

## Information & Communication Technology Agency of Sri Lanka (Pvt) Limited – 2016

The audit of the affairs of the Information & Communication Technology Agency of Sri Lanka (Pvt) Limited (“the Company”) for the year ended 31 December 2016 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. As per the Section 150(1) of the Company Act No.07 of 2007, the financial statements for the year 2016 had not been submitted even as at the date of this report. This report is issued in terms of Article 154(6) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### 1.2 Board’s Responsibility for the Financial Statements

The Board of Directors (“Board”) is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Board determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

## 2. Financial Statements

### 2.1 Presentation of Financial Statements

As per Section 6.5.1 of the Public Enterprises Circular No.PED/12 dated 02 June 2003, the draft annual report and accounts should be rendered to the Auditor General within 60 days after the close of the financial year. However, draft annual report and accounts for the year 2016 had not been submitted even as at the date of this report.

### 2.2 Lack of Evidence for Audit

Although the affairs of the Company had been carried out continuously, fixed assets register had not been prepared and maintained.

### 2.3 Assets and Liabilities

The details of assets, liabilities, income and expenses indicated in the financial statements as at 31 December 2015 prepared by the company are as follows.

Assets	Amount	
	Group	Company
Non-Current Assets	682,925,134	636,620,740
Current Assets	<u>196,681,226</u>	<u>159,653,930</u>
<b>Total Assets</b>	<b><u>879,606,360</u></b>	<b><u>796,274,670</u></b>

## Liabilities

Current Liabilities	650,769,605	638,173,306
Non-Current liabilities	<u>151,318,938</u>	<u>138,479,166</u>
<b>Total Liabilities</b>	<b>802,088,543</b>	<b>776,652,472</b>
Equity	<u>77,517,817</u>	<u>19,622,198</u>
<b>Total Equity and Liabilities</b>	<b><u>879,606,360</u></b>	<b><u>796,274,670</u></b>
Total Income	858,638,820	625,623,892
Total Expenses	<u>848,559,607</u>	<u>624,165,922</u>
<b>Surplus for the year</b>	<b><u>10,079,213</u></b>	<b><u>1,457,970</u></b>

## 2.4 Non-compliances with Laws, Rules, Regulations, and Management Decisions

Instances of non-compliances observed in audit are given below.

<b>Reference to Laws, Rules, Regulations and Management Decisions</b>	<b>Non-compliance</b>
(a) Section 06 (2) of the Information and Communication Technology Act, No. 27 of 2003	The first Digital Government Policy had been prepared for a period of 03 years from 2010 – 2012. Even though the policy reformulation/ amendments process was started in 2013, it had not been completed and implemented until 6 September 2018.
(b) Section 133 (1) of the Companies Act, No. 07 of 2007	The annual general meeting of the Company had not been held from the year 2007 to 31 December 2016.
(c) Section 5.1 of the Public Enterprises Circular No.PED/12 dated 2 June 2003	A corporate Plan had not been prepared by the Company.
(d) Section 7.4.5 of the Public Enterprises Circular, No. PED/12 dated 02 June 2003	Annual board of survey had not been carried out for the year under review. Hence, the existence of the non-current assets cannot be ascertained in audit.

## **2.5 Transactions not Supported by Adequate Authority**

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The following observations are made.

- (a) Approval for the Google Loon project had not been obtained from the Department of National Planning and it had not been included in the Action Plan of the Company.
- (b) The Company had entered into a Memorandum of Understanding with Google Loon LLC on 28 July 2015 for the operation of the Google Loon Project implemented with the objective of providing internet facilities to the whole island. Although a sums of Rs.1, 851,322 and Rs.6, 427,941 had been spent as at 31 December 2016 for releasing Google Loon equipment from the Customs and for the promotion of the project respectively, the Project had not been implemented. However, it had been informed that the expenditure of Rs.6,187,941 incurred not for the Google Loon project but for other Wi-Fi project. Further evidence had not been made available to audit to confirm the reply of the Company.

## **3. Operating Review**

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### **3.1 Performance**

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#### **3.1.1 Planning**

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The following observations are made.

