

Information and Communication Technology Agency of Sri Lanka (Pvt) Ltd and its Subsidiaries-2018

1.1 Disclaimer of Opinion

The audit of the financial statements of the Information and Communication Technology Agency of Sri Lanka (Pvt) Ltd (“Company”) and its subsidiaries (“Group”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 and the profit and loss statement, 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. My comments and observations which I consider should be report to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company and Group. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

1.2 Basis for Disclaimer of Opinion

I do not express an opinion based on the facts included in paragraph 1.5 of this report.

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 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 ability to continue as a going concern, disclosing, as applicable, matters related to going concern of the Company and Group and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Company and Group.

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

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

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 Company and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that, transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards, and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Observation

Although the property, plant and equipment were revaluated during the year under review, the audit was unable to determine the accuracy of the value of the plant and equipment included in the financial statements as at 31 December 2018 due to the lack of a fixed assets register and revaluation basis.

Management Comment

Verification was done by a Chartered Accountancy firm and assets excluding the land and buildings were identified and the value was included in the fixed assets register. There was no need for a valuation by a professionally qualified valuator and the book value provided by the valuator was considered as revaluated value.

Recommendation

A fixed assets register should be maintained including the values of revaluation. Also, the basis of the assets revaluation should be submitted to the audit.

1.5.3 Unreconciled Control Accounts

Subject	Value as per the Financial Statements	Value as per the balance confirmation	Difference	Management Comment	Recommendation
	Rs.	Rs.	Rs.		
Balance of Creditors	42,293,094	76,609,931	34,316,837	Letters have been sent to the relevant institutions to confirm the balance.	Non reconciliations should be resolved.

1.5.4 Going Concern of the Company and Group

Audit Observation	Management Comment	Recommendation
The value of total liabilities exceeding total assets as at 31 December 2018 was Rs. 1,525,628,004 and the total liabilities exceeding current assets of the company was Rs. 1,527,245,089. Accordingly, it was observed that there was uncertainty about the going concern of the company but the management of the company had not taken any action to avoid such situations.	This was due to the lack of adequate funding from the Ministry of Finance for many years. However, by the end of year 2020, this situation has heavily been avoided due to Rs. 1,839 million received for the settlement of bills on hand at the end of year 2019.	Management should be taken necessary actions to avoid such situations and disclose the relevant situations in the financial statements.

1.5.5 Documentary Evidences not made available for Audit

Subject	Audit Evidences not available	Management Comment	Recommendation
The company's payroll, catering and security services.	Agreements reached between the two parties regarding the supply of services.	Not in company documents.	Relevant agreements should be submitted for audit.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Companies Act No. 07 of 2007.	The company had not been held its Annual General Meeting.	The Annual General Meeting for the presentation and adoption of the Accounts/ Annual Report was not held due to delays in the completion of the audited financial statements for 2016 and 2017.	Annual General meetings should be held in accordance with the provisions of the Companies Act.
(i) Section 133 (1)			
(ii) Section 185	The "Nenasala" assets worth Rs. 121,019,650 and various equipments worth Rs. 1,194,890,569	A Chartered Accountancy firm has identified the assets and taken action to list the values of the assets in the fixed assets	Action should be taken to act in accordance with the provisions of the Act.

which were under register (excluding the large land and buildings) transactions had not and there was no need been complied with for a valuation by a the Act. professionally qualified valuator.

(iii) Section 6 (2) The first digital Cabinet approval had Action should be of the government policy been delayed due to taken to act in Information for 2010-2012 had reasons outside the accordance with the and not been prepared control of ICTA, but a provisions of the Communicatio and cabinet National Digital Policy Act. n Act No. 27 approval had not for 2019 had been of 2003. been obtained to formulated and restructure the submitted to the cabinet through the policy. line Ministry.

2. Financial Review

2.1 Financial Result

The operating result of the company and group for year under review amounted to a surplus of Rs. 329,778,080 and 292,793,598 respectively and the corresponding deficit of the company and group in the preceding year amounted to Rs.1, 635,436,951 and 1,624,891,509 respectively. Therefore an improvement of the company and group amounting to Rs. 1,965,215,031 and Rs. 1,917,685,107 respectively of the financial result was observed. The main reasons for the improvement were increasing the grant receipts of the company and group by Rs. 2,337,284,233 and 2,330,486,130 respectively.

2.2 Ratio Analysis

The current ratio of the company and group was 1:42 and 1:31 respectively and it was 1:6 for the year under review.

3. Operational Review

3.1 Management Activities

Audit Observation

As the main sponsor of the e-Sri Lanka project, this institution was granted full independence of the financial and administrative divisions by a cabinet decision at the request of the World Bank. It was observed that, at present the company is fully dependent on consolidated funds but that financial and administrative independence continues further.

