

Arthur C. Clarke Institute for Modern Technologies - 2024

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Arthur C. Clarke Institute for Modern Technologies (“Institute”) for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy 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 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 report to Parliament appear in this report.

In my opinion, except for the effects of the matters described in paragraph 1.5 of this report, the accompanying financial statements give a true and fair view of the financial position of the Institute as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Qualified Opinion

My opinion is qualified on the matters described in paragraph 1.5 of this report.

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 qualified opinion.

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

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’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 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’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Institute's 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

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 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 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 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.

1.5.1 Audit Observations on the preparation of Financial Statements

1.5.1 Non-Compliance with Sri Lanka Public Sector Accounting Standards

	Non Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	According to paragraph 92 of Sri Lanka Public Sector Accounting Standard No. 07, the gross carrying value of property, plant, and equipment costing Rs.280,927,441 which had been fully depreciated but still in use had not been disclosed in the financial statements.	According to paragraph 92 of Sri Lanka Public Sector Accounting Standard No. 07, action will be taken in the future.	According to the Sri Lanka Public Sector Accounting Standard, the gross carrying amount of fully depreciated but still in use assets should be disclosed in the financial statements.
(b)	During the year under review, capital grants amounting to Rs.19,137,133 received from the Treasury had been recognized as government capital grants under equity, instead of being recognized as revenue from non-exchange transactions in accordance	The benefit for development expenditure relating to the year under review has been included as revenue in the statement of financial performance and simultaneously deducted as amortization in the same statement, in	According to the Sri Lanka Public Sector Accounting Standards, Treasury grants should be recognized as revenue.

with Sri Lanka Public Sector Accounting Standard No. 11. Furthermore, Treasury grants received in previous years had also not been recognized as revenue for the respective years as required by the Standard.

compliance with Sri Lanka Public Sector Accounting Standard No. 11.

1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) Although the income for the year under review relating to the 11 courses commenced during the current and previous year amounted to Rs.4,314,191, the income was overstated by Rs.750,809 as it was identified as Rs.5,065,000 in the Financial Performance Statement.	In accordance with the institutional revenue recognition policy, the income in the year 2023 has been recognized as deferred income, and in the year 2024 it has been recognized as revenue.	The income for the year under review should be accurately identified and accounted for.
(b) Interest income of Rs.2,806,177 relating to investments of Rs.33,696,000 out of investments of Rs.139,704,380 at the end of the year under review had not been recognized as income.	Action will be taken to correct this in the future.	The interest income relating to the year should be accurately recognized and accounted for.
(c) Although the interest income for the year under review for investments of Rs.17,115,565 in treasury bills and Rs.88,892,815 in fixed deposits was Rs.7,811,967, the interest income was understated by Rs.907,221 as it was accounted for as	Action will be taken to correct this in the future.	The interest income relating to investments for the year under review should be accurately recognized and accounted for.

Rs.6,904,746 in the Statement of Financial Performance.

1.6 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

	Reference to Laws, Rules and Regulations etc.	Non-compliance	Management Comment	Recommendation
(a)	Sections 2(1) and 102 of the Inland Revenue Act, No. 24 of 2017	Actions had not been taken to register for income tax or to obtain tax exemption.	Since VAT registration is exempted when earning, it is not necessary to register for income tax.	Action should be taken to register for tax or obtain exemption in accordance with the Inland Revenue Act.
(b)	Financial Regulations 371 (2) of the Democratic Socialist Republic of Sri Lanka as amended by Public Finance Circular No. 01/2020 dated 28 August 2020	Although sub imprest should be given only to staff officers, a total of Rs.1,799,650 had been given to non -staff officers in 11 occasions.	Although sub imprest should be paid only to staff officers, they had to be issued to non-staff officers due to staff vacancies.	According to the financial regulations, it is not legal to grant sub imprest to non-staff officers and if there are staff vacancies, recruitment should be expedited.
(c)	Financial Regulations 876 of the Democratic Socialist Republic of Sri Lanka as amended by Public Finance Circular No. 01/2020	Although it has been stated that it is strictly prohibited to create new funds in any manner other than through an Act passed by Parliament in specific cases to maintain public	A series of meetings have been held under the initiative of the Ministry of Finance regarding the collection of revenue and incurring expenditure outside the budget approved by the Appropriation Act. Based on the agreements and decisions reached there, these matters will be discussed extensively and decisions will be made in	Funds should be maintained in accordance with the provisions of circulars and financial regulations.

dated 28 financial the future.
 August 2020 discipline, the
 Institute had
 maintained four
 funds for the
 purposes of
 research,
 development,
 encouragement
 of new
 technological
 innovations, and
 development of
 infrastructure
 facilities
 required for the
 application of
 astronomy and
 space, with a
 total balance of
 Rs.99,341,390
 at the end of the
 year.

