

## **Information and Communication Technology Agency of Sri Lanka (Pvt) Ltd - 2021**

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### **1. Financial Statements**

#### **1.1 Qualified Opinion**

The audit of the financial statements of the Information and Communication Technology Agency of Sri Lanka (Pvt) Ltd “Company” for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the profit and loss statement, 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 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 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 Audit Observations on the preparation of Financial Statements

### 1.5.1 Non- Compliance with Sri Lanka Accounting Standard

Non- Compliance with the reference to Standard	Management Comment	Recommendation
Sri Lanka Accounting Standard 10 The board of the Company its meeting held 15 November 2022 had approved to amalgamation of the subsidiary the Lanka Government Information Infrastructure (Pvt) Ltd with the ICTA following section 242 of the Company Act. It had not been disclosed in the financial statements.	The decision to amalgamate on 15 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 non-adjusting event that needs to disclose as it deals with conditions that arose after the reporting period. Accept our failure to disclose this non-adjusting event as required by LKAS10.	The provisions of standards should be followed.

### 1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
a) The Company had entered an agreement with the Softlogic Information Technologies (Pvt) Ltd for providing Bare-metal Server Facilities for General Cluster of Lanka Government Cloud 2.0 commencing on 14th September 2020 and ending on 13th March 2021 as per agreement No: ICTA/GOSL/SER/NCB/2016/35. The 2nd upfront payment for the period of 13th September 2021 to 14th March 2022 of Rs. 11,394,000 had been paid on 31.12.2021. The amount of Rs.439, 584 related from 01 January 2022 to 13 March 2022 had been accounted as expense in the year 2021 instead accounting as pre-payment.	We acknowledge our failure to recognize the prepayment amount of Rs. 439,584 that was paid to Softlogic Information Technologies (Pvt.) Ltd. due to an oversight. However, it is important to note that accounting for this prepayment amount will not impact the net surplus/deficit. When the full amount is charged as an expense without recording the prepayment, it has no effect on the surplus/deficit as we record the full amount as grant income. Conversely, if we were to record the prepayment, the expenses would decrease by the prepayment amount. Simultaneously, the grant income would also be reduced by the same amount, as we would have to record the prepayment amount as deferred grant income to recognize the income in the future.	Company should recognize prepayment.

- b) Funds payable to Employees' Provident Fund and Employees' Trust Fund as at 31st December 2021 amounting to Rs. 6,868,498 had not been accounted. And correspondingly, the balance receivable from outsource company for salary payment had not been accounted as debtor. As a result, the company's Current Assets and Liabilities were understated by the same amount.
- Funds for payment of total salaries including EPF & ETF is requested from the Ministry of Technology at once without requesting separate fund request for EPF/ ETF & salaries paid to employees. Once these funds are received from the treasury, they will be transferred to the SSP (Service Provider) for processing of salaries, EPF, ETF, PAYE, and other related payments. Although the funds are typically transferred between the 20th and 25th of each month to the SSP, it should be noted that the SSP arranges for EPF and ETF payments in the following month, as the payment due date for EPF and ETF falls at the end of the following month. Consequently, the SSP holds the funds until the end of the following month, particularly for any subsequent salary adjustments. 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 Unauthorized Transactions

Description of unauthorized transaction	Management Comment	Recommendation
The Company had transferred Fixed Assets amounting to Rs. 4,983,947 to Sri Lanka Army (ARMY) and the Ministry of	The fact that board approval is not obtained for assets transferred to the Ministry of Technology & Sri Lanka army is acknowledged. Despite	Before transferring fixed assets, necessary approvals should be obtained.

Technology during the year 2021 and 2022 without obtaining the approval of the board. thorough examination of all correspondences and consultations with the company secretary, no documents regarding the approval obtained from the Board for the asset transfer could be found.

#### 1.5.4 Going Concern of the Organization

Audit Issue	Management Comment	Recommendation
As per the Financial Statements, loss for the year under review was Rs.41,648,126 and the cumulative loss as at 31 December 2021 was Rs.109,986,309. Further, Equity of the company as at 31 December 2021 records a negative value of Rs.109,986,289. Therefore, the going concern of the Company is uncertain unless otherwise the continuous support of the government.	It is well-understood continuation of the operation of ICTA depends on approval of both operation & project budget for year 2023. As per the attached annexure 6,556 million is approved for both NPD-approved projects & operations out of the requested budget of 6,583.10 million for year 2023 for ICTA. Hence there is no question of going concern of ICTA. Further, we have not been formally communicated on any matters related the going concern of ICTA. It is evident that the negative net asset is not a real negative asset resulting from losses that create a going concern issue.	Company should take action to mitigate the risk.

