

**1.1 Opinion**

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The audit of the financial statements of the Arthur C Clarke Institute for Modern Technologies for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 Finance Act, No. 38 of 1971. My comments and observations which I consider should be reported to Parliament, appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the Institute as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

**1.2 Basis for Opinion**

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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 opinion.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 determines 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 intends 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 Sub-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 of the Institute.

## 1.4 Scope of Audit (Auditor's Responsibility for the Audit of the Financial Statements)

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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 audit 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 scepticism 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, 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 Institute's 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 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 audit report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, 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 the Institute has performed according to its powers, functions and duties; and
- Whether the resources of the Institute had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Accounts Receivable and Payable

### 1.5.1 Receivables

	<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a)	Not enough action had been taken to recover the total debtors' balances of Rs. 1,604,037 for more than five years.	Out of the total debtor balance mentioned in the audit observation, arrangements have been made to recover the debtor balance of Rs. 22,644. Reminders have been sent on various occasions in this regard and the relevant Ministries have also been informed.	Action should be taken to recover the balances.
(b)	No action had been taken to recover the invoices issued for providing services on 06 occasions the total value of Rs. 195,858 and Rs. 2,292,945 for invoices which services provided to the Telecommunications Regulatory Commission for a period of 24 months from 1st August 2017 to 31st July 2019 without any contractual obligation.	Rs. 52,500 which had been provided on 06 occasions has been received. Reminders regarding other receipts have been made by the Accounts Division. As per the agreement, the Telecommunications Regulatory Commission has received the service for the relevant period invoiced as receivable income and action will be taken to recover the amount due.	Action should be taken to recover the money for the invoice expeditiously.

## 1.5.2 Advance

	----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
a)	According to Financial Regulation 371 (5), after the issuance of an sub imprest the sub imprest has to be repaid to the Accounts Division within 10 days after the completion of the relevant work, but in 30 cases the aggregate amount of Rs.2,156,900 had been delayed to repay from 2 to 53 days.	The sub imprest is issued on the authority and approval of the various projects and programs of the institution subject to the condition of settlement as soon as the relevant work is completed. However, due to various practical difficulties and unavoidable delays in institute internal procedures, delays in final settlement have been occurred in some cases	Action should be taken to settle the sub imprest as soon as the work is completed in accordance with Financial Regulations.
b)	According to Financial Regulation 371 (2) (b), an Accounting Officer can only give ad hoc sub imprest up to a maximum of Rs. 100,000 at a time to staff officers only for a specific function. In cases where it is necessary to exceed these financial limits, the accounting officer should obtain the prior approval from the General Treasury by requesting the recommendation of the Chief Accounting Officer, but in three cases the aggregate amount Rs. 560,000 had been granted exceeding the limit of Rs 100,000 without prior approval of the General Treasury.	Items required for the design and development of the working prototype of the Unmanned Aerial Vehicle (UAV) project with cash advance are available only in the online international market and purchase design specific parts directly from an international online store using a credit card (with cash advance) Procurement manual The Procurement Guidelines for 2018 were conducted in accordance with the guidelines of 2.5 (c) and 3.1.6. Since the company did not have a company credit card, a personal credit card (with a cash advance) was used.	When advances are made in excess of the approved limit in accordance with Financial Regulations, action should be taken to make advances upon the approval of the General Treasury.

**2. Financial Review**

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**2.1 Financial Results**

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The operating result of the Institute for the year under review had been a surplus of Rs.3,457,220 as compared with the corresponding deficit of Rs.17,518,946 in the preceding year, thus indicating an improvement of Rs. 20,976,166 in the financial result. Capacity Building Expenditure Rs.41 million, but government grants increased by Rs. 60 million and other revenue increased by Rs.2 million had been the main reason for the said improvement.

**3. Operational review**

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**3.1 Identified losses**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
It was observed that the company had lost the revenue of the telecommunication tower which was used to generate revenue for institution from 1st August 2019 due to improper maintenance and failure to provide it to the customers. The revenue lost from July 2019 was Rs.102,763 per month as per the agreement.	From 2017.08.01 to 2019.08. 19 the Telecommunications Regulatory Commission obtained the relevant services from the tower located at our institution and during that period they did not send any request regarding the maintenance of the tower to the institution. The institution is currently working on the tower as it has received both the requested technical report and the lightning conductor safety report.	The telecommunication tower should be properly maintained to generate revenue and services.

