (a) To accelerate the introduction of modern technologies to Sri Lanka by Initiating, promoting and conducting research and development in the application of modern technologies, providing research and development support to the Government and private sector undertakings, and training of personnel in modern technologies to meet the needs of Government, and private sector undertakings.
- (b) To promote future studies.
The following matters were observed in the examination of the execution of the said functions in the year under review.

- (i) Due to failure in preparing an initial plan for time limits of completing the research projects, 03 projects commenced in the year 2012 had not been completed, and expenses amounting to Rs. 4,291,497 had been incurred thereon as at 31 December of the year under review.
- (ii) Out of 54 activities planned to be executed within the year under review at an estimated value of Rs. 100,000,000, seven activities had not been executed.

4.2 Management Activities

Although the lease agreement entered into between the Institute and the Sri Lanka Telecommunications Regulatory Commission in the year 2013 in respect of the project “Establishing a Direction Finding Station for Monitoring of Radio Frequency Signals” had expired on 31 January 2015, a new agreement had not been entered into even by June 2016. Nevertheless, the Institute had continuously provided the relevant service, and action had not been taken to recover the lease amount of Rs. 1,185,106 that remained receivable in respect of the year under review and the preceding year.

4.3 Idle and Underutilized Assets

Out of the stocks of instruments and equipment used in researches and tests, stocks valued at Rs.4,022,655 had remained idle without being used since the year 2012.

4.4 Personnel Administration

The approved cadre of the Institute had been 177, whereas the actual cadre had been only 81 by 31 December of the year under review. Hence, the number of vacancies had been 96 or 54 per cent. It was observed that the existence of 61 per cent of vacancies in the top management of the Institute including 03 out of 04 posts of the Deputy Director General with respect to the approved posts of the senior level, 05 out of 07 of the posts of Chief Engineer, 10 out of 13 of the posts of Senior Engineer, and 09 out of 11 of the Senior Deputy Director, had directly affected the delay in completing the projects in progress and failure to conduct new researches.

5. Accountability and Good Governance

5.1 Internal Audit

The following observations are made.

- (a.) As only one officer had been attached to the Internal Audit Division, it had been difficult to proceed with an adequate internal audit.
- (b.) The internal audit plan for the year under review had been prepared with emphasis on the finance and personnel administration. Audit plans had not been prepared to ensure whether the main objectives of the Institute, research and development activities, are accomplished as planned and the progress thereon, nor an internal audit had been conducted in that connection.

5.2 Procurement Process

The following observations are made.

- (a.) In terms of Section 4.1.1 (a) of the Procurement Guidelines, efficient planning of the entire Procurement process is vital to ensure timely completion of the project. However, according to the Procurement Plan prepared, 41 procurement activities valued at Rs. 26,050,000 in respect of works and goods planned in the year 2015, had not been commenced within the year 2015.
- (b.) The telescope valued at Rs. 3,944,000 expected to purchase in July of the year under review in accordance with the Procurement Plan, had not been purchased even by July, 2016.

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.

Areas of Systems and Controls	Observations
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(a) Control of Debtors and Creditors	The delay in the recovery of debtor balances, and settling the creditor balances.
(b) Control of Files	Failure to follow a proper methodology enabling the files to be maintained by each officer separately or as programs.
(c) Accounting	Due to lack of coordination between the Divisions of issuing the invoices, and the Finance Division, the ledger accounts relating to the invoices being issued or cancelled had not been maintained in an up-to-date manner.