Information Communication Technology Agency - 2023

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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” and its subsidiary ‘’Group’’ for the year ended 31 December 2023 comprising the statement of financial position as at 31 December 2023 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 2023, 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 the 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 **C**ompany’s ability to continue as a going concern , disclosing, as applicable,matters related to going concern and using 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 the 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 (Auditor's Responsibility for the Audit of Financial Statements)

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 Audit Observations on the Preparation of Financial Statements

1.5.1 Non-compliance with Sri Lanka Accounting Standards

	Non-compliance with the Standard	Comments of the Management	Recommendation
a)	During the preparation of the financial statements of the year 2019 the amount of Rs. 32,363,150 provided by the National Intellectual Property Office of Sri Lanka to the company for the implementation of projects was adjusted to the other income account of the company due to non-implementation of those projects and as a result, the accumulated deficit had been reduced by that amount. Although the National Intellectual Property Office of Sri Lanka had requested to release the funds in the year 2022, no provision had been made in the financial statements of the year under review in accordance with Sri Lanka Accounting Standard 01 in this regard.	This refundable amount has been used to pay salaries since the Treasury had not provide funds for the payment of salaries for the month of April 2017. The Board of Directors has requested the Treasury to pay directly to the National Intellectual Property Office through the Ministry of Technology.	Sri Lanka Accounting Standards should be followed.
b)	In contrary to the paragraph 20 of Sri Lanka Accounting Standard 07, in the preparation of the cash flow statement, the gratuity value of Rs. 13,909,600 paid in the year under review had been included under non-cash adjustments while calculating the cash flow generated from operating activities. Furthermore, the Government capital grants of Rs. 68,151,282 and other project funds of Rs. 1,813,000 used for the acquisition of fixed assets in the year under review had not been included as cash used for financing activities.	The operations identified in the cash flow statement have no impact on cash flows and only reflect a presentation error.	The cash flow statement should be prepared in accordance with the standard.
c)	The gratuity under- provision of Rs. 1,559,540 arising due to the change in the company's gratuity provision policy during the year under review had been adjusted to the comprehensive income statement of the year under review instead of adjusting it to the opening cumulative balance of the profit and loss account in accordance with paragraph 22 of Sri Lanka Accounting Standard 08. Furthermore, the employee gratuity	Provision for gratuity has been calculated based on the actual legal obligation rather than using the accrual method used in previous financial periods. This difference has been duly disclosed in the notes to the	Gratuity provision should be accounted for in accordance with accounting standards.

provision of Rs. 11,903,300 for the year under review had been adjusted to the comprehensive income statement instead of adjusting it to the profit and loss account and therefore the surplus was overstated from that amount in the financial statements.	financial statements.

1.5.2 Accounting Deficiencies

	Audit Observation	Comments of the Management	Recommendation
a)	The accumulated funds amounting to Rs. 4,986,669 received by the company from various projects were not recorded as income after the completion of the projects and were presented as a project administration balance payable at the end of the year under review under current liabilities and therefore current liabilities were overstated by that amount.	We accept that the cash balance available to cover the administrative expenses of external projects failed to be recognized as income in the profit and loss account for completed projects.	The remaining funds from completed projects should be taken to income.
b)	As per the agreement with Sri Lanka Telecom PLC for the rendering of services of Lanka Government Network 2.0 (LGN 2.0) for a period of 24 months from 20 April 2022, the Company had not paid Rs. 265,372,068 relating to the period from January to 19 April 2024, which is included in the lump sum fee of Rs. 743,113,857 to be charged for the period 2023/2024 and was presented as pre payments in the statement of financial position at the end of the year under review instead of being presented as deferred expenses.	The one-time payment should be recorded as the liability arises on 22 December 2023. In addition, the license warranty, support and maintenance for the year 2024 worth Rs. 265,372,068 should be recorded as a prepayment as it is not applicable to the expenses for the year 2023	Only pre payments made during the year should be accounted for as pre payments and expenses that should have been paid but have not been paid should be accounted for as deferred expenses.
c)	Due to the fact that the transfer order of Rs. 19,043,375 dated 31 December 2023 payable to Dialog Broadband Network Private Limited for the rendering of services had not been executed and that amount had been removed from the bank balance and payables and the cheque issued to the said company on 28 December 2023 for Rs. 16,399,631 had been cancelled, but the necessary adjustments had not been made in relation to the cheque up to the date before the financial statements were submitted for audit on 28 February 2024 and therefore the Company's cash and cash equivalents were understated by Rs. 35,443,006 in the financial statements at the end of the year under review.	The Secretary to the Ministry advised us to delay payments until the agreement is signed in a letter dated February 22. The creditors have not been reinstated as we intended to release the payment to Dialog as the contract has already been prepared with the issuance of the acceptance letter.	The accounts should be prepared considering the transactions up to the date of submission of the financial statements.

d)	The Information Communication Technology Agency of Sri Lanka (Private) Limited was established on 12th May 2003 as a fully owned company of the Treasury in terms of the Information and Communication Technology Act No. 27 of 2003. Although all the movable and immovable properties of the Information Technology Council (Cintech) established under the Science and Technology Promotion Act No. 11 of 1994 and all the assets and liabilities of the Council were transferred to the Company (ICTA), the net assets of the Council amounting to Rs. 5,744,115 were adjusted to the profit and loss account balance in the year 2007 instead of being separately disclosed in the statement of financial position as an initial capital investment of the company, which had the effect of reducing the accumulated loss at the end of the year under review by that amount.	Considering ICTA as a fully owned government entity, it is considered more prudent to account for the net assets acquired from CINTEC under ICTA reserves.	Account adjustments must be made accurately.