#### 1.5.6 Documentary Evidence not made available for Audit..

Item	Amount Rs.	Evidence not available	Management Comment	Recommendation
a) Fund Transferred to payroll processing company.	342,428,694	Receipts	Funds required to pay salaries are transferred to SSP based on bank account details already provided to us. Funds transferred are already utilized for the payment of salaries and related expenses. Conversely, a receipt for funds is evident as SSP utilizes these funds to pay salaries. However going forward we will assure to obtain receipt form SSP.	All payment should be accompanied with receipt.
b) Vehicle rent payment	5,829,600	Receipts	Regarding vehicle rent, it is not practical to request the supplier to provide a receipt at the time of collecting the cheque from us. We believe that an acknowledgment on the face of the voucher for the collection of the cheque adequately serves the purpose of obtaining a receipt from the supplier.	All payment should be accompanied with receipt.

## 1.6 Accounts Receivable and Payable

### 1.6.1 Payables

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
The balance payable to Sri Lanka Computer Emergency Response Team (Pvt) Ltd (CERT) as at 31ST December 2021 was Rs.40,215,928 which existed for long period of time without being settled.	Regarding CERT, we have no liability towards them since there were no outstanding. payments owed to suppliers by CERT at the time the shares of CERT were transferred. We have already given a detailed explanation to Ministry of Technology and CERT that this payable balance is a result of an accounting error. You all are well aware that MOT has already taken steps to rectify this outstanding balance.	Company should take action to settle the balance.

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

<b>Reference to Laws, Rules Regulations etc.</b>	<b>Non-compliance</b>	<b>Management Comment</b>	<b>Recommendation</b>
a) Section 133(1) of the Companies Act No: 07 of 2007	Even though the Annual General Meeting of shareholders should be held once in each calendar year, the Company had not held the Annual General Meeting.	The Annual General Meetings were not conducted owing to the delay in the finalization of the annual accounts.	The provisions of company act should be followed.
b) Chapter 5.2.4 of the Public Enterprises circular no: PED/12 dated 02 June 2003,	Annual budget should be prepared and placed before the Board of Directors for approval three months before the commencement of the financial year. Further, copies of the final approved budget should be forwarded to the line ministry, the department of Public Enterprise, General Treasury and Auditor General not less than 15 days before the commencement of the financial year. However, the Budget for the year 2021 had not been prepared by the Company as per circular.	Budget already prepared for the year 2021 has already been communicated to you all. Although the budget was presented to the board approval for the budget could not be found. The Chief Executive Officer of ICTA has communicated the budget prepared for the year 2021 to the Presidential Secretariat through a letter. Subsequently, the Ministry of Technology has informed the approved budget of ICTA for the year 2021. These documents demonstrate that ICTA has successfully prepared and obtained approval for the budget for the year 2021, notwithstanding the absence of board approval.	Circular instructions should be followed.

c) Financial Regulation

F.R. 267

An employee's salary should pay to the contributor himself and his signature should be kept in the payroll, or a receipt should be obtained. The company had not acted accordingly.

We acknowledge the failure to obtain employee signatures regarding the acceptance of salaries. Regrettably, we did not prioritize obtaining employee acknowledgments for salary acceptance, as we relied on transferring the salaries directly to the bank accounts provided by the employees. Nevertheless, we have taken corrective measures and commenced the process of obtaining employee acknowledgments for salaries disbursed from March 2023 onwards.

Financial regulations should be followed.

F.R.756

Although boards of survey should be appointed on or about 15 December each year for verification fixed assets. The company had appointed boards of survey on April 2022 for the year 2021 and it was noted in the audit survey had been carried out on June 2022.

We kindly request acceptance of the delay in the appointment of the Board of survey committee, as well as the conduct of the Board of survey beyond the designated time frame. This delay arose primarily due to the change in the head of the Finance department, as well as several complications encountered with the fixed asset register, which were also highlighted in previous audit reports. In truth, the delay was a result of the time required to update the fixed asset register with all transfers after a thorough review of documents and pre-verification processes. We resolved this matter in 2022 by appointing the board of survey committee and ensuring the board of survey was conducted within the specified time frame outlined in the Financial Regulations.

