

Arthur C Clarke Institute for Modern Technologies – 2016

The audit of financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 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

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 risks 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 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 2016 and its financial performance and cash flow 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 deficiencies were observed in the cash flow statement in terms of Sri Lanka Public Sector Accounting Standard 2.

- (i) The payment of gratuities for the year under review amounted to Rs.171,000. However, this had been shown as Rs.201,000 while computing the cash flow generated from operating activities.
- (ii) The capital grant obtained from the Treasury during the year under review amounted to Rs.79,043,000. However, this had been shown as Rs.85,433,000 while computing the cash flow generated from financing activities.

2.2.2 Accounting Policies

Although it had been stated in the financial statements that the policy of the Institute is to follow the accrual basis for accounting, the total income of Rs.1,504,800 invoiced during the years 2014, 2015 and 2016 for 19 income projects subjected for distribution among officers had been shown as deferred income in the financial position statement instead of being included in the financial performance statements of the relevant years.

2.2.3 Accounting Deficiencies

The following observations are made.

- (a) The computation of provision for accumulated depreciation of office equipment costing Rs.453,295 disposed of, during the year under review had exceeded by Rs.91,637. As a result, the profit on sale of goods had been overstated by Rs.91,637.
- (b) The rent income receivable from the Telecommunication Regulatory Commission for the services supplied during the year under review amounting to Rs.1,035,657 had not been brought to account.
- (c) The expenditure incurred on manufacturing a machine for tea quality grading and colour separating system project during the period 2012 to 2016 amounted to Rs.4,209,066. Of this, a sum of Rs.1,102,586 had been shown as work-in-progress in the financial position statement instead of being accounted as expenditure on research.
- (d) An expenditure of Rs.9,234,889 had been incurred on conducting workshops and seminars for research projects. This had been deducted from capital grants in the statement of changes in equity instead of being shown as research and development expenditure and income from utilization of capital grants in the statement of financial performance.

2.3 Balances Receivable and Payable

The following observations are made.

- (a) The sum of Rs.4,178,088 receivable out of the balances of Rs.8,986,777 as at 31 December of the year under review on behalf of conducting projects and courses had not been recovered even by November 2017. Of these, the balances exceeding 2 years aggregated Rs.1,586,990.
- (b) Action had not been taken to recover the balances of Rs.222,270 exceeding 3 years due from 3 persons and 4 external institutions.
- (c) The balances payable to outsiders for over 3 years aggregated Rs.1,877,338. Action had not been taken to settle these balances.
- (d) Four advances of Rs.195,150 granted during 2014 and 2015 had not been settled even by end of the year under review.

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

The following non-compliances with laws, rules, regulations and management decisions were observed.

	Reference to Laws, Rules and Regulations	Non-Compliance
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(a)	Establishments Code of the Democratic Socialist Republic of Sri Lanka	

	(i) Section 10 of Chapter VII and 2(a) and (c) of the Public Administration Circular No. 21/2013 of 07 October 2013.	The Chief Executive Officer of the Institute had obtained Rs.81,620 as holiday pay for working on 22 holidays of the year under review without obtaining the approval of the Secretary to the Ministry.
	(ii) Section 12.5.4 of Chapter VII	Twenty five per cent only of the initial salary of a post could be paid as acting pay. But, allowances had not been paid to 2 officers who had acted in the post of Senior Deputy Director. Instead, a sum of Rs.2,778,116 had been paid as transport and fuel allowances for the period May 2015 to 31 December of the year under review. As a result, a sum of Rs.2,214,602 had been overpaid to the relevant officers than the amount due to them as acting allowances.
(b)	Public Finance Circular No.380 of 19 January 2000.	The surplus derived from projects such as battery testing and RCCB testing which had not been referred to in the circular should not be distributed among the direct/revolving staff dealing with it. Instead, Rs.831,897 of such income had been distributed among the staff during the year under review.

