

**1. Financial Statements**

**1.1 Qualified Opinion**

The audit of the financial statements of the Information Communication Technology Agency of Sri Lanka (Pvt) Ltd (“Company”) for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the Consolidated 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 2022, 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

Audit Observation	Management Comment	Recommendation
(a) According to paragraph 20 of Sri Lanka Accounting Standard 07, Although non-cash items should be adjusted to calculate the cash flow generated from operating activities while preparing the statement of cash flows using the indirect method, The gratuity value of Rs.5,440,450 paid in the year under review had been shown under non-monetary adjustments.	Actual gratuity payment is deducted to ascertain the cash flow derived from operating activities. Rs. 5,440,450 is the gratuity payment made during the financial year 2022, therefore it should be deducted while calculating operating cash flows.	In accordance with the standard, only non-cash items should be adjusted to calculate the cash flow generated from operating activities in preparing the cash flow statement under the indirect method.
(b) As per Sri Lanka Accounting Standard 10, due to the non-adjustment of 02 cheques issued on 30 December 2022 but canceled prior to certifying the accounts for the year ended 31 December 2022 amounting to Rs.226,848,738, the balance of the company's cash and cash equivalents had been Rs.226,848,738 understated.	This action has been taken to retain the money without re-depositing it in the Treasury and bring the bank balance to zero by the end of 2022.	According to the standard, canceled checks must be correctly adjusted in the accounts.
(c) According to Sri Lanka Accounting Standard 16, when calculating the cost of a fixed asset, all the expenses incurred to bring the asset to its current condition and location should be capitalized, but the amount paid to the consulting company for the renovation of office buildings Rs. 3,302,500 had not been dealt with accordingly. Furthermore, while calculating the depreciation rate of a fixed asset according to the standard, the expected life of the asset, physical obsolescence, technical and commercial obsolescence and legal and similar limitations should be taken into account, but the building renovation work	These consultancy fees fall under expenses not considered as cost of property, plant and equipment as set out in clauses 19 and 20. In practice, assets are classified based on their nature, and the useful life/depreciation period is determined for each class of asset class. ICTA classifies assets into various categories and assigns a useful life of five years to assets falling under the category of electrical installations and fixtures. It is recognized that certain electrical installations	In accordance with the standard, in calculating the cost of a fixed asset, all costs incurred to bring the asset to its current condition and location should be capitalized.

included Rs.66,725,736 electrical installations and fixtures had been taken into consideration for the allocation of depreciation as 05 years regardless of the future lease period of the building and the nature of those fixtures.

and fixtures may have a longer use or life, and due to the terms of the lease agreement with the land owner, a time limit of five years is imposed. Considering the significant investment made in the building, It is noteworthy that there is considerable potential to extend the agreement with the landlord.

## 1.5.2 Accounting Deficiencies

Audit Observation	Management Comment	Recommendation
(a) The amount of Rs. 32,363,150 given to the company by the National Intellectual Property Office of Sri Lanka had been adjusted to the other income account of the company during the preparation of the financial statements of the year 2019 and due to this the accumulated deficit had been reduced. The National Intellectual Property Office of Sri Lanka has requested to provide money again in the year 2022, but provision had not made in the financial statements in this regard.	The Treasury has been notified through the Ministry of Technology to pay this amount directly to NIPO,	Payable expenses should be accurately identified and accounted
(b) The company had entered into an agreement of Rs.12,100,000 with VS Information (Pvt) on 06th April 2022 for one year support and maintenance of Red Hat Open Stack software for Lanka Government Cloud 2.0 (LGC 2.0). The amount of Rs.2,016,667 payable for the months of November and December 2022 had not been accounted for as payable expenditure.	We recorded the payments as expenses for the first six months covering the period from May 2022 to October 2022.	Payable expenses should be accurately identified and accounted
(c) Rs.672,000 had not been accounted for as rent for 07 months in the year under review for the premises acquired for the company's parking.	The supplier's delay in submitting invoices for parking charges for the period 1 June 2022 to 31 December 2023 until December 2023 has resulted in the missed accrual of these parking charges.	Payable expenses should be accurately identified and accounted

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| (d) | Expenses and current liabilities have been overstated due to the accounting of the transportation expense related to January 2023 which was Rs.166,933 paid in the year 2023 as a payable expense in the year under review.  | This happened as a result of an oversight.   | Expenses related to the period should be correctly identified and accounted.       |
| (e) | As at December 31, 2022, the payable to the Employees' Provident Fund and the Employees' Trust Fund were Rs.6,284,307 and as at that date the balance due from the payroll processing company is Rs. 6,284,307 had not accounted for as debtors, the company's current assets and current liabilities were understated by that amount. | This issue is no longer applicable as internal processing of payroll has started with effect from June 2023. | Current assets and current liabilities should be properly identified and accounted |

### 1.5.3 Going Concern of the Organization

#### **Audit Observation**

According to the financial statements, the loss for the year under review was Rs.23,964,183 and the accumulated loss was Rs.133,950,492. Furthermore, as of 31<sup>st</sup> December 2022, the company's equity had taken a negative value of Rs.133,950,472. Therefore, the Going Concern of the company was determined on the receipt of further government funding.