Financial regulations should be followed.

F.R.835 (2)(e)

According to the regulation, the duration of the building rent agreement should not exceed three years, but the company had entered into a

National Procurement Guideline is to ensure the value for money where ICTA has considered lifetime cost as much as possible and gone for 04 years of rent.

Financial regulations should be followed.

rent agreement for four years.

2.2.4 (a.) At the time of initiating the procurement activity it was under the threshold of the Department Procurement Committee (DPC) and the applicable section was guideline 2.8.4

F.R. 1645

Daily running charts were not maintained for vehicles as per Financial Regulation.

Although we didn't maintain the format specified in FR; WE adopt our own running chart with the required details.

Financial regulations should be followed.

Conversely, the operational manual for state-owned enterprises grants the authority to develop and implement their own administrative and financial manual in accordance with the guidelines set forth in the manual.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the Company and Group for the year under review amounted to a deficit of Rs.41,648,126 and Rs.43,689,619, the corresponding profit in the preceding year amounted to Rs.1,821,249,302 and Rs.1,819,768,568. Therefore, a deterioration amounting to Rs.1,862,897,428 and Rs.1,863,458,187 of the financial result was observed. The reasons for the deterioration are decrease in grant income and increase in project implementation expenses.

## 3. Operational Review

### 3.1 Uneconomic Transactions

#### Audit Issue

Although the company had rented a building in March 2021. Rent had been paid to newly rented building and old building for the period from March to June 2021 Rs.20,943,320 and Rs.6,048,000 respectively.

#### Management Comment

ICTA signed the contract with the new building in March 2021 and initiated the refurbishment work. The refurbishment work includes partitioning, fixture, furniture, networking etc. which required minimum 3 Months for occupancy. From July 2021 we moved to the new building by handing over the previously rented building

#### Recommendation

Funds should be used economically.



### 3.2 Management Inefficiencies

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Although the Company had been outsourcing the company's payroll function, the approval obtained to outsource the company's payroll function was not submitted to the audit. Further, It was observed that employees' provident funds and employee trust funds approximately 6.5 million rupees had been retained daily by that company.</p>	<p>Funds for payment of total salaries including EPF &amp; ETF is requested from the Ministry of Technology at once without requesting separate fund request for EPF/ ETF &amp; salaries paid to employees. Once these funds are received from the treasury, they will be transferred to the SSP (Service Provider) for processing of salaries, EPF, ETF, PAYE, and other related payments. Although the funds are typically transferred between the 20th and 25th of each month to the SSP, it should be noted that the SSP arranges for EPF and ETF payments in the following month, as the payment due date for EPF and ETF falls at the end of the following month. Consequently, the SSP holds the funds until the end of the following month, particularly for any subsequent salary adjustments.</p> <p>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.</p>	<p>Funds should not be transferred to outside parties.</p>

### 3.3 Procurement Management

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>a) The company had not complied with the provisions of Guideline 2.8.3 of Government Procurement Guidelines of National Procurement Agency circular No. 08 dated 25 January 2006 when appointing of Procurement Committee and Technical Evaluation Committee for procurement of rent building for</p>	<p>Technical Evaluation Committee (TEC) has been appointed by the Chairman in line with the procurement Guideline under section 2.8.4</p> <p>Chairman participated with the physical inspection team and headed the negotiation committee due to the importance of the procurement decision that has to be taken.</p>	<p>Procurement guideline should be followed</p>

the Company. Further, the chairman of the company approved the appointment of the technical evaluation committee for this procurement in 2020, participated in the physical inspection of the building and acted as the chairman of the negotiation committee and approved the Ministry Procurement Committee of the as the Secretary of the Ministry in the year 2021 and acted as the chairman of the procurement committee of the ministry during the audit was observed.

In the year 2021, the same chairman was appointed as the Secretary to the Ministry of Technology. Due to the fact that all the quoted prices were above the DPC threshold, ICTA took a decision to continue the procurement process under a preview of a Ministry Procurement Committee (MPC). In the letter No. ICTA/PRO/GEN/05/21 dated 1st January 2021 (folio number 282 of the file) is evident that there was no appropriate staff other than the Secretary himself to perform as the Chairman of the Ministry procurement committee (MPC).