Management Comment

The ICTA has been given operational independence through a cabinet memorandum and inter-ministerial committee agreed in 2017 that ICTA could continue to operate on this basis.

Recommendation

As an Institution that grant money from the consolidated fund of the government, it should be considered whether further financial and administrative independence is required.

3.2 Delays in Projects

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
(a) 37 projects worth Rs. 6104.52 million were started and not completed in the year 2017 had not been included in the action plan for year the 2018 and action had not been taken to implement. Out of which 11 projects worth Rs. 759.25 million had been abandoned.	Lack of funds, non-priority, assign to the ministry, issues of stakeholders, assign to the CERT institute, completion of projects, delays in implementation of projects, non-completion of plans and lack of a cabinet were affected for the delay.	Unfinished projects should be included in the action plan for the next year or action should be taken to implement.
(b) The Rs. 32,085,570 received for the implementation of 3 projects under the Bill and Melinda Gate Foundation could not be completed due to the expenditure incurred on the operational activities of the company.	This money had to be spent because the treasury did not release money for operating activities. Funds were requested from the line ministry but the projects could not be implemented due to the lack of funds.	Money received for the projects should be used only for projects.

3.3 Procurement Management

----- Audit Observation -----	----- Management Comment -----	----- Recommendation -----
(a) From the year 2017 to 2019, 26 libraries in Sri Lanka were planned to be digitalized at a cost of Rs. 225 million and 08 libraries were digitalized at a cost of Rs. 48.6 million. Work on 18 libraries had not been completed due to lack of funds.	The allocation for each project will depend on the annual cash inflows to the institution and the total allocation approved for the 26 digital libraries as per the NPD proposal was Rs. 47 million, Rs. 107 million and Rs. 71 million respectively in the years of 2017, 2018 and 2019. Although a limited amount of Rs. 34 million for 05 libraries in the year 2019 and Rs. 13.27 million for 03 libraries was received, 08 libraries have been developed as model of digital libraries.	Action should be taken to achieve the planned goals.
(b) The purchasing of furniture worth Rs. 4.6 million for 05 libraries was included in the procurement plan for the year 2017, but it was purchased during the year under review due to delays in procurement.	The evaluation of prices was completed on 24 November 2017, and delays were due to changes in ICTA management, financial constraints and changes in procurement committee members.	Procurement plan should be followed.
(c) 26 projects worth Rs. 3,059	This was due to the lack of	Plans should be made

million included in the budgetary provisions, considering the reasons for the delay and attention should be paid to the completion of projects as planned.

procurement plan for the year under review had not been implemented during the year under review and 03 projects were halted on the way which was spent Rs. 4.15 million. Progress on 14 non-implemented projects ranged from 2 percent to 60 percent.

3.4 Human Resources Management

Audit Observation	Management Comment	Recommendation
<p>(a) Public Enterprise Circular No. PED/12 dated 02 June 2003.</p> <p>(i) Paragraph 9.2 The Human Resource budget and integrated Human Resource plans had not been prepared and registered with the Department of Public Enterprises.</p> <p>(ii) Paragraph 9.3.1 The company had not been prepared a recruitment and promotion scheme for the posts.</p>	<p>ICTA has been given flexibility to operate and each employee is recruited on a contract basis for a period of one year. Therefore, the approved staff methodology is not applicable. A new cabinet approval was received in this regard in November 2020.</p> <p>Under the e-Sri Lanka programme, staff was recruited on a one-year contract and the same procedure was followed when receiving funds from the treasury. Cabinet approval had been granted in in November 2020 for the necessary activities in this regard.</p>	<p>Should be act in accordance with the provisions of the circular.</p> <p>A scheme of recruitment and promotion should be prepared in accordance with the provisions of the circular.</p>

3.5 Accountability and Good Governance

3.5.1 Submission of Financial Statements

Audit Observation

According to paragraph 6.5.1 of Public Enterprises Circular No. PED/ 12 dated 02 June 2003, the financial statements and draft annual report should be submitted to the Auditor General within 60 days of the end of the financial year, but the financial statements for the year 2018 have been submitted with a delay of 21 months.

Management Comment

The financial statements for the year 2016 and 2017 are submitted to the Auditor General in January 2020. The financial statements for the year 2018 are submitted to the Auditor General in September 2020. The vacancy in the Chief Financial Officer from October 2018 to June 2019 was reason for the delay.

Recommendation

The financial statements and draft annual report should be submitted to the Auditor General in accordance with the provisions of the circular.