

Sri Lanka CERT (Private) Limited - 2018

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka CERT (Private) Limited (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 2018, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

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 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 Accounting Deficiencies

Audit Issue -----	Management Comment -----	Recommendation -----
(a) As per the financial statements of the Company, the cost of property, plant and equipment as at 31 December 2018 was Rs.13,414,282. However, the Company had not properly maintained fixed assets register and detail schedules. Therefore, the audit was unable to ascertain the accuracy of such balance.	The observation is correct. However, Sri Lanka CERT is now maintaining a fixed assets register with all details including the year of purchase and the date, item description, amount and the supplier.	Company should maintain a fixed asset register and ascertain the accuracy of fixed assets.
(b) As per section 17.19 of the SLFRS for SMEs, the useful life of the assets shall be reviewed at least at each financial year end and if expectation differs from previous estimates, the changes shall be accounted in accordance with section 10.15 – 10.18 of SLFRS for SMEs. However, value of the fully depreciated property, plant and equipment amounting Rs.12,218,381 still in use, had not been reviewed and accounted accordingly.	Sri Lanka CERT will review the residual value and useful life of the assets and incorporate them into the 2021 financial statements.	Company should comply with the provisions of the SLFRS for SMES.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular No. PED/12 dated 2 June 2003 - Guidelines for Good Governance			
(a) Guidelines 9.2	The Company does not have an organization chart and an approved cadre.	Whilst agreeing to your observation, with reference to section 12(f) of the National Audit Act No. 19 of 2018, and Public Enterprises Circular No. PED/12 dated 2nd June 2003 guidelines for Good Governance 9.2 and 9.3.1. Sri Lanka CERT	Company should comply with the requirements of the guidelines for good governance.
(b) Guidelines 9.3.1	The Company does not have a scheme of recruitment and promotion for each post.	wishes to point out that, to regularize the organizational framework related to cyber security, Cyber Security Act (CSA) is being prepared for the approval of Parliament of Sri Lanka. The CSA will address the issues related to guidelines 9.2 and 9.3.1. It is expected to obtain the approval for this Act in the latter part of this year.	Company should comply with the requirements of the guidelines for good governance.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a surplus of Rs. 12,514,270 and the corresponding surplus in the preceding year amounted to Rs. 9,254,445. Therefore an improvement amounting to

Rs.3, 259,825 of the financial result was observed. The reason for the improvement is increase of grant receipt and other revenue.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
(a) Without an approval, the Company had incurred a sum of Rs. 8,520,000 as allowances of the Chief Executive Officer of the Company during the year under review.	Relevant documents attached	All payments must be made with formal approval.
(b) The Company had been made a gratuity provision amounting to Rs.12,424,250. However, the Company had failed to invest funds separately to meet the gratuity obligations when they arise.	Fixed deposit opened on 28 September 2020.	Funds should be invested to meet the obligations when they arise.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
As per progress report of the Company, the approved cost of project of the Cyber Security and Infrastructure Development project was Rs.16.10 million and as per the ministry progress report it was Rs.15 million. Further, a sum of Rs.17.6 million had been incurred by exceeding the approved cost.	An answer had not been given by the Company.	Cost of the projects should be control within the approved limit.