

1. Financial Statement

1.1 Qualified Opinion

The audit of the financial statements of the Information and Communication Technology Agency of Sri Lanka (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.

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 Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

I draw attention to note No.3.18 to the financial statements. Which indicates that the Company’s total liabilities exceeded its total assets by Rs.1,887,834,007 and Company’s current liabilities exceeded its current assets by Rs.1,896,995,140 as at 31 December 2019. However, there is no payable to suppliers at the end of year 2020 due to settlement of payables as at 31 December 2019 during the year 2020 out of funds received from treasury.

My opinion is not modified in respect of this matter.

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 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) Other payables and receivables of the Company as at the end of the year under review was Rs.2,103,431,719 and Rs.36,062,521 respectively. However, contrary to the paragraph 32 of Sri Lanka Accounting Standard No 1, the payable amounting to Rs.2, 097,483,143 had been brought forward after setting off the receivable amount of Rs.5,948,576. As a result, other receivable and payable had been understated by Rs.5, 948,576. | Receivable balances from other government entities disclosed under other payables in 2019, will be reclassified under other receivables in the financial statements for the financial year ended 2020 as a restatement. | The instructions in the Accounting standard should be followed. |
| (b) All fixed assets of the Company had been revalued for Rs. 37,988,641 in the year 2017. Re-valued assets amounting to Rs.2, 614,689 and related accumulated depreciation amount Rs.522,938 had been removed from financial statements during the year under review without proper approval. Further, the carrying amount of the respective assets amounting to Rs.2,091,751 had been transferred to the profit and loss account during the year under review. | 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. Different between the gross value of the impairment and related accumulated depreciation was recognized in the income statements as the impairment for the year. | A proper approval must be obtained to remove transactions from the Financial Statements. |
| (c) The assets valued of Rs.5,901,106 which were verified in the revaluation process in the year 2017, and its accumulated depreciation amounting to Rs. 1,180,221 had been removed from financial statements as considering derecognized assets in the year 2019 without proper approval. | 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 4,720,885.00 was recognized in the income statements. | A proper approval must be obtained to remove transactions from the Financial Statements. |
| (d) As per the financial statements of the Company, the amount payable to CERT private limited as at 31 December 2019 was Rs.40,215,928. However as per CERT records it was Rs.42,551,302 and there was a difference of Rs. 2,335,374. | This difference was an observation made in 2018 financial statements. And the correction is required to be made in SL CERT financial statements. By the time observation is made SL CERT has | Action should be taken to obtain relevant balance confirmation. |

already submitted financial statements for the year 2019 for the Auditor General's review. They committed to make the corrections in financial statements for the year 2020.

- | | | |
|--|--|---|
| (e) Thirteen (13) vouchers valued at Rs.26,001,990 for the year under review had not been submitted for the audit. | There was a issue of system opening period for 2019. In the absence of Chief Financial Officer/Head of Finance, this issue was resolved by the CEO at that time. After system was opened for posting steps were taken to correct the positing issue. | All payments vouchers should be submitted to the Audit. |
|--|--|---|

1.5.3 Unauthorized Transactions

| Audit Issue | Management Comment | Recommendation |
|---|---|---|
| The payment vouchers valued at Rs. 525,695,777 had not been approved by Chief Executive officer and the delegation of authority also had not been done. | Delegation of Authority was established for the company in 2020. Hence from mid-March 2020 onwards payment vouchers attested according to the delegation of authority i.e. Certified by the Head of Finance and Authorized by Chief Executive Officer thereafter. | All payment vouchers should be approval by an authorized officer. |

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

| Audit Issue | Non Compliance | Management Comment | Recommendation |
|---|--|---|---|
| Public Enterprises Circular No. PED/12 dated 2 June 2003 - Guidelines for Good Governance Paragraph 3.9 | During the year under review, the assets valued to Rs.3,273,883 had been transferred to other government entities without proper approval. | The net value of Rs.2,619,106.00 was transferred to other government entities due to the downsizing in the Company's operation in 2018. This was recognized in the financial statements in 2019 as a result of board of survey conducted in 2020. | Circular instructions should be followed. |

2. Financial Review

2.1 Financial Result

The operating result of the Company and Group for the year under review was a deficit of Rs.365,514,611 and Rs. 372,831,575 respectively as compared with the corresponding surplus of Rs.329,778,080 and Rs.292,793,598 for the preceding year, thus observing a deterioration of Rs.695,292,691 and Rs. 665,625,173 in operating result of the Company and the group for the year under review as compared with the preceding year. The main reasons for the deterioration are increase of project implementation expenses and decrease in grant income.

3. Operational Review

3.1 Delays in Projects or Capital Work

| Audit Issue | Management Comment | Recommendation |
|--|---|--|
| Total estimated cost of the Automating of the Government Analyst Department (GAD) consist of 4 main components was amounting to Rs.40 million. Under the 1 st component, a contract valued at Rs.23.39 million was awarded to Private Company to provide ICT solution. Although the ICTA had been paid a sum of Rs.17.51 million or 75 present of the estimated cost to the Company as at 31 December 2019, the project was on hold due to non fulfillment of GAD requirements. | Although the responsibility of formulating a comprehensive system requirement document is given to the Consultant through the signed contract, responsibility of reviewing and accepting the proposed solution functional requirements is with GAD who is the project owner. In this instance the GAD had approved and signed off the requirement document despite identifying at a later stage that the Consultant had not mentioned about major functionalities required by GAD. Hence ICTA is in the process of reviving the project activities. | ICTA should compare the requirements of the clients and the purpose of the projects. |