#### **Management Comment**

As ICTA is a government-funded organization, it is essential to acknowledge that ICTA's sustainable operations depend on Government Grants.

#### **Recommendation**

The company should take immediate action to mitigate the risk.

### 1.5.4 Lack of Documentary Evidences for Audit

#### **Audit Observation**

- (a) As a value that should have been received from the Ministry by the year 2019, due to accounting Rs. 14,809,774 as project implementation cost in 2019 which was mentioned in the financial statements in 2019 and in a board decision, therefore the cumulative loss shown under the financial position of the year 2022 was overstated by that value. And to verify this value, the management had failed to submit the details of project implementation costs to the audit.

#### **Management Comment**

As these payments were not settled by the Ministry, the Board of Directors decided on 20 May 2021 to account as project implementation expenditure.

#### **Recommendation**

The transaction should be correctly identified and accounted for accordingly.

(b)	Since the year 2018, sixty eight creditor balances totaling Rs.2,775,096 had been brought forward without settlement. Also for 13 creditor balances amounting to Rs.2,111,459, the balance confirmations were not called so that the balance confirmations could be directly received by the audit.	Creditor Balance Rs.2,775,096 reflects 76 un presented cheques issued in 2016 and 2019. And in case of non-response within the specified period, steps will be taken to do the write-back process.	Creditor balances should be settled as soon as possible. Action should be made to call for balance confirmations so that the balance confirmations can be received directly by the auditor.
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**1.6 Payables**

**Audit Observation**

**Management Comment**

**Recommendation**

As at 31st December 2022, Rs.40,215,928 payable to the Sri Lanka Computer Emergency Response Forum (Sri Lanka CERT (Private) Limited ) from 2017 had been brought forward without settlement.

Accounts Payable to CERT has been arisen due to an error. The issue will be resolved after the deliberations of the committee appointed by the Ministry of Technology.

Payable should be recovered as soon as possible.

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

**Reference to Laws, Rules Regulations etc.**

**Non-compliance**

**Management Comment**

**Recommendation**

(a) Section 133(1) of the Companies Act No. 07 of 2007

According to the Act, an annual general meeting of shareholders should be held once in each calendar year, but the company had not held the annual general meeting since the year 2017 and a general meeting for the year 2021 had been held on 07 th November 2023.

Due to the delay in preparing the financial accounts, the annual general meeting was delayed. The Annual General Meeting to review the financial statements for the year 2021 was held on 7th November 2023. After the completion of the audit for the year 2022, the financial statements for the year 2022 will be called for review.

As per the provisions of the Companies Act, an annual general meeting of the shareholders shall be held once in each calendar year.

- (b) Guidelines on Corporate Governance introduced by Public Enterprise Circular No:01/2021 dated 16 November 2021 2.3. According to the provisions, the strategic plan, action plan and budget should be submitted to the Public Enterprise Department through the line ministry 15 days before the beginning of the year, but it had not been done accordingly. Further, the company had not prepared the budget for the year under review as per the circular. A strategic plan has been developed from 2020 to 2024. This revised strategic plan was approved by the Board at a meeting held on 18 July 2023. I acknowledge that there has been a delay in obtaining board approval for this strategic plan. We acknowledge that due financial reporting as specified in the circulars had not been followed. According to the circular provisions, the strategic plan, action plan and budget must be submitted to the Public Enterprise Department through the line ministry 15 days before the beginning of the year.
- (c) The Operation manual of introduced by Public Enterprise Circular No: 01/2021 dated 16 November 2021
- (i) Paragraph 3.2 There was no approved recruitment procedure and no approved carder for the company. A Scheme of Recruitment (SOR) was not in place but there was a Cabinet approved staffing with effect from 04 November 2020. There is an approved SOR recruitment system submitted to the Department of Public Enterprises, Ministry of Finance (PED) through Ministry of Technology (MOT) on 4th December 2023. A recruitment procedure and number of staff should be approved for the company as per the operational manual.
- (ii) Paragraph 3.5. According to the provisions, an employee of the State Owned Enterprises (SOE) should not be released to a Ministry or any other institution without the approval of the Cabinet and no allowance should be paid during the released periods, but the company As per the request of the Ministry Secretary, both the employees had to be released to the Ministry of Technology. According to the operational manual, an employee of a state-owned enterprise (SOE) shall not be released to a ministry or other agency without the approval of the Cabinet. Salaries and

had released two female officers to the Ministry of Technology without approval and in the year under review Rs.2,560,000 as salary and telephone allowances. had been spent.

allowances should be recovered.