- b) As per NPA circular no: 08 dated 25 January 2006 issued by National Procurement Agency all procurements goods, works and services should be followed procurements guideline. Security, Cleaning and Tea services had been obtained by the Company without following procurements guideline and without entering agreements. Further, had paid Rs.1,049,069, Rs.2,025,325 and Rs.1,042,907 respectively for the year.

**Security**

ICTA relocated to the new premises in June 2021 while the refurbishment work is continuing in other floors. Until ICTA selected a suitable service provider through the procurement process, the organization continued the services of Security Company available at the time of relocation. However, in 2022 ICTA procured a suitable service provider through the competitive bidding process.

**Cleaning**

ICTA selects the supplier & continues to extend the service signing-only agreement even though it is required to follow procurement guidelines to select the particular supplier as well. Knowing the issue we follow a competitive bidding process & select supplier with effect from May 2022.

**Tea Service**

ICTA selects the supplier & continues to extend the service signing-only agreement even though it is required to follow procurement guidelines to select the particular supplier as well. Knowing the issue we are following competitive bidding process to select supplier.

Procurement guideline should be followed

### 3.4 Human Resources Management

Audit Issue	Management Comment	Recommendation
<p>As per cabinet decision no: 20/1784/301/012 dated 16 November 2020, from the year 2021, the company's contract staff had been absorbed permanent on a new pay structure without adhere to the following terms stipulated in the said cabinet decision.</p> <ul style="list-style-type: none"> <li>• Preparation of an action plan to cover the period of 05 years from 2021 to 2025 for implement “National Digital Policy and Implementation strategy”</li> <li>• Preparation a suitable program to recover project expenses from consulting fees related to the project and reserves other expenses from budget allocations for that.</li> </ul>	<p>Subsequent to approval received from the cabinet of ministers together with the National Digital Policy and strategy, ICTA had developed details strategies for Digital Government, Digital Economy and Digital Services. The existing staff were allocated each of these verticals by looking at the strategy and planned work.</p> <p>In addition to permanent staff, ICTA had contract staff as well. Some of these contract staff were attached to the projects they were involved in. ICTA entered into agreements with external parties, with an agreed- price that encompasses both the project's operational recurrent expenditure and the fees payable to consultants engaged in said projects. For additional information, kindly refer to the enclosed agreement pertaining to the revenue license, as well as the agreement concerning e-land and court automation, inclusive of video conferencing capabilities, which outlines the operational recurrent expenses levied upon the respective parties.</p> <p>In 2022 the model were expanded where almost all staff recruited for Digital Health were recruited for the relevant project where their remuneration were billed to the project.</p> <p>The Information and Communication Technology Agency (ICTA) includes consultancy fees paid to third parties and operational recurrent expenditure incurred directly in their pricing for external projects undertaken. In essence, ICTA has entered into agreements with external parties, with an agreed- price that encompasses both the project's operational recurrent expenditure and the fees payable to consultants engaged in said projects. For additional information, kindly refer to the enclosed agreement pertaining to the revenue license, as well as the agreement concerning e-land and court automation, inclusive of video conferencing capabilities, which outlines the operational recurrent expenses levied upon the respective parties.</p>	<p>Instructions of the cabinet decision should be followed.</p>

#### 4. Accountability and Good Governance

##### 4.1 Submission of Financial Statements

<b>Audit Issue</b>	<b>Management Comment</b>	<b>Recommendation</b>
<p>Chapter 6.6 of the Operational Manual of the Public enterprises circular No.01/2021 dated 16 November 2021.</p> <p>Although draft Annual Report and Accounts should be handed over to the Auditor General within sixty (60) days after the close of the financial year, the Company had submitted Financial Statements after 425 days.</p>	<p>The delay in the preparation of the Annual report is due to a delay in the preparation of accounts for audits. At present, the accounts for the year 2019 &amp; 2020 have been finalized, while the audit for the year 2021 is still ongoing. Our plan is to complete the audits for the year 2022 before the end of November 2023 and submit the corresponding annual reports prior to the end of January 2024. Once this backlog is cleared, we assure you that we will adhere to the designated deadlines for finalizing both the accounts and the Annual reports."</p>	<p>Circular instruction should be followed.</p>