- (d) Section 6.6 A copy of the The annual report for the A copy of the draft
 of the draft annual year 2023 is scheduled to be annual report must be
 Operations report for the submitted to the Cabinet submitted to the
 Manual for year under Sub-Committee in the future. Auditor General along
 Public review had not with the financial
 Enterprises been submitted statements for the year
 introduced to the Auditor 2024.
 by Public General.
 Enterprise
 Circular No.
 01/2021
 dated 16
 November
 2021

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs.2,043,866 and the corresponding surplus in the preceding year amounted to Rs.15,438,410. Therefore an

deterioration amounting to Rs.13,394,544 of the financial result was observed. The reasons for this deterioration were a decrease in other income by Rs.16,147,996, an increase in salaries and expenses by Rs.17,441,824 and an increase in supplies and consumption services by Rs.5,309,374, compared to an increase in government grant income by Rs.12,939,815.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
<p>(a) By the year 2023, a total of Rs.13,171,672 had been spent on the Tea Quality Grading & Colour Separating System project, which was commenced in 2012. The project, which was to be completed in January 2023, had not been completed by April 2025. One of the expected objectives of the Technical Transfer Project, which commenced on 01 January 2022, the transfer of EPGA technology by E-Net Solutions (Pvt) Ltd to the staff of the Arthur C. Clarke Centre had not been completed. The above project had also failed to complete the final stage of another objective of launching and marketing the Tea Colour Sorting Machine.</p>	<p>The FPGA technology transfer for the project was completed. Knowledge relating to all aspects on the design has been acquired and all relevant technical documentation has also been completed. The machine preparation work and samples required for the comprehensive testing of the machine have now been prepared, and the final phase is scheduled to be completed after June 2025.</p>	<p>It is important to ensure that projects implemented using government funds are carried out in a planned manner so that the desired objectives are achieved.</p>
<p>(b) The project to develop a drone device to facilitate the spraying liquid fertilizer in agricultural activities had been initiated in 2022 with a one-year completion timeline and by the end of 2023, Rs.1,629,073 had been spent on this project, exceeding the estimated cost of Rs.1,000,000, but the expected completion had not been reached.</p>	<p>The landing gear of the device, which was manufactured to facilitate the spraying of liquid fertilizer, was made using 3D printed parts manufactured in-house. It was observed during training flights that their strength was insufficient. Currently, studies are being conducted to determine whether these parts can be</p>	<p>It is important to ensure that projects implemented using government funds are carried out in a planned manner so that the desired objectives are achieved.</p>

purchased directly from a foreign company or manufactured in-house.

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| <p>(c) As of 07 September 2018, the data system and management system required for the RFID Guest gate with Accessories and RFID Host Gate equipment, which were designed at a cost of Rs.1,375,400, had not been built to a usable state by the date of the audit on 22 April 2025.</p> | <p>Since the testing of the library automation system based on RFID technology encountered incompatibilities with the hardware system, it was decided to implement the completed library system through both software and hardware as projects of the action plan 2025.</p> | <p>Projects funded by government funds should be implemented in a planned manner to ensure that their expected objectives are achieved.</p> |
| <p>(d) Although promoting modern technology was included among the main objectives of the Institute, attention had not been paid to participating in exhibition activities related to that function during the years 2020–2024.</p> | <p>The priority as exhibitions which are in line with the Institute’s technological objectives, is given to the TECNO exhibition, organized annually by the Sri Lanka Engineering Institution and the science day celebration exhibitions held in conjunction with National Science Day. The main challenges affecting participation in these exhibitions have been the shortages of technical and human resources since many years.</p> | <p>The Institute should make maximum efforts to promote modern technology.</p> |
| <p>(e) Although a Based Fixed Assets Verification system was created at a cost of Rs.936,271 to expedite the stock survey activities in the year 2024, the stock survey activities had not been completed by April 2025.</p> | <p>The development work of the project, which was developed as an institutional project by the Information Technology Division of the Institute, has now been completed. Testing and validation of this system are the tasks that need to be done</p> | <p>The tasks should be completed through utilizing the established software system with the aim of easily completing the stock survey activities.</p> |

further.

