

## Arthur C Clarke Institute for Modern Technologies - 2020

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### 1. Financial Statements

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#### 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 2020 comprising the statement of financial position as at 31 December 2020 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 2020, 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 determine 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 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 intend 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 financial reporting process.

As per 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 Audit Scope (Auditor's Responsibility on 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 auditor's 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, misrepresentations, 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 Company'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 Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's 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 auditor's report. However, future events or conditions may cause the Company 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 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws Rules, Regulation etc.	Non Compliance	Comments of the Management	Recommendation
Section 5.4.4 and Section 5.4.8	Although the institute had requested for an extension of advance securities worth Rs. 915,798 for the purchase of furniture worth Rs. 3,981,730 for the auditorium of the institute, the supplier had not made such extensions and the institute had not taken any other action in this regard. Also the Certificate of Performance should be valid for 28 days beyond the due date of completion or delivery of goods but on purchase of furniture for main auditorium worth Rs. 3,981,730 and Rs. 5,639,360 for audio system the performance security offered by the suppliers have expired and but have not been extended.	Although the institute requested for an extension of the security period for the advances mentioned in the audit, there was no need to extend it later as the procurement was finished more than 90 per cent (90%) at that time and all the purchased equipment had been provided to the institute and I would like to inform you that the procurement was done in accordance with the terms and conditions, except for a delay due to a technical problem with the installation of the equipment. Actions have also been taken to charge late chargers of up to 10 per cent (10%) for procurement delays. When purchasing furniture and audio systems for the main auditorium, more than ninety percent of the work involved is completed within the validity period of	The advance security and the extension of its term should be duly done and obtaining the performance security and period of its should be extended and maintained as required.

performance security. Actions had been made to charge the late chargers subject to a maximum of 10 per cent (10%) due to errors due to certain technical issues .

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs. 2,509,743 and corresponding surplus in the preceding year amounted to Rs. 3,457,220. Therefore, a decline amounting to Rs. 947,477 of the financial result was observed.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Comments of the Management	Recommendation
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<p>(a)The Urban Development Authority was selected for the construction of fence around 10 acre land at Pitipana, Homagama out of the procurement process and without a guarantee, even an advance can be given to start the fence construction work the total contract value of Rs. 3,543,744 had been paid to the relevant institution without guarantee, the fence had not been erected as at 31 December 2020, and that project had been stopped and the institution had failed to recover the money.</p>	<p>The Ministry of Western and Municipalities has allocated 10 acres of land at Homagama Pitipana to Arthur C. Clarke Institute under the Technology City Project for the proposed project to capture and distribute Earth observation satellite data required for Sri Lanka. Allocation of lands for institutions engaged in universities and other research and development activities under the Technology City Project was done by the Urban Development Authority. This 10 acre land in Pitipana, Homagama had been allotted to our institution and as the land was not clearly demarcated, the relevant</p>	<p>The procurement procedures should be followed and the amount due should be recovered.</p>
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amount for the construction of a fence around it has been paid to the Urban Development Authority, the institution which made that coordination. As it was a difficult task to select other alternative agencies for this purpose, the best possible decision for the construction of the relevant fence should be handed over to the Urban Development Authority. However, due to some technical issues that arose later and the protests of the residents, the relevant transfers had to be made on several occasions. Therefore, it is too late to complete the construction of the fence. However, once the allocation of the proposed new land by the Urban Development Authority is confirmed, the money related to the construction of the fence for that land will be reimbursed. Therefore, the relevant payment is a formal payment made to a statutory body at the state level and even if there is a delay, it is an effective transaction and will be used in the future.

<p>(b)The Telecommunication Tower owned by the company has been leased out to the Telecommunication Regulatory Commission on a lease basis and the outstanding income for the period up to August 2019 was Rs. 2,292,945 from the receivables as per the 05 year Agreement entered into with the Telecommunications Regulatory Commission from</p>	<p>As stated in the audit observation, TRCSL has informed us in a letter that although it has signed a five year valid agreement between the company and TRCSL, the relevant tower will not be used as per the lease agreement before that expiry date that is 01.08.2019. Accordingly, an invoice has been issued for the income due under the lease agreement up to that date. Its</p>	<p>Action should be taken to recover the arrears and appropriate action should be taken regarding the tower.</p>
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31st August 2017 to 31 July 2022. The arrears had not been recovered by the end of the year under review. It was observed that the tower was now in a state of disrepair due to non-implementation of a proper maintenance plan.

total value is Rs. 2,292,945.12. Due to the delay in the payment of the said amount, the Director General of the institution has been reminded several times to take action to settle the arrears. Reminders have been issued asking for action to be taken to settle the arrears. We will take action to recover the amount due to the institution as we have so far failed to make those payments. The signal tower is more than 25 years old and with the technology currently in use it is less likely to lease such a tower and an engineering committee of outsiders has recommended that such a contractual investment be not effective. As per the decision of the committee, necessary steps have been taken to remove the tower and avoid the dangerous situation that exists with it.