**3.2 Management Inefficiencies**

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<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) The warranty period commence from 12 October 2015 of the Light Measurement system purchased for performance testing and energy performance testing of CFLs and LED bulbs with a two year warranty and ending date was 11 October 2017 and on that date when is in warranty	The instrumentation system is inactive due to various unrelated faults as mentioned in the audit observation, as the faults of the lamp test system and the associated accessories have occurred in two cases and the warranty period of the relevant machine has expired. Therefore, it also took	If repairs cannot be made expeditiously during the warranty period, additional equipment should be obtained from the same company to maintain the system continuously.

period, the Power Analyzer (xitron 2801) worth Rs. 925,000 was out of order. Since this was an event that occurred during the warranty period, arrangements should be made to have it repaired or replaced with a new machine and on 25 June 2019 a new machine was purchased from the same company. Buying a new one without a cover on the machines during the warranty period was problematic. Also, by 17 October 2017, the lamp test system had malfunctioned due to a malfunction of the mini computer. Accordingly, this system had been inactive for a period of 13 months from 11 October 2017 to 09 November 2018 and by the day more than a week after the errors were rectified, that is, by 19 November 2018, Rs. 2,352,000 worth of Amatek Power Supply equipment was also out of order. At the end of two years in the system purchased at a cost of Rs. 15,479,510, the additional cost incurred due to the inactivation of 03 additional devices was Rs. 3,277,000.

- (b) It was observed that although the Communications and Technology Division had jointly completed their research on the use of RFID technology in the library premises as a research and development activity, the institute had not prepared a suitable program to spread the technology in the country. PURNA software developers have been contacted by librarians and related technical teams to establish two additional areas of database records so that 9000 books in the Arthur C. Kalak Library can be transitioned between the PURNA software database and the RFID LAS firmware. This Action should be taken to provide social and economic benefits through completed research.

will be completed this year and will be a completely local production and will be marketed in the future as a collaboration with a private company with a special need for libraries.

- (c) The stock of Rs. 4,104,435 which had not been used for more than five years had not been taken action to use a useful purpose of the institution or sold to other institutions in need according to the prescribed procedures. Most of the stock items are electronic items related to research and development projects and they need to be used from time to time depending on the nature of the project. It is also not possible to buy these electronic items directly from the open market. Therefore, the company has a need to maintain high value assets in line with development and research needs. But stock items that do not move for a long time will be identified and action will be taken in the future. When purchasing stock items, the need should be identified and purchasing should be done accordingly and action should be taken to make maximum use of the existing stock
- (d) The agreement signed with the Telecommunications Regulatory Commission of Sri Lanka for a period of one year from 09 August 2016 had expired on 31 July 2017. Although Arthur C. Clarke Centre had drafted an agreement for a period of 05 years from 01 August 2017 to 31 July 2022 and submitted it on an annual renewal basis, the agreement had not been signed by the Telecommunications Regulatory Commission of Sri Lanka as at the audit date of February 2020. Also, the service at the Arthur C. Clarke Centre was discontinued after 31 July 2019. Thereafter the draft agreement for 05 years from 2017.08.01 to 2022.07.31 was referred by the Institute to the Telecommunications Regulatory Commission on 02.05.2018. As there was no response, reminder letters were sent on 07.08.2018, 21.09.2018 and 30.11.2018 respectively. The Telecommunications Regulatory Commission on 28.03.2019 has approved this draft agreement for a period of 05 years and accordingly instructed the institution to approve the relevant draft agreement and prepare and send the final agreement. Accordingly, in a letter dated Formal actions must be taken to get the agreement signed.

03.05.2019, the Institute forwarded the relevant agreement in two copies to the Director General of the Telecommunications Regulatory Commission for signature.

- (e) Letter No. TRC / SM / FMMS / RMS / KAT / GEN / 165 dated 17 June 2019 requesting the Telecommunications Regulatory Commission to submit a Certificate of Fitness for the Telecommunication Tower with a Technical Assessment of Conformity by 19 August 2019. It was observed that due to non-submission of that report, the service of the tower of the Arthur C. Clarke Center had been discontinued after 31 July 2019.
- Despite the proposed agreement from 01.08.2017 to 31.07.2022, the Telecommunications Regulatory Commission again requested a Quality Assurance Report on the Tower and a Report on Lightning Conductor Safety on 17.06.2019. For the obtaining of the technical report of the tower was sent to the University of Moratuwa and the report on lightning conductor safety was sent to the head of the institute's electronics division. The technical report submitted to the University of Moratuwa was submitted at the end of January 2020 and the two relevant reports were submitted to the Telecommunications Regulatory Commission in early February. According to the audit inquiry, a decision is to be taken after obtaining the relevant service in consultation with that institution.
- The institution should take necessary actions to maintain revenue generating projects properly.