- (iii) Paragraph 3.8. Although the communication facility to the employees of the Government Owned Enterprises was to be based on the Government Circulars issued by time to time, the Company had also paid telephone allowances to the Project Officer/Project Assistant and Driver staff for which there was no circular provision.
- The allowance is paid to the lowest paid employees who have not received a salary increment since July 2022. In the future, after offer a salary increment to these employees, I will remove the mobile phone allowance of those employees.
- According to the operational manual, the communication facilities to the employees of the state-owned enterprises should be based on the Government Circulars issued by time to time.

## 2. Financial Review

### 2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs. 20,629,927 and the corresponding deficit in the preceding year amounted to Rs. 41,648,126. Therefore an improvement amounting to Rs.21,018,199 of the financial result was observed. The reason for the improvement is mainly due to a communication expenditure decrease from Rs. 685,927,956 which was 58 percent.

## 3. Operational Review

### 3.1 Uneconomic Transactions

Audit Observation	Management Comment	Recommendation
According to the judgments related to the cases assigned against the company regarding the dismissal of two officers of the company, Rs.18, 870,000 had to be paid in the year under review and for these cases the company had also spent Rs.1, 070,000 as legal fees in the year under review.	Payments have been made due to court judgment. The Board has approved the payment.	Such expenses should be avoided and staff administration activities should be maintained properly.



### 3.2 Identified Losses

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
According to the Social Security Tax Act No. 22 of 2022, the Social Security Tax shall be effective from 01 October 2022 in relation to turnover, But for the invoices related to the months of April to September 2022 submitted to the company for the provision of services related to the management and operation of Government Information Center project Rs.855,491 social security tax was paid by the company. Also, due to this, the Value Added Tax of Rs. 128,323 was overpaid for those invoices.	Although these invoices pertain to the period from April to September 2022, the service provider has issued all relevant invoices in December 2022. The delay in determining the penalty charges led to the delay in raising these invoices. As SSL came into effect from October 1, 2022, the service provider had to apply SSL to invoices collected in December 2022.	Disadvantage situations to the company should be minimized as much as possible.

### 3.3 Management Inefficiencies

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) The company's staff salary processing and payments were performed by an external company without a formal agreement and the amount related to salary payment including the related fee is Rs.Mn 414 had been paid during the year under review. The company shall pay monthly employees' provident funds and employees' trust funds, immediately after the completion of salary payment, without remitting to those funds, in daily basis Rs.Mn. 5.80 to Rs.Mn. 14.65 had been retained in the payroll processing company for a period of 31 to 53 days.	The services of the private company which was processing salaries and related payments on behalf of ICTA have been terminated with effect from May 2023. The electronic payroll system of the Ministry of Finance has been implemented with effect from October 2023.	Minimize the chances of government funds being held in the bank accounts of private parties, and immediately after the completion of the work, the excess money to the private party should be immediately remitted to the company.
(b) As per the Information and Communication Technology (ICTA) Act No. 27 of 2003, the Sri Lanka Information Communication Technology Agency was established on 12th May 2003 as a company wholly owned by the Treasury. Although all the movable and immovable properties belonging to the Information Technology Council (CINTEC)	Especially considering that ICTA is a government-owned private company, there is no legal capacity to include CINTEC's net assets as capital employed in ICTA. And to elaborate, CINTEC's assets are integrated into ICTA's accounting records, and CINTEC's corresponding liabilities are accounted for in ICTA's books of	Transferring the assets and liabilities of another government agency is an investment of start-up capital and should be handled accordingly.

established under the Science and Technology Promotion Act No. 11 of 1994 and all the assets and liabilities of the Council have been transferred to the Company (ICTA). The council's net asset balance of Rs. 5,744,115 was not adjusted to the capital of the company but adjusted to the surplus.

account. Net assets (assets minus liabilities) are duly transferred to ICTA's reserves.