3. **Financial Review**

3.1 **Financial Results**

According to the financial statements presented, the financial results of the Institute for the year ended 31 December of the year under review had resulted in a deficit of Rs.15,287,030 as against the surplus of Rs.9,511,887 of the previous year showing a deterioration in financial results of the year under review by Rs.24,798,917 as compared with the previous year. The decrease in recurrent grant by Rs.18,622,000 and the increase in operating expenditure by Rs.5,830,487 of the year under review had mainly attributed to the above deterioration in financial results.

An analysis of the financial results of the year under review and 04 prior years show that the surplus of Rs.18,679,669 of 2012 had decreased up to Rs.9,511,887 by the year 2015 resulting in a deficit of Rs.15,287,030 in 2016. However, the contributions of Rs.77,249,669 of the Institute in 2012 had improved up to Rs.90,296,226 as at end of 2016 while readjusting the remuneration of employees and the depreciation for fixed assets in the financial results. However, it had decreased by 10 per cent as compared with the year 2015.

4. **Operating Review**

4.1 **Performance**

In terms of paragraph 22 of the Science and Technology Development Act No. 11 of 1994, the functions of the Institute are to accelerate the introduction of modern technologies 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 and to promote future studies. However, the following matters were observed during the course of examination of performance of the Institute.

(a) Manufacture of a machine for Tea Quality Grading and Colour Separating System Project

- (i) A project for manufacture of a machine for tea quality grading and colour separation with minimum cost had been commenced in 2012. However, a plan had not been prepared regarding the period of completion of the project and the duties to be performed each year. Action had not been taken to manufacture the machine even by end of 2016. The cost incurred on behalf of this as at end of 31 December of the year under review amounted to Rs.4,209,066.

- (ii) A feasibility study report had not been prepared before commencement of the project in order to show how it was expected to introduce new technologies for the tea industries of this country by means of this research project, the speciality expected of this machine rather than the machines presently existing in the market, the expected markets, the expected cost and how this could contribute to the improvement of the tea industry.
- (iii) The electronic science too belongs to the new technology in terms of the Science and Technology Development Act and an electronic science division had been established at the Institute. But, an agreement had been entered into with a private institution for Rs.8,000,000 in March 2016 for further continuation of the above project stating that the Institute was not in possession of the special knowledge required for improvement of the electronic science. The 4th stage of it should have been completed by August 2017 as per agreement. However, a physical verification revealed that the activities relating to the first stage alone had been completed.

(b) Utilization of New Technology for Archeological Research and Mining

An aircraft without pilots valued at Rs.10,564,677 had been purchased in August 2016 to obtain photocopies for archaeological research and mining activities for the Department of Archeology. Two officers had been trained abroad by incurring an expenditure of Rs.110,322 with regard to its operation before purchasing the craft. In spite of this, the craft had been damaged during its maiden flight on 30 November. The craft had been repaired by sending it to the country of origin, However, a physical verification revealed that it was not fit for operation even by 30 October 2017.

4.2 Management Activities

The following observations are made.

- (a) The lease agreement entered into by the Institute with the Sri Lanka Telecommunication Regulatory Commission in 2013 to give on hire the telecommunication tower belonging to the Institute had expired on 31 January 2015. But, it had been made use of, from February to July 2015 without renewing the said agreement. The rent of Rs.638,134 receivable by the Institute in this connection had not been recovered.

Further, an agreement had been signed for a two year period of 01 August 2015 to 31 July 2017. However, the rent of Rs.2,079,768 recoverable for the said period also had not been recovered even by 30 November 2017.

