

Arthur C Clarke Institute for Modern Technologies - 2017

The audit of financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2017 comprising the statement of financial position as at 31 December 2017 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 2017 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

Action in terms of Paragraph 47 of the Sri Lanka Public Sector Accounting Standard 03 had not been taken in connection with a sum of Rs.363,646 out of the research expenditure of Rs.4,209,066 incurred by the Institute in respect of the research project called Manufacture of a machine for Tea Quality Grading and Colour Separating System Project, during the period from 2012 to 2016.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) The rent income amounting to Rs.466,043 receivable from the Telecommunication Regulatory Commission for the year under review relating to the services supplied by the Institute had not been brought to account.
- (b) A sum of Rs.3,545,744 receivable from the Urban Development Authority had been shown as work-in-progress constructions in the financial statements of the year under review instead of being accounted as receivables.

2.3 Balances Receivable and Payable

The following observations are made.

- (a) The rent income of Rs. amounting to Rs.729,296 receivable relating to the from November 2014 to July 2015 in terms of the agreement entered into for the supply of services to the Telecommunication Regulatory Commission had not been recovered even by August 2018.

- (b) The total value of trade and other receivables older than 03 years amounted to Rs.1,926,039 and action had not been taken to recover that amount.

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 surplus of Rs.10,164,058 as against the deficit of Rs. 15,287,030 of the previous year, thus showing an improvement in financial results of the year under review by Rs.25,451,088 as compared with the previous year. Even though expenditure for the projects had increased by Rs.2,818,000 and employees' remuneration had increased by Rs.7,264,000, increase in the receipt of recurrent grants by Rs.36,415,000 during the year under review had mainly attributed to the above improvement in financial results.

An analysis of the financial results of the year under review and 04 prior years shows that the surplus of Rs.5,957,641 in the year 2013 had increased up to Rs.9,511,887 by the year 2015 and it had turned out to be a deficit of Rs.15,287,030 in 2016. Nevertheless, it had increased up to a surplus of Rs.10,164,058 again in the year 2017. However, the contributions of Rs.71,098,467 of the Institute in 2013 had improved up to Rs.123,835,922 in the year 2017 while readjusting the remuneration of employees and the depreciation for fixed assets to the financial results.

4. Operating Review

4.1 Performance

4.1.1 Fucntionality and Review

The following observations are made on the examination carried out relating to the performance of the Institute.

- (a) For a project for manufacture of a machine for tea quality grading and colour separation with minimum cost commenced in the year 2012, an expenditure of Rs. 4,209,066 had been incurred by 31 December 2016. However, due to weaknesses existed in the process implemented in that connection, an agreement had been entered into with a private institute in the year 2016 for the manufacture of this machine at a cost of Rs.8,000,000. Even though manufacturing of the machine should have been completed by August 2017 and technical assignments should have been obtained thereon in terms of the agreement of this project which consisted of 4 phases, works of the second phase were in progress even by August 2018.

- (b) Due to the reasons such as lack of resource persons, lack of demand for the courses and not revising the course contents relating to 06 courses planned to be conducted by 03 Divisions of the Institute, those courses had not been conducted during the year under review. Although there is a media unit in the Institute, an adequate programme had not been implemented for the promotion of those courses involved in the modern technology was observed.
- (c) The Media Divison had commenced a RFID Library Automation System Project in the year 2013 in collaboration with the Information Technology Division and expenditure of Rs.93,486 had been incurred by 31 December of the year under review. Nevertheless, it had not been completed even by August 2018.
- (d) Even though development of combined management information system for the Institute had been carrying out from several years, it had not been completed up to August 2018. A sum of Rs.75,000 had been spent therefor by 31 December of the year under review.
- (e) Although acceleration of the introduction of modern technology to Sri Lanka is the main objective of the Institute, provisions amounting to Rs.3,700,000 made for the capacity development of the staff engaged in the research and development activities of the Institute had not been utilized. Further, a Human Resources Plan had not been prepared for the year under review.
- (f) Although it had been expected to commercialize three modern technology projects introduced by the Institute in the year under review, any technology had not been commercialized.

4.2 Management Activities

The following observations are made.

- (a) For a project for the establishment of a National Centre to obtain and distribute Global Observation Data, the Institute had entered into a memorandum of understanding with a China Agency and there was no any plan relating to that project. Further, without carrying out a feasibility study, a land for which the Institute did not have legal right had been selected for the project. 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. Nevertheless, action had not been taken to commence the project by properly taking over of a suitable land even by August 2018.
- (b) Due to lack of a binocular which is an essential equipment for the National Astronomy Observation Project implemented from the year 2015, activities of that project had not been carried out during the years 2016 and 2017. Although a binocular worth Rs.3,284,150 had been purchased in February 2018, quality asuarance thereon had not been done up to August 2018 and as such the above project had been further delayed.

