

Sri Lanka CERT (Private) Limited - 2023

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Sri Lanka CERT (Private) Limited (“Company”) for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, for the year then ended and notes to the financial statements including material accounting policy information 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards for Small and Medium sized Entities.

1.2 Basis for Opinion

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 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 for Small and Medium sized Entities, 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 Receivables

Audit Observation	Management Comment	Recommendation
The balance of Rs.40,215,928 due from Information Communication Technology Agency (Pvt.) Ltd., which has been in existence since the year 2017, had failed to be recovered even at the end of the year under review.	A committee has been appointed by the Ministry of Technology to examine the account balance and further action will be taken based on the committee's recommendations.	Receivables should be recovered as soon as possible.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
(a) Section 2.3 of the Guidelines introduced by Public Enterprise Circular No: 01/2021 dated 16 November 2021	According to the guidelines, a strategic plan for five years should be prepared along with the annual budget, action plan, but the company had not acted accordingly.	The annual budget for the year 2023 has been prepared and submitted to the Public Enterprise Department. Further, the Annual Action Plan has been prepared and presented. The 5-year strategic plan to be prepared for the company had not been prepared in the year 2023.	Annual budget, action plan and strategic plan should be prepared as per the guidelines.
(b) The Operation manual of introduced by Public Enterprise Circular No: 01/2021 dated 16 November 2021			
(i) Paragraph 3.2	There were no approved recruitment procedure and no approved carder for the company.	I agree. The recruitment and promotion procedure related to the institution is currently being prepared.	A recruitment procedure and number of staff should be approved for the company as per the operational manual.

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| (ii) | Paragraph 3.4 | Every government-owned business should have a staff succession plan, but the company had not prepared a succession plan. | Until now, the company has not prepared a staff succession plan. But along with the preparation of the Schemes of Recruitments (SOR), the relevant succession plan will be prepared as implied by the recruitment procedure. | A staff succession plan should be prepared as per the operations manual. |
| (iii) | Sub-clause iii of paragraph 4.3 | The company should have ensured that there was a formal inventory system in place to manage both receipts and issues, but had not introduced a system for inventory. | I agree. From the year 2024, Action has been initiated to maintain a Inventory book of the company's inventory Item. | A formal system should be introduced as per operation manual. |
| (iv) | Sub-clause ii of paragraph 6.1 | Although the board of directors must delegate financial authority to management to ensure the implementation of a strong system of internal control, The company had not acted accordingly. | I agree. The Board of Directors had delegated financial authority to management for the year 2024. | The board of Directors should be delegate financial authority to management. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to an after tax surplus of Rs. 21,678,519 and the corresponding surplus in the preceding year amounted to Rs. Rs.7, 902,861. Therefore an improvement amounting to Rs. 13,775,658 of the financial result was observed. The main reason for the improvement was the revenue generated through the providing of cyber security services increased by Rs. 14,136,763 that was an increase of 153 percent.

3. Operational Review

3.1 Management Inefficiencies

Audit Observation	Management Comment	Recommendation
Although there is no approved recruitment and promotion procedure for the company, with effect from 01st of April 2013, the staff were given salary increments ranging from 5 percent to 13 percent after a performance appraisal, with the approval of the Board of	As Sri Lanka CERT Institute is an organization under “Annexure A” as per the operational manual of the Department of Public Enterprises, the Board of Directors has powers to decide	In the recruitment of staff on contract basis, as the period of service and the remuneration paid are pre-specified, arrangements should be made to obtain proper

Directors. Also, all the staff of the company were recruited on contract basis and the promotion of two of them was approved by the Board of Directors on 01 August 2023.

the organizational structure of the institute, deal with recruitments and promotions and determine salaries.

approval for the process of recruitment and promotion as per the operation manual.

3.2 Transactions of Contentious Nature

Audit Observation	Management Comment	Recommendation
<p>The company had provided medical insurance to the staff for the year 2023 at a cost of Rs.1,977,653 without the approval of the Treasury/Board of Directors. And one officer Rs. 2,500 each with a medical allowance and Rs. 15,000 each as travel allowance was paid, but Treasury/Board approval for that also was not submitted for audit.</p>	<p>In 2018, the Sri Lanka CERT Institute was made independent of ICTA. Accordingly, the allowances of Traveling Expenses Allowance and Medical Allowance are given on a monthly basis and the payment is also subject to PAYE tax. The health and medical insurance provided by the Sri Lanka CERT Institute for its employees has been referred by the Ministry of Technology for the approval of the General Treasury under the recommendations of the Board of Directors.</p>	<p>Prior approval of the Board of Directors and the Treasury must be obtained for all payments.</p>

3.3 Human Resources Management

Audit Observation	Management Comment	Recommendation
<p>Two officers were recruited for the positions of financial manager and legal and regulatory affairs manager, who were not included in the company's approved carder, and also during the year under review Rs.2,517,500 and Rs. 675,000 had been paid as salary and allowances respectively .</p>	<p>With the requirement of finance Manager, it was decided to hire a Finance Manager at the November 2022 Board of Directors meeting. Further with the approval of the Board of Directors, approval was sought from the Department of Public Enterprises through the Ministry of Technology for the recruitment of the Legal and Regulatory Affairs Manager in accordance with the expenditure control circulars.</p>	<p>Posts must be approved prior to recruitment.</p>