- (a) Although the estimated cost of all projects to be implemented by the Company amounting to Rs. 9,286.09 million had been included in the Action Plan of the year under review which had been presented to the Department of National Budget on 20 January 2016, it had been revised up to Rs. 3,255.3 million on 2 December 2016 changing the scope and activities of projects.
- (b) Even though 65 projects had been planned to be executed in the year 2016, approval had not been granted by the Department of National Planning for execution of 10 projects due to non-identification of projects' requirements specifically and lack of direct connections with the beneficiary institutions of the projects.
- (c) The projects implemented under the Bill and Melinda Gates Foundation had not been included in the Action Plan of the Company.
- (d) The Company had not performed the activities necessary for obtaining provisions for approved 55 projects in the year 2016. As such, the expenditure for total projects amounting to Rs. 681,036, 485 had to be obtained through supplementary estimates.
- (e) The estimated cost of Rs. 850 million relating to the Lanka Government Network Project for the year 2016 included in the Action Plan of the year under review presented to the Department of National Budget on 20 January 2016 and it had been revised to Rs.1.13 million on 2 December 2016. However, total amount spent for the

project as at 31 December 2016 was Rs. 148.33 million which exceeds the revised estimate by 13,026 per cent.

- (f) Although the activities of projects had been included in the action plan for the year under review, approval of the National Planning Department had been obtained on 7 June 2016 and 20 April 2016 for the Lanka Government Network 2.0 project and maintenance of Lanka Government Cloud 1.0 (LGC 1.0) and Lanka Government Network (LGN 1.0) respectively. The delay in obtaining approval had caused to delay in project implementation.

### **3.1.2 Operating and Review**

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The following observations are made.

- (a) According to the progress reports of the Company the physical progress of projects executed in the year 2016 by incurring an expenditure of Rs.681 million was in a low level. Only the national awards ceremony named “e- Swabhimani” had achieved a progress of hundred per cent and out of the remaining 54 projects, 47 projects had achieved a physical progress below 60 per cent.
- (b) Projects could not be executed as planned mainly due to delays in commencement, changing scope and lack of funds.
- (c) Out of the total expenditure of projects amounting to Rs.681 million, a sum of Rs.210.8 million represented 31 per cent had been spent on salaries. Moreover, the amount of the total salaries, wages and allowances paid to the officers could not be clearly identified due to non-presentation of financial statements of the Company for the year 2016.
- (d) Hospital Health Record System in the government hospitals Project is aimed to improve quality and efficiency of health care services of 300 government hospitals by the end of 2018 and 45 hospitals are targeted to cover in the year 2016. Although the consultancy procurement for conducting baseline survey had not been completed, Company had started to procurement of Computer hardware and accessories for 45 hospitals without obtaining baseline survey report.
- (e) Even though the above project had been implemented, memorandum of understanding had not been signed between the Ministry of Health and the Company defining the roles and responsibilities of all parties as per project proposal until 6 September 2018. However overall progress of the project was 62 per cent as at the date of the year 2016.
- (f) Although it had been targeted to establish 3500 locations as at the end of the year 2016 under the free Wi-Fi project, only 512 locations had been established as at 30 April 2017 represent 14 per cent of the physical progress. However as per the information of the Company, physical progress of the project as at 31 December 2016 was 57 per cent.

- (g) Though 100 MB had been allocated for a person per month, only 30 per cent of the average users had used total allocation and 41 per cent of the users had used less than 25 MB for a month. Even though Company had spent Rs. 10.2 million for the awareness and promotion of the Free Wi-Fi Project for the year 2015, usage and awareness of the project was not in a sufficient level.
- (h) Out of the 161 Nanasala centers examined, 96 centers representing 60 per cent were not operating fully due to unavailability of trained tele center operators, high maintenance cost, computers and accessories were not in a usable condition, connectivity issues and lack of monitoring and evaluation. Further it was observed that most of the Nanasala centers were operating under the private ownership other than the registered unions, organizations and religious places without having awareness of the Company, established contrary to the minimum distance range of 10 kilometres, several Nanasala centers were not in the addresses that were mentioned to be formed and it was observed that such centers were Located in another places and most of the Nanasala centers had not been maintained fixed assets registers. However, actions had not been taken to restoration of existing centers or establishing active centers by the Company and it had not been delivered the expected services through Nanasala centers.
- (i) National Planning Department had recommended formulate a mechanism to bear the maintenance cost of the LGN 1.0 and LGC 1.0 projects. However, no action had been taken by the Company to recover the maintenance cost. The physical progress and financial progress of the maintenance of Lanka Government Cloud 1.0 (LGC 1.0) and Lanka Government Network (LGN 1.0) project was 51 per cent and 11 per cent respectively as at 31 December 2016. It was observed that the projects had not been achieved the target.
- (j) The physical progress and financial progress of the Lanka Government Network 2.0 as at 31 December 2016 was 34 per cent and 17 per cent respectively. It was observed that, delay in the implementation of Lanka Government Network 2.0 project had resulted in delay in 10 projects implemented Company.