- (c) The Institute had initiated a project for creation of Agricultural Drought Monitoring and Early Warning System. This project was in the stage of examining whether the recognition of dryness of the plots through this system and the naked eye was equal. Although the process of obtaining data by naked eye observations had been entrusted to 07 institutions in the agricultural field, those institutions had not provided the necessary data for this purpose. Nevertheless, the Institute had spent a sum of Rs.875,725 in respect of conducting awareness programmes for the agricultural institutions.
- (d) The Institute supplies services of installing high technology security camera systems and only one order had been received therefor during the period from 2012 to 2017. An income of Rs.8 million had been earned therefrom and the Institute had not showed interest in taking necessary steps for increasing opportunities for further supply of those services to the other clients.

4.3 Operating Activities

Stocks costing Rs.4,091,099 had been lying idle since 2012. However, action had not been taken to identify the stocks which could not be used and the stocks that were slow moving and dispose of such stocks or take another appropriate measures.

4.4 Idle Assets

For the purpose of taking photographs at the archeological research and excavation sites and for the necessities of the other Government institutions, a drone camera had been purchased at a cost of Rs.10,564,677 in the year 2016. Nevertheless, it had not been used for any purpose even by August 2018.

4.5 Staff Administration

The following observations are made.

- (a) The approved cadre as at 31 December of the year under review was 177 and the actual cadre was 102, thus resulting in vacancies in 75 posts.
- (b) Although the vacancies existed in 27 posts as at 01 January of the year under review were 85, newspaper advertisements had been published for filling vacancies in 8 posts only and 18 vacancies in 04 of the above posts only had been filled during the year.
- (c) Existence of vacancies for more than 50 per cent of the posts directly involved in the research and development activities from several years and difficulties find in the retention of employees of those posts may adversely affect in reaching the expected objectives of the Institute. Nevertheless, action had not been taken to review the issues existing thereon and solve the such issues.

- (d) 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, necessary action had not been taken during the period of 5 years from 2013 to 2018 to fill the vacancies in 3 posts of Senior Deputy Directors and one post of Director for which acting appointments had been made from the years 2013 and 2015.

5. Sustainable Development Goals

5.1 Achivement of Sustainable Development Goals

Every State institution shall take steps in compliance with the Agenda 2030 of the United Nations Sustainable Development Goals. Nevertheless, Arthur C Clarke Institute for Modern Technologies had not taken steps to identify the sustainable development goals and targets involved in the functions coming under the purview of the the Institue, milestones to be reached and the indicators to evaluate the progress of reaching those targets. Further, requirement of financial provisions, skilled employees and physical facilities needed for the development of correct data base for measuring the progress of reaching those targets, too, had not been recognized.

6. Accountability and Good Governance

6.1 Procurement

The following observations are made.

- (a) In terms of Guideline 8.9.1 (b) of the Government Procurement Guidelines, a formal agreement should be entered into for the goods or services contracts which exceed Rs.500,000. Nevrtheless, agreements had not been entered into for 11 procurements valued at Rs.17,968,823.

- (b) Installation of Audio Visual and Lightning System for the Auditorium
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A contract worth Rs.6,222,011 (Inclusive of tax) for the supply, installation, testing and activating of an Audio Visual and Lightning System for the Auditorium had been awarded to a contractor.

- (i) Although the necessity of a system as indicated above had been pointed out by the Administration Division on 22 July 2016, a period of monre than one year up to November 2017 had been taken for the award of the contract.

- (ii) An advance of Rs.1,127,872 had been paid to the contractor and certain amount of goods had been supplied. Nevertheless, due to the matters such as not preparing the floor of the Controller Room in keeping with the requirements, not supplying the necessary furniture and due to water leakage in the Auditorium, it had not been possible to complete the contract by installing other articles even by August 2018. Nevertheless, the performance bond obtained in this regard had expired on 22 August 2018.

7. **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

(a) Procurement Process

- (i) Although it had been stated that bids invitations were sent by registered post, there were no evidence letters in the files in support of that.
- (ii) The Procurement Progress Report had not been prepared in a manner able to compare with the Procurement Plan.
- (iii) Delays had occurred in obtaining performance securities.
- (iv) In case of failure in the supply of goods or service before the prescribed date in terms of conditions stipulated in the purchasing order when purchasing goods and services, the period for the supply had been extended instead of recovering charges for delays.
- (v) Occuring delays in the issue of Goods Receiving Notes and existence of unissued goods.

(b) Preparation of Progress Reports

- (i) Physical progress had not been shown in percentages in the Progress Reports.
- (ii) Financial progress of each activity included in the Action Plan had not been stated separately in the progress reports.