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| (f) | An area of 35 square meters of the Institute's land had been leased to Mobitel (Private) Limited for the installation of a communication device under a long-term agreement and although the relevant agreement had been expired in March 2023, a new agreement had not yet been reached by April 2025. | The new agreement is in the final draft stage, and it is expected to be completed expeditiously. | When agreements expire, steps should be taken to enter into a new agreement on the due date. Assets without an agreement should not be leased. |
| (g) | Although the primary objective of the Institute was to become an innovation centre through research and development aimed at enhancing modern technological capabilities with a local basis, priority had not been given to achieving these objectives and the Institute had invested a sum of Rs.139,704,380 at the end of the year under review in treasury bills and fixed deposits. | All these investments are made from surpluses generated through project courses and consultancy services. | Research and development activities should be carried out using the existing funds available in the Institute and efforts should be made to develop modern technological capabilities through innovation, and if investments are made, they should be made based on the approval of the Treasury. |
| (h) | Although a net surplus of Rs.2,043,865 had been shown in the financial statements for the year under review, out of the total income of Rs.228,712,899, only Rs.30,066,598 had been generated from operational activities and administrative, supplies, maintenance, research and development, and project expenses amounted to Rs.220,908,875, resulting in an operational deficit of | Our Institute primarily engages in state-sponsored research and development activities, addressing national and social needs and providing effective solutions in areas where the private sector does not contribute to the country's research and development requirements. Therefore, it is not appropriate to draw conclusions only based on | Action should be taken to generate income through operational activities and to carry out successful research and development work aimed at enhancing modern technology. For that purpose, proper institutional guidance should be |

<p>Rs.90,841,477. Furthermore, out of the total expenditure, only Rs.12,290,261 representing about 6 percent had been spent on project expenses and research and development activities.</p>	<p>financial performance.</p>	<p>provided.</p>
<p>(i) Although electronic equipment had been purchased for the Communications Division at a cost of Rs.9,500,000, no electronic training programs planned according to the current needs had not been conducted during the year under review.</p>	<p>Plans are currently being implemented to enhance the contribution more than the contribution made from courses, projects, and consultancy services relative to the income generated through other income sources in the year under review.</p> <p>Astronomical research is being carried out in collaboration with universities, and in addition to these research activities, the Institute conducts astronomy workshops for children and organizes educational tours. Several formal proposals aimed at expanding the field of astronomy within the country have been presented, including the establishment of a national observatory.</p>	<p>Actions should be made to successfully implement electronic training programs designed according to the current needs.</p>
<p>(j) Eight sub-projects included in the action plan, which were to be completed by 31 December 2024, were not implemented during the year, and the performance of 19 sub-projects that were implemented ranged from 10 to 83 percent.</p>	<p>The performance of the action plan had ranged from 10 to 83 percent, and the reason for this was the resignation of engineers and technical staff members involved in the respective projects. Therefore, retaining such personnel has been a long standing challenge faced by the Institute.</p>	<p>Plans should be made considering practical situations and the performance of the action plan should be achieved with high success.</p>

3.2 Idle or underutilized Property, Plant and Equipment

Audit Observation	Management Comment	Recommendation
(a) Three machines equipment valued at Rs.11,940,077, purchased by the Institute in 2016 and 2018, had remained idle in the Library and Communications Division since the date of purchase without being utilized. In addition, equipment valued at Rs.17,348,222 required for the proper functioning of the ISD system in the Industrial Services Division had also remained non-operational for more than five years.	This machine is used for dyeing and training purposes under the supervision of two trained officers. This machine is also provided for the use of students of the University of Moratuwa.	Actions should be made to utilize funds productively and prevent machines from remaining idle.
(b) A drone valued at Rs.10,564,677 had been purchased in 2016 for the purpose of capturing photographs for archaeological exploration and excavations for the Department of Archaeology and Rs.110,320 had been spent to operate it, and the necessary approval for training and flight had been obtained but the drone had not been utilized for the intended purpose from the date of purchased up to the audit date on 22 April 2025. As a result, the total expenditure of Rs.10,674,999 had been become an unproductive expense.	The Civil Aviation Authority of Sri Lanka has been unable to revise this altitude limit even after more than six (06) years. New CAASL regulations allowing up to 400 UAV operations were notified in November 2022. By this time, opportunities to use in UAV projects had been lost and opportunities to reap economic and social benefits had also been missed. A critical software error occurred in the aircraft's flight planning system while restarting under the updated altitude limit. Support has been sought verbally and in writing from the original supplier in Sri Lanka, Orel Pvt Ltd, but has still failed to provide a solution.	Although it has taken more than nine years to bear the costs of this project, further efforts are needed to achieve the desired objectives.

3.3 Human Resources Management

Audit Observation	Management Comment	Recommendation
<p>The institution has an 177 approved staff carder with 93 vacancies, representing 54 percent of the approved staff carder of these vacancies, 47 positions or 50 percent are technical vacancies that directly contribute to the Institute’s primary functions of accelerating the introduction of modern technology and promoting future educational activities.</p>	<p>54 percent of positions of the total approved staff remained vacant. Due to various reasons, the engineers, scientists, and technicians related to the recruited technical staff have resigned, while certain senior technical officers have retired upon reaching retirement age.</p>	<p>The Institute should take actions to maintain a sufficient workforce so that its operations can continue smoothly without any disruptions.</p>