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| (c) | For the implementation of the “e-library” project, the Bill and Melinda Gates Foundation had given Rs. 121,582,863 and it had been reconciled to the other income account of the company during the preparation of the financial statements for the year 2019, thereby reducing the accumulated deficit from that amount. | The funds have been donated by the Bill & Melinda Gates Foundation. | Action should be taken to accurately accounted for Funds received for projects |
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### 3.4 Idle or underutilized Property, Plant and Equipment

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although a building sufficient for 235 staff was obtained on rent basis, as the actual staff was 106 in the year under review, the building rent for 10320 square feet was Rs.21,054,840 and the office furniture worth Rs.16,048,194 remained underutilized.	Beyond the work space reserved for staff, there are common spaces within the premises, for example meeting rooms, lunch rooms, auditorium, cafeteria, washrooms, corridors, etc., whose total square footage exceeds the occupancy required by staff.	Assets should be utilized to the maximum extent.

### 3.5 Procurement Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
(a) According to 4.3.1 and 4.3.2 of the Procurement Guidelines Code, the procurements of the Government of Sri Lanka should be included in the procurement plan and approved by the Line Ministry Secretary, but the company's office building had been renovated as an office premises at a cost of Rs.115,070,334 and the relevant approval had not been obtained.	Based on Presidential Secretariat Circular No. PS/GPA/Circular/01/2020 dated 13th January 2020, Cabinet Decision/Approval No. AMP/20/1784/301/012 dated 1st December 2020 and approval of ICTA CEO Reform Procurement Process was initiated. Moreover considering the Cabinet approval and ICTA CEO's approval, the Procurement Unit assumed that the recognized approval is already in	All procurement must be included in the annual procurement plan and obtained an approved.

place to proceed with the reform procurement process considering the priority work assignments given in the above circular.

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| (b) | Although the contract with a private company to obtain vehicles for the company's transportation ended at 28 th February 2018, Without extending the contract period or conducting procurement activities in accordance with Government Procurement Guidelines No. 08 dated 25 th January 2006, also five vehicles were acquired on rental basis in the year 2022 and Rs.6,090,084 had been spent. | Agree with the observation. However, the administration department has already taken steps to ensure that proper approval procedures are followed from 1st August 2023. | All procurement should be done in accordance with the guidelines.                             |
| (d) | According to No. 4.2.2(a) of the Government Procurement Guidelines Code, a procurement schedule describing the steps should be prepared in chronological order in relation to each procurement action, but the audited total of 03 procurements of Rs.9,578,856 was not done as per the guidelines.  | Will be sure to correct this observation in the future.   | A schedule should be prepared for all procurements in accordance with procurement guidelines. |
| (e) | For the year under review, Rs.1, 152,000 had been spent by acquiring land from a private party at a monthly rent of Rs.96, 000 for parking vehicles by without conducting procurement activities in accordance with government procurement guidelines and also without entering into an agreement.   | This parking facility has been discontinued from 01 st January 2024.  | Action should be done in accordance with procurement guidelines.                              |

### 3.6 Human Resources Management

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Contrary with fulfilling the requirements of the Cabinet Decision No: AMPA/20/1784/301/012 dated 01 st December 2020, sixty nine of the contract staff had been given permanent appointments from 01 <sup>st</sup> January 2021 to the point that the contract service period will be counted as the company's service period without obtaining the approval of the Treasury or the Board of Directors and according to paragraph 9.7 of the Public Enterprise Circular No: PED/12 dated 03 <sup>rd</sup> June 2003, without obtaining the approval of the Secretary of the Treasury, new salary structures had	In order to implement ICTA's Charter and Action Plans approved by the Cabinet, there was a need for recruitment.  Agree with the observation that proper approval procedures have not been followed while granting salary increments.	As per Cabinet decision and circulars, new salary structures should be established and introduced at the prescribed salary level.

been introduced at levels ranging from 0 percent to 87 percent higher than the contract salary that the permanent staff were receiving at the initial step of the fixed salary scale.

Further, according to paragraph 3.2(iv) of the public Enterprise Circular dated 16th November 2021, the request for salary increment had not been submitted to the committee chaired by the Secretary to the Treasury and the salary increment to the staff had not been approved by the Board of Directors for the proposed salary increment for each officer, effective from July 01st 2022 had been granted.

#### **4. Accountability and Good Governance**

##### **4.1 Submission of Financial Statements**

<b>Audit Observation</b>	<b>Management Comment</b>	<b>Recommendation</b>
Although the annual report and draft accounts must be submitted to the Auditor-General within sixty (60) days after the end of the financial year in accordance with paragraph 6.6 of the Operations Manual introduced by Public Enterprise Circular No. 01/2021 dated 16th November 2021, The company had submitted financial statements after 294 days.	The submission of financial statements for the year 2022 was delayed due to completion of previous years' financial statements.	The Annual Report and Accounts shall be submitted to the Auditor General within sixty (60) days of the end of the financial year in accordance with the provisions of the Operations Manual.