### 3.3 Operational Inefficiencies

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
<p>Although the library provides opportunities for school children, university students and those interested in the field of subject matter.</p>		
<p>(a) It was observed that most of the books in the library were not use and the number of readers who did so during the year under review was less than 10.</p>	<p>As the library is a knowledge dissemination institution, in addition to the institute's technical and research staff readers and interns, the library also employs the aforementioned outsiders, both virtually and through various social media.</p>	<p>There should be a systematic arrangement for taking out and using books.</p>
<p>(b) It has been observed that some books of a higher value and subject matter are retained by a limited number of persons from the date of purchase, which is an act contrary to the internal rules and regulations of the Library as well as it was also observed that there was an escape an opportunity for other interested parties to use those books.</p>	<p>Certain books of value are available for reference by engineers and researchers engaged in specific research, and any reader who inquires about the book is immediately notified of the book being kept and arrangements are made for those who wish to obtain the book.</p> <p>Also, the database that has been introduced has arranged to automatically issue a reminder letter about the books you have taken out.</p>	<p>Library rules must be followed.</p>

### 3.4 Inactive or underutilized property, plant and equipment

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
<p>Two RFID gates required for the installation of a database using RFID technology to test lending books from library in 2018 at a cost of Rs. 1,375,400 had been purchased and the physical inspection revealed that they were kept in the library premises without being used.</p>	<p>The RFID Library Automation (RFID-LAS) system was developed by Arthur C. Clarke in association with KOHA (Database), an internationally open source library management system. RFID LAS was deployed to the Arthur C. Clarke Centre library as a pilot project during the project flow. PURNA is the management software used in the library of Arthur C. Clarke Centre.</p>	<p>The need should be identified correctly and purchases should be made and the purchased goods should be used for the relevant purposes.</p>

(A closed system developed locally by a private company).

Because there are so many differences between the record areas of the library book database in the KOHA and PURNA database management systems, the integration of RFID LAS directly into the Arthur C. Clark Centre library did not occur in practice.

### 3.5 Procurement Management

Audit Observation	Comments of the Management	Recommendation
<p>04 software worth Rs. 6,263,252 had been purchased directly from the software owners' companies and at the time of purchase of such software, 10% of the proceeds from the sale of the software by the software owner's company in accordance with the Inland Revenue Act will be used to purchase the software. The manufacturer had refused to pay the tax of Rs. 695,918 for two softwares as the bids were not mentioned in the bidding list. As a result, Arthur C. Clarke Center had paid Rs. 695,918 in taxes to the Inland Revenue Department (as calculated by the Inland Revenue Department).</p>	<p>The Bank of Ceylon stated that a tax clearance certificate issued by the Inland Revenue Department is required to make an international payment for the purchase of software, and at the time of inviting tenders, the Bank of Ceylon stated that this requirement was not included in the tender terms.</p> <p>However, the above surcharges have to be made as the company did not have any prior knowledge of the surcharges and tax applicables in such transactions. However, in the future, the methodology for conducting such international transactions will be systematically studied and the relevant documents will be prepared.</p>	<p>Procurement guidelines should be properly studied and deals should be entered into to ensure that tax revenue is collected from suppliers in a timely manner.</p>

### 3.6 Human Resource Management

----- <b>Audit Observation</b> -----	----- <b>Comments of the Management</b> -----	----- <b>Recommendation</b> -----
(a) In the year 2019, servants were recruited for 17 vacancies and by the date of the audit, it was observed that three of them (Driver -02, Engineering Assistant) had resigned. In addition, it was observed that out of the selected candidates in the interviews, two applicants (Superintendent and Office Assistant) did not report for duty. The organization did not focus on recruiting more suitable employees and formulating a suitable program to retain employees.	Recruitment of employees to the organization is done in a formal manner by an interview board, taking into account the goals of the applicants and the background of the organization. However, retaining an applicant is a difficult task in the long run as the salary structure and other benefits of the organization are not sufficient in terms of similar private sector jobs and competition. The company has been facing the trend of leaving the service for a short period of time due to other jobs and higher education opportunities abroad.	Appropriate arrangements should be made to retain employees within the organization.
(b) The letter dated 20 March 2018 sought the approval of the Department of Management and Services to fill the vacancies and observed that the number of vacancies referred for approval was less than the number of vacancies.	In approving the filling of existing vacancies in the posts of Research Engineer, Engineering Assistant, Electronic Engineer and Management Assistant, the Department of Management Services approved only the required number of vacancies which are sufficient to keep the duties of the institution inactive at present.	Steps should be taken to fill the vacancies required to achieve the goals of the organization.
(c) By the letter dated 13 July 2018, the institute had not taken action to recruit an officer for the post of Senior Research Scientist approved by the Department of Management Services and to fill the vacancy for the post of Bookkeeper which has been vacant for about 05 years. Rs. 90,000 had been paid for the book keeping activities to a external organization in the year ending 31 December 2018.	Ten (10) posts were approved by the Department of Management Services on 13.07.2018 and the employees were recruited by posting advertisements on the need to keep the duties of the institution inactive and to recruit a Senior Research Scientist and Bookkeeper after the election period 2020 Relevant approval of the Department of Management Services has been sought for the recruitment for the year and the relevant recruitments will be made in the future after receiving it.	That action should be taken immediately to fill the vacancies.

