Lanka Government Information Infrastructure (Private) Limited - 2019

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1. Financial Statement

1.1 Disclaimer of Opinion

The audit of the financial statements of the Lanka Government Information Infrastructure (Private) Limited ("Company") for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 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 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. 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 matters described 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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

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 skepticism 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 Audit observation on the Preparation of 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 Issue	Management Comment	Recommendation
(a) All fixed assets of the company had been revalued for Rs.11,601,568 in the year 2017 and re-valued assets amounting to Rs.2,307,807 and related accumulated depreciation amount of Rs.461,561 had been removed from financial statements during the year under review without proper approval. Further, the net book value of the respective assets amounting to Rs.1,846,245 had been debited to the profit and loss account during the year under review	In the absence of Fixed assets register and to resolve Nanasala Assets transfer, the results of fixed assets verification conducted in 2017 was incorporated to the financial statements for the year 2018. Based on the audit observations for the said year and based on the result on the Board survey conducted in 2020, impairment and de-recognition of assets were recognized in the financial statements for the year ended 2019. Rs. 2,307,807 at valuation was recognized as gross value of the impairment and Rs. 461,561 was recognized as the accumulated depreciation value. Rs. 1,846,245 was recognized in the income statement as the impairment for the year.	Fixed assets should be accounted properly.
(b) The assets valued at Rs.2,033,673 which were sold in the year 2017, and its accumulated depreciation	Rs. 2,033,673 at valuation was disposed in the financial year 2017 following necessary tender procedure. However in absence of fixed assets register the	Transactions should be accounted accurately.

amounting to Rs.406, 735 had been removed from the financial statements of the year under review without adjusting in the year 2017.Further, a sum of Rs.1,626,938 had been erroneously charged as loss on disposal of assets to the profit and loss account instead of charging a sum of Rs.1,269,838 during the year under review. As a result, net surplus for the year under review had been decreased by Rs.357,100. Further; proceeds on disposed assets amounting to Rs.357,100 had been erroneously recognized as sundry income in the year 2017.	relevant assets value were not adjusted in the financial statements for the year 2017. The sales proceeds received amounting to Rs. 357,100 was recognized as sundry income. After incorporating values to the individual assets in 2018 and based on the results of board of survey conducted in 2020, the net value of Rs 1,626,938 the gross value of Rs. 2,033,673 and accumulated depreciation value. Rs. 406,735 was recognized in the income statements.	
(c) Without an approval, the assets valued at Rs.901,673 in the year 2018 and related depreciation of Rs.180,335 had been removed from the financial statements in the year 2019.	In the absence of individual asset values before re-valuation, the re-valuation gain with respect to the asset de-recognized in the year 2019 cannot be ascertained. Hence the net value was recognized directly in the re-valuation reserve in equity.	Relevant approval should be obtained.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficits of Rs.7,316,964 and the corresponding deficits in the preceding year amounted to Rs.2,133,327. Therefore a improvement of deficits Rs.5,183,637 was observed in this year comparing to the preceding year. The main reasons for the deterioration are increase of project implementation expenses and increase of project infrastructure and support services expenses by Rs.5,862,635 and Rs.888,582 respectively.

3. Operational Review

3.1 Human Resources Management

Audit Issue	Management Comment	Recommendation
Public Enterprises Circular No. PED/12 dated 02 June 2003		

(a) Clause 9.2 The human resource plan should be prepared in consolidated with the Human resource budget and the approved cadre should be registered with the Department of public enterprise, General Treasury. Nevertheless, action had not been taken accordingly.	LGII is a fully owned subsidiary of ICTA. ICTA & LGII did not maintain an approved cadre system since ICTA including its subsidiaries had been granted operational flexibility and staffs were on fixed term contracts - 01 year. However, as stated above, Cabinet approval has been obtained via the new Cabinet Memorandum, for LGII work scope to be administered by Digital Services vertical of ICTA.	Circular instructions should be followed.
(b) Clause 9.3(1) The Company had not prepared a Scheme of recruitment and promotion for each post.	The set procedure for hiring and selection of staff for ICTA and LGII was in place was dependent on the annual work scope of the organization. Furthermore, this is already been addressed by the Cabinet Memorandum presented and approved by the Cabinet of Ministers in November, 2020.	Circular instructions should be followed.

4 . Accountability and Good governance

4.1. Corporate Plan

Audit Issue	Management Comment	Recommendation
According to Clause 5.1 of the Public Enterprises Circular No. PED/12 dated 02 June 2003, the Company had not prepared a Corporate Plan.	LGII is a fully owned subsidiary of ICTA. Corporate Plan for 2017 had been prepared by ICTA including LGII work scope and was submitted to the then Board of Directors. Due to the proposed down-sizing of the overall operations of ICTA and its subsidiaries by the then Line Ministry, the said Corporate Plan was not be adopted. However after cabinet decision LGII work scope is now to be administered by Digital Services vertical of ICTA and incorporated to the overall ICTA strategy. This was then defined in the Corporate Plan of ICTA for 2021.	The Company should prepare a Corporate plan.