

## Sri Lanka Computer Emergency Response Team (Pvt) Limited -2017

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The audit of the affairs of the Sri Lanka Computer Emergency Response Team (Pvt) Limited (“the Company”) for the period ended 31 December 2017 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 and 2017 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

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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

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### 2.1 Presentation of Financial Statements

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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 and 2017 had not been submitted even as at the date of this report.

### 2.2 Assets and Liabilities

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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.

<b>Assets</b>	<b>Amount</b>
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	<b>Rs.</b>
Non-Current Assets	5,210,879
Current Assets	<u>37,780,174</u>
<b>Total Assets</b>	<b><u>42,991,053</u></b>
<b>Liabilities</b>	
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Current Liabilities	769,021
Non-Current liabilities	<u>11,527,081</u>
<b>Total Liabilities</b>	<b><u>12,296,102</u></b>
Equity	<u>30,694,951</u>
<b>Total Equity and Liabilities</b>	<b><u>42,991,053</u></b>
Total Income	35,770,926
Total Expenses	<u>27,186,372</u>

**Surplus for the year**

**8,584,554**

**2.3 Non-compliances with Laws, Rules, Regulations, and Management Decisions**  
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Instances of non-compliances observed in audit are given below.

	<b>Reference to Laws, Rules, and Regulations</b> -----	<b>Non-compliance</b> -----
(a)	Section 133 (1) of the Companies Act, No. 07 of 2007	The annual general meeting of the Company had not been held after the establishment of the Company on June 2006.
(b)	Section 7.4.5 of the Public Enterprises Circular, No. 12 dated 02 June 2003	No annual board of survey had been carried out as at 31 December 2016 and 2017. Hence, the existence of the non-current assets cannot be ascertained in audit.

**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) As per Section 5.1 of the Public Enterprises Circular No.PED/12 dated 2 June 2003, the Company had not been prepared a Corporate Plan. Hence, strategies regarding the future direction of the Company had not been incorporated by the Company.
- (b) As per Public Finance Circular No. 01/2014 dated 17 February 2014, the Company had not been prepared an action plan for the year 2016 and 2017.

**3.1.2 Performance and Review**  
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There were four projects implemented during the period under review and following observations are made in this regard.

(a) **National Certification Authority (NCA) Project**  
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The project aims to establish a National Certification Authority and it will be functioning as a regulatory body of the Certificate Service Providers (CSPs). All the CSPs will become a part of the NCA hierarchical trust model that will enable users from different CSPs to perform cryptographic functions securely. The following observations are made in this regard.

- (i) As per the progress reports of the Company, the physical progress of the Project as at 31 December 2016 and 31 December 2017 was 40 per cent 66 per cent respectively. However, as per the project progress reports of the Parent Company, the physical progress of the project for the 2016 and 2017 was 19 per cent and 73 per cent respectively. Hence the actual physical progress of the project had not been revealed to the audit.
- (ii) When parent Company determining the physical progress of the project, 30 per cent weight had been given for procurement process and out of that physical progress represents 27 per cent. However, out of the 5 procurements planned only two procurements had been completed as at 31 December 2017. Therefore, 27 per cent physical progress in procurement process questionable during the course of audit.
- (iii) According to the recommendations given by the National Planning Department on 08 March 2016, some of the items for NCA had been procured earlier and NCA has not been developed to a functional level yet. However, audit revealed that Company had not achieved the desired output of the project during the period under review.

**(b) Enhancement of Cyber Security and Digital Forensic Infrastructure of Sri Lanka Project**

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The project intends to for procurement of goods and services for the Sri Lanka CERT. As per progress reports of the Company, the physical progress of the Enhancement of Cyber Security and Digital Forensic Infrastructure of Sri Lanka Project as at 31 December 2016 was 80 per cent. However, as per the progress reports of the Parent Company, the physical progress of the project was 19 per cent. Hence the actual physical progress of the project had not been revealed to the audit.

**(c) Cybercrime and Cyber Security Center of Excellence**

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The objective of this Center is to establish center for training, research and education in cybercrime and cyber security in order to enhance the knowledge on these areas. After the completion of planning stage which represents 25 per cent physical progress and it had been decided to stop the project due to lack of funding . However, it had not been identified at the initial planning stage of the project.

**(d) Cyber Security Capacity and Infrastructure Development**

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The physical and financial progress of the project as at 31 December 2017 was 52 per cent and 27 per cent respectively due to delay in project implementation.

### **3.2 Management Activities**

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The following observations are made.

- (a) Information and Communication Technology Agency (ICTA) Sri Lanka are vested with full autonomy in terms of 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, as a subsidiary of ICTA, at present the Company totally depends on the Consolidated Fund, though the financial and administrative autonomy is still valid as per the Cabinet Decision. Further, Company noted that, full autonomy related to financial and administrative aspects was given not because of World Bank funding but due to the need to hire highly qualified specialized people to deliver the results within a shorter time period.
- (b) Even though the CERT had been established as a separate Company under the ICTA, all functions including project planning, preparation of accounts, administration and human resource management of the Company were handled by the parent Company, Information and Communication Technology Agency of Sri Lanka during the period under review.
- (c) As per the board meeting minutes on 19 May 2005 to establish the Sri Lanka CERT, it should evolve as a self-financing entity. Further financing of Sri Lanka CERT operations will be borne by ICTA for a period of one year and thereafter it will function independently, generating its own income sources. However, after lapse of 12 years from the establishment of the Company, it is totally financed through the consolidated fund.

### **3.3 Staff Administration**

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The following observations are made.

- (a) As per 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 (PED) in the Treasury. However, according to the information made available for audit, such a plan had not been prepared by the Sri Lanka CERT.
- (b) Scheme of recruitment and promotion for each post had not been formulated by the Sri Lanka CERT emphasizing the requirements stipulated in the Section 9.3.1 of Public Enterprises Circular No. PED/12 dated 2 June 2003.
- (c) As per Section 9.6 of Public Enterprises Circular No. PED/12 dated 2 June 2003, the performance appraisals were not done by the Company in regular basis and following systematic procedure.

- (d) All the employees and consultants of the institution had been appointed on contract basis without an approved cadre and a Scheme of Recruitment whilst salaries had been paid based on market values. However, no ministry or treasury approval had been obtained for the salary scales as per circular instructions. Further, Company had paid the salary and allowances to the consultants without taking in to consideration any of the requirements stipulated in the Section 9.7 of Public Enterprises Circular No.PED/12 dated 2 June 2003.
- (e) The Company had utilized the capital provisions allocated for the projects for the payment of salaries without allocating recurrent provisions.

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

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

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The following observations are made.

- (a) In terms of the Guideline 4.2.1 of the Procurement Guidelines, the Company had not been prepared the master procurement plan and detailed procurement plan for the period under review by.
- (b) Out of the 09 procurements scheduled to be implemented in relating to two projects for the year 2016, only two procurements had been awarded as at 31 December 2016.
- (c) Out of the 6 procurements scheduled to be implemented in relating two projects namely, cyber security capacity and infrastructure development project and cyber security and digital forensic infrastructure project for the year 2017, only four procurements had been awarded as at 31 December 2017.
- (d) It was observed that, procurement of Readhat renewing license which was started during preceding year had not been included to the procurement plan of the Company.

#### **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.

Areas of Control	Observation
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(a) Assets Management	Valuation, documentation, transferring of ownership and protection of Property, Plant and equipment and utilization of resources of the Company efficiently for the purpose of performing its objectives.

- (b) Human Resource Management Management of Human Resources according to the rules and regulation for the achievement of the objectives of the Company.
- (c) Financial Management Effective financial management strategies should be used.