### **3.2 Management Activities**

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Information and Communication Technology Agency (ICTA) Sri Lanka had been vested with full autonomy relating to financial and administrative aspects through the Cabinet Decision, No. CMP/ 03/0884/134/027, dated 16 July 2003, since the World Bank was the principal donor of the e-Sri Lanka programme, has noted the essential requirement for such independence to be extended to the ICTA. However, Company totally depends on the Consolidated Fund at present, and it was observed that the financial and administrative autonomy existed previously, still continues as per the Cabinet Decision.

### **3.3 Transactions of Contentious Nature**

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The following observations are made.

- (a) An adequate financial control on the expenditure incurred by the Company was not available with the Ministry of Telecommunication and Digital Infrastructure and incurred liabilities amounting to Rs. 329,716,731 had been remained as at 31 December 2016.
- (b) Although a sum of Rs.395.7 million had been spent during the years 2013, 2014 and 2015 as Rs.145.7 million, Rs.200 million and Rs.50 million respectively for the Lanka Government Network Project (LGN). However, the value of unsettled bills since the year 2011 payable to the Sri Lanka Telecom as at 31 December 2015 amounted to Rs.255,632,822. Further, provisions of Rs.226,408,429 had been granted in accordance with the cabinet approval dated 09 August 2016 for settling liabilities of the Sri Lanka Telecom. However, it was revealed that out of the provisions made, sums of Rs.29,364,694 and Rs.24,977,333 had been used for the payment of salaries of the officers of the group and for unidentified expenses respectively.
- (c) Although the Company had requested the outstanding amount of Rs.329,716,731 as at 31 December 2016 from the ministry, as per the Appropriation account of the line Ministry, a sum of Rs.81,476,189 had been shown as payable to the Company.

### **3.4 Underutilization of Funds**

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According to the agreement entered in to with Bill and Melinda Gates Foundation the funds granted should not be made use of for any other purpose except for the project.

However out of the financial provision of Rs. 130.05 million granted for the execution of three projects, a sum of Rs. 126.2 million representing 97 per cent had been used for expenditure on other operations of the Company except the intended purpose of the Company.

### **3.5 Staff Administration**

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The following observations are made.

- (a) As per the Section 9.2 of Public Enterprises Circular No. PED/12 dated 2 June 2003 human Resource Plan should be prepared by the Company consolidating Human Resource Budget and it should be registered with the Department of Public Enterprises in the Treasury. However, according to the information made available to audit, such a plan had not been prepared by the Company.
- (b) Scheme of recruitment and promotion for each post had not been formulated by the Company emphasizing the requirements stipulated in the Section 9.3.1 of the Public Enterprises Circular No. PED/12 dated 2 June 2003.

- (c) According to the Section 9.6 of Public Enterprises Circular No. PED/12 dated 2 June 2003 the performance appraisals should be done by the Company in regular basis following systematic procedure. Further in terms of the board resolution dated 21December 2015, the Managing Director/ CEO was empowered to finalize the staff appraisals in consultation with the Board Approved special review and authorization committee. However the salaries of the staff had been revised to the year under review, evidence had not been made available to confirm that performance appraisal had been done.
- (d) The employees and consultants of the Company had been appointed on contract basis without an approved cadre and a Scheme of Recruitment whilst salaries had been paid based on Sri Lanka IT and BPM sector compensation and benefits study of Sri Lanka Association of Software and Services Companies (SLASSCOM). The number of officers so appointed as at 31 December 2016, was 187 and monthly remuneration of employees were ranging from Rs. 30,000 to Rs. 755,000. However attention had not been paid by the Company in connection with any of the requirements stipulated in the Section 9.7 of Public Enterprises Circular No. PED/12 dated 2 June 2003.
- (e) The capital provisions allocated for the projects had been utilized for the payment of salaries without allocating recurrent provisions.
- (f) Contributions for the employees provident fund and employees trust fund had not been paid by the Company for 33 IT officers recruited in the year 2015 as per the Section 6.31B of the Employees Provident Fund (Amendment) Act No. 2 of 2012 and Section 16 (1) of the Employees Trust Fund Act No.46 of 1980. Further personal files had not been maintained for those employees.