(b) The National Centre to obtain and distribute Global Observation Data

A project for establishing a satellite centre had been commenced with the participation of the government of China with the objective of motivating the utilization of space technology for development of the country without carrying out a feasibility study. According to the memorandum of understanding entered into with the Chinese Agency, both parties should participate in selecting a suitable site for establishing the Centre. However, a land had been selected without the participation of the Chinese Agency on the discretion of the Institute. However, the Chinese Agency which made an observation tour subsequently had stated that the land was not suitable for the project and as such action should be taken to select a land elsewhere. However, the Institute had paid a sum of Rs.3,545,744 to the Urban Development Authority on 16 December, 2016 to erect a fence around the land. However, the fence concerned had not been erected even by November 2017 and action had not been taken to recover the amount concerned.

- (c) Stocks costing Rs.4,091,099 had been lying idle since 2012. However, action had not been taken to identify stocks which could not be used and the stocks that were slow moving for either disposal or for making provision in the financial statements.
- (d) Recommendations had been made at the preliminary inquiries to recover the loss of Rs.50,063 caused to vehicles during the year under review from the driver. However, action had not been taken to recover the amount even by August 2017, the date of audit.

4.3 Staff Administration

The approved cadre as at 31 December of the year under review was 177 and the actual cadre was 91 resulting in vacancies in 86 posts. The following observations are made in this connection.

- (a) The vacancies existing in 29 posts as at 01 January of the year under review were 96. Of these, newspaper advertisements had been published for filling the vacancies in 9 posts only and of these, recruitments had been made for 8 vacancies in 2 posts only.
- (b) This Institute which functions with the objective of research and development activities also functions as the Institute with specialized priority in micro electronic, telecommunication, information technology, space technology, robo science and new technology subjects and other related fields. The existence of 70 vacancies in 34 posts consisting of officers directly connected with these fields could deter the achievement of objectives of the Institute and as such the problems faced with regard to filling of vacancies should be resolved. But, action had not been taken accordingly.

- (c) According to Section 13.3 of Chapter II of the Establishments Code of the Democratic Socialist Republic of Sri Lanka, acting appointments could only be made as a temporary measure till such time a permanent appointment is made and a permanent appointment should be made without delay provided the services of a full time officer is needed. But, action had not been taken up to 30 May 2017 to fill the vacancies in 4 posts of Senior Deputy Directors for which acting appointments had been made from the years 2013 and 2015.

5. **Accountability and Good Governance**

5.1 **Action Plan**

- (a) The estimated amount required for each function, except 25 functions had not been shown out of the 77 functions included in the Action Plan for the year 2016. Meanwhile, the actual amount spent had not been shown with regard to any project even during the evaluation of performance at end of the year.
- (b) By carrying out a percentagewise evaluation while reviewing the extent and progress expected to be executed by each project during the year, the progress of the Institute during the existing year could be compared with the financial cost incurred which could also facilitate best planning of activities during the ensuing year. However, such disclosures had not been made in the Action Plan and the progress reports.

5.2 **Procurement Plan**

Procurement of 60 goods and services with an estimated value of Rs.24,064,881 included in the procurement plan prepared for the year under review had not been fulfilled during the year. Further, 14 procurements with an estimated value of Rs.20,910,419 included in the procurement plan of 2016 due to inability to purchase them in 2015 had not been completed in the year 2016 too. Accordingly, it was unable to ascertain in audit whether the procurement activities had been efficiently planned.

6. **Systems and Controls**

Deficiencies 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 systems and controls.

Systems and Controls

Observations

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| (a) Human Resources Management | (i) Prior approval should be obtained for working on holidays. But, approval had been obtained after performing the work. |
| | (ii) An authorized officer had not certified the correctness of arrival and departure shown in the register of attendance. |
| (b) Financial Control | (i) "Paid" stamp had not been affixed on vouchers while making payments for work on holidays so that repetition of payments could not occur. |
| | (ii) Claims for holiday pay had not been prepared on the required specimen forms. |
| (c) Control over Operations | (i) Files containing full details such as invitations for foreign trips, applications and letters of approval had not been maintained. |
| | (ii) Letters denoting resumption of duties had not been filed of record in the foreign travel files or personal files. |