

Lanka Government Information Infrastructure (Private) Ltd - 2021

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Government Information Infrastructure (Private) Ltd “Company “ for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit and loss , 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, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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 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, 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 Audit Observations 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
Funds payable to Employees' Provident Fund amounting to Rs.264,680 and Employees' Trust Fund amounting to Rs.39,702 as at 31st December 2021 had not been accounted. Further the balance receivable amounting to Rs.304,382 from payroll processing company had not been accounted as a debtor. As a result, the company’s current assets and liabilities were understated by same amount.	Regarding the EPF and ETF payments for December, it should be clarified that we did not account for them as payable, as the funds were already transferred to the SSP. Strictly speaking, one could argue that EPF and ETF for December are technically payable, with the amount transferred to the SSP considered receivable at the end of December. However, to prevent such complications in the future, we have already informed the SSP to process the EPF and ETF payments within the same month that the funds are transferred to them.	All receivables and payables should be accounted.

1.5.3 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
Though the board of the parent company (Information and Communication Technology Agency of Sri Lanka (Pvt) Ltd its meeting held 15 November 2022 had approved to amalgamate the	The decision to amalgamate on 15th December 2022 falls on LKAS 10 as this decision took. Between the balance sheet date and the date when the financial statements are authorized to issue. However, this is a	All events after balance sheet date should be disclosed.

Company with the ICTA non-adjusting event that needs to following section 242 of the disclose as it deals with conditions that Company Act. It was not arose after the reporting period. Accept disclosed in the financial our failure to disclose this non-adjusting statements. event as required by LKAS-10.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
The balance receivable from parent company (Information and Communication Technology Agency (Pvt) Ltd) as at 31 December 2021 was Rs.44, 001,286 which existed from the year 2015 without being recovered.	ICTA is planning to offset this intercompany balance through the amalgamation of LGII and ICTA, which is currently being processed.	Receivable amount should be collected.

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

Reference to Non-compliance Laws, Rules Regulations etc.	Management Comment	Recommendation	
a) The Companies Act No: 07 of 2007, section 133(1)	An Annual General Meeting of shareholders should be held once in each calendar year. The Company had not held Annual General Meeting from its inception.	Delay in preparation of financial accounts for audit resulted to delay in having AGM. We will assure to have AGM as prescribed by Company Act, one's outstanding accounts are finalized.	The provisions of the Act should be followed.
b) Public Enterprises circular No 01/2021 dated 16 November 2021, chapter 6.6 of the Operational Manual	Although the draft annual report and Accounts should be handed over to the Auditor General within sixty (60) days after the close of the financial year. Financial Statements for the year 2021 had been handed over to the Auditor General after 425 days.	We accept there was a delay in the submission of the Financial Statements. This was due to the backlog that was being cleared from 2016 onwards. However currently 2021 financial statements are being audited by National Audit Office and already prepared the draft financial statements for 2022 .We ensure that we will be aligned with the government calendar in continuation.	Circular instructions should be followed.

- | | | | |
|---|--|---|---|
| c) Public Finance circular 01/2014 dated 17 February 2014, chapter 05 | The company had not been prepared the Corporate Plan and an action Plan incorporating commercial activities to be implemented for the year 2021. | LGII's Corporate Plan and Action Plan are included in ICTA's Corporate Plan and Action Plan for 2021. Also, in 2021, the proposed Digital strategy way forward created by ICTA addressed the work scope of LGII through the Digital Services strategy pillar, which incorporated the features of LGII in both the Corporate Plan and Action Plan. | Circular instructions should be followed. The organization plan should be separately identifiable. |
| d) Public Enterprises circular no: PED/12 dated 02 June 2003, chapter 5.2.5 | The Company had not prepared the budget for the year 2021. | LGII being a wholly owned subsidiary of ICTA practiced to prepare budgets, action plans, annual budgets & procurement plans under ICTA without having separate reports to LGII. | Circular instructions should be followed. The budget should be separately identifiable. |
| chapter 9.2(b) | the Organization chart had not been prepared for the company | The proposed Digital strategy way forward created by ICTA addressed the work scope of LGII through the Digital Services strategy pillar, which incorporated the features of LGII. In conclusion, LGII is a part of ICTA's organizational chart under the Digital services pillar. | Circular instructions should be followed. The organization chart should be separately identifiable. |

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to deficit of Rs.2,041,493 and the corresponding deficit in the preceding year amounted to Rs.1,480,734. Therefore a deterioration amounting to Rs.560,759 of the financial result was observed. The reasons for the deterioration are loss on disposal of assets by Rs.884, 653.

3. Operational Review

3.1 Under -utilization of Funds

Audit Issue	Management Comment	Recommendation
The bank balance of the bank account No: 0072839158 of the Bank of Ceylon Rs.350,742 had not been utilized during the year 2021.	Rs.350,742 balance lying in LGII account number 0072839158 represents support service income received by LGII. This balance was not transferred due to the nonfunctioning of LGII operation. However, with the appointment of the recent Board of directors, we will assure to utilize these funds without keeping it in the current account.	Funds should be used productively.

3.2 Resources Released to Other Organizations

Audit Issue	Management Comment	Recommendation
The Company had transferred Rs.3,261,272 valued fixed assets to Sri Lanka Army (ARMY) and the Ministry of Technology in the year 2021 and 2022 without board approval.	The fact that board approval is not obtained for assets transferred to the Ministry of Technology & Sri Lanka army is acknowledged.	Before transfer fixed assets necessary approvals should be obtained.