#### **4. Accountability and Good Governance**

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##### **4.1 Procurement and Contract Process**

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###### **4.1.1 Procurements**

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- (a) Even though the Master Procurement Plan had been prepared by the Company, detailed Procurement Plan had not been prepared for the year 2016 in terms of Guideline 4.2.1(c) of the Procurement Guidelines.
- (b) According to the Master Procurement Plan, submitted to the Department of National Budget on 20 January 2016, 351 procurement items had been plan to implement during the year 2016 and it had been revised up to 384 items on 02 December 2016. However out of them, only 152 procurements, represents 40 per cent had been commenced during the year 2016.
- (c) According to 2.8.4 of the Procurement Manual, at least one member who is conversant with procurement shall be appointed from the line Ministry or external to Procuring Entity for the Technical Evaluation Committee. However, there were instances of appointing only the officers who working in the Company as the members of technical evaluation committees.

- (d) According to the Guideline 2.4 of the Procurement Manual, the Procurement Committee should be decided in accordance with total cost estimate of each project. However, the Company had decided the Procurement Committee based on the cost estimates of each procurement separately under the projects.
- (e) According to 4.3.3 of the Procurement Guideline, if considerable time is taken to invite bids after preparation of the initial Total Cost Estimate the Total Cost Estimate should be updated, taking into consideration inflation and other factors and should be sanctioned by the respective Authority. Even though the cost estimates of three procurements aggregating Rs. 102,500,000 had exceeded by Rs. 23,789,800, those estimates had not been revised.
- (f) The initial cost estimate of the Procurement of Tablet PCs and Laptop computers for Land Use Policy Planning Department was Rs.5 million and it had been revised up to Rs.15 million by 200 per cent without proper approval. However, the contract had been awarded for Rs.10.8 million.
- (g) Although large variances from minus 22 per cent to 593 per cent were observed as compared with the total cost estimate in the Procurement of implementing of a Wi-Fi service management solution for the national free Wi-Fi network amounted to Rs.20 million, the lowest substantially responsive bid of Rs.7.1 million, had been selected without obtaining rate analysis. According to Section 7.9.11 (a) of the Procurement Guidelines, if such bidder has quoted unrealistically low rates on critical or very important items, the bidder shall be requested to prove to the satisfaction of the TEC and may be asked to provide a rate analysis.

#### **4.1.2 Deficiencies in Contract Administration**

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The following observations are made.

- (a) According to the Section 5.4.8 and 5.4.10 of the procurement guidelines and Section CC 17.1 of the contract agreement, a performance security had not been obtained for the procurement of implementing of a Wi-Fi service management solution for the national free Wi-Fi network valued at Rs. 7,142,800.
- (b) According to the selected sample test, there were 07 instances of failure in submitting the performance securities as at the date mentioned in procurement and bidding documents.

#### **4.1.3 Delayed Projects**

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The following observations are made.

- (a) Although a sum of Rs. 88.5 million had been incurred for the Household Transfer Management system project valued at Rs. 3,363.25, million the project had been



abandoned since 11 July 2017 due to the problematic situation occurred in the main procurement.

- (b) Six projects implemented for re-engineering the public sector under the World Bank funded “e- Sri Lanka” project during the period from 2003- 2014 had not been completed in scheduled period of time. However those projects had been re-implemented from the year 2016 according to a plan for the three years from 2016 to 2018. Out of the total estimate of Rs. 1442.57 million for the year under review, a sum of Rs. 171.34 million had been spent as at 31 December 2016

## 5. Systems and Controls

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Deficiencies in systems and controls observed during the course of audit were brought to the notice of the chairman of the Company from time to time. Special attention is needed in respect of the following areas of control.

	<b>Areas of Control</b>	<b>Observation</b>
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(a)	Assets Management	Activities relating to the Valuation, documentation, transferring of ownership and protection of Property, Plant and equipment and utilization of resources not being done.
(b)	Human Resource Management	Human Resources not being managed according to the rules and regulation.
(c)	Financial Management	Effective financial management strategies not being used.
(d)	Control over Creditors	Committed to the liabilities without proper approval.
(e)	Staff Administration	Personal files not being maintained completely including necessary documents.