1.5.3 Un reconciled Control Accounts or Records

Subject	Value according to financial statements	Value according to corresponding records	Difference	Comments of the Management	Recommendation
Grant Receivables	1,818,995,490	1,766,863,714	52,131,776	Grants should be received from the Ministry.	Grants receivable should be reconciled with Ministry books.

1.5.4 Consolidation

Audit Observation	Comments of the Management	Recommendation
Although the Company's Board of Directors meeting held on 15th November 2022 had approved the merger with the subsidiary company, Lanka Government Information Infrastructure (Pvt) Limited, in accordance with Section 242 of the Companies Act, the merger had not been completed by 30th April 2024. Furthermore, while the Company's Board of Directors meeting held on 23rd May 2023 had directed the seven-member staff of the subsidiary	We acknowledge the Board's decision taken at its meeting on 23 May 2023, to maintain separate payrolls until the merger of LGII and ICTA is completed.	Action must be taken according to the decision of the Board of Directors.

company to be maintained separately until the merger with the Company was completed and the LGII Board of Directors to take appropriate decisions regarding staff salaries but prior to the completion of the merger the Company's staff had been merged .

1.5.5 Going Concern of the Organization

	Audit Observation	Comments Of the Management	Recommendation
a)	According to the financial statements, the loss for the year under review was Rs. 4,120,754 and the accumulated loss was Rs. 138,071,245. Furthermore, the company's equity as of 31 December 2023 was Rs. 138,071,225.	Gratuity expenses are not classified as grant income, and depreciation of assets does not represent grants from the treasury. These two expenses have contributed to the losses in the financial accounts	The company must take immediate steps to minimize the risk.
b)	In accordance with paragraph 3.5 of the Cabinet Paper No. 23/2443/630/009, the authority to wind up the company was delegated to the Secretary to the Treasury in accordance with the provisions of the Company's Articles of Association and the Information and Communication Technology Act No. 27 of 2003, and in accordance with paragraph 3.6, the Cabinet approved the transfer of the ongoing projects undertaken by the company to the Project Management Unit of the Ministry on 18 December 2023. Without taking such action, the company continued to operate.	The decision of the Cabinet to dissolve ICTA is disclosed in Note 2 of the notes to the financial statements.	Action should be taken in accordance with the decision of the Cabinet.

1.5.6 Lack of Written Evidence for Audit

Subject	Amount	Audit Evidence Not Provided	Management Comment	Recommendation
Creditors	2,111,459	Balance confirmations	We will take necessary actions and obtain confirmations to write off or settle the outstanding balances of these 13 suppliers.	Balance confirmations should be obtained from all creditors.

1.6. Amounts payable

Audit Observation	Comments of the Management	Recommendation
Outstanding amount of Rs. 40,215,928 to the Sri Lanka Computer Emergency Readiness Team (Sri Lanka CERT) had not been settled since 2017.	Payable for Sri Lanka CERT has arisen due to an error. This issue will be resolved after discussions by the committee appointed by the Ministry of Technology.	Action should be taken to settle outstanding amounts promptly.

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

	Reference to laws, rules, regulations, etc.	Non-compliance	Comments of the Management	Recommendation
a)	Section 133(1) of the Companies Act, No. 07 of 2007	Although the Act requires annual general meetings of shareholders to be held once every calendar year, the company had not held an annual general meeting since 2017 and had only held a general meeting for the year 2021.	The delay in preparing the financial accounts for the years 2019 to 2022 has led to a delay in convening the Annual General Meeting (AGM).	Should act according to the Act.
b)	Operational Manual on Corporate Governance introduced by Public Enterprise Circular No. 01/2021 dated 16th November 2021			
i.	Paragraph 3.2	There was no approved recruitment process and approved number of staff for the company as per the provision.	A System of Recruitment (SOR) was not in place but a cabinet approved staff was in place with effect from 04 November 2020 On 4 December 2023 submitted for approval to the Department of Public Enterprises ,Ministry of Finance (PED). through Ministry of Technology (MOT).	The company should have an approved cadre and recruitment process as per the operational manual.
ii.	Paragraph 3.8	Although the communication facilities to employees of state-owned enterprises should be based on previously issued	Mobile phone allowances have been provided without any distinction based on staff status or grade. Cutting the	Should act according to the operational manual.

	government circulars, the company had also paid Rs. 210,000 as telephone allowances to project officers/project assistants and driver staff for whom there was no provision in the circular.	allowance that has been provided throughout this year is causing unrest among employees. Therefore, we ensure that these allowances are removed against future salary increments that are due rather than reducing the allowance that has already been provided.	

2. Financial Review

2.1 Financial Results

The operating result for the year under review was a surplus of Rs. 9,342,087 as against a deficit of Rs. 22,763,175 for the preceding year. Accordingly, an increase of Rs. 32,105,262 was observed in the financial result. This increase was mainly due to the inclusion of the gratuity provision of Rs. 11,903,300 to the statement of comprehensive income instead of including to consolidated profit and loss statement and an increase in deferred income by Rs. 5,387,397.

3. Operational Review

3.1 Management Inefficiencies

	Audit Observation	Comments of the Management	Recommendation
a)	The amount of Rs. 121,582,863 provided by the Bill & Melinda Gates Foundation for the implementation of the “e-Library” project was not implemented and was included in the company's income as other income when preparing the financial statements for the year 2019.	The Bill & Melinda Gates Foundation provided the funds as a charitable donation and the money was received for a project for public libraries to connect people to information through free access to computers and the Internet.	The money received for projects should be used for that purpose.
b)	The Company had been informed by the Attorney General's letter No. E/112/2023/ICTA dated 14 September 2023 that the salary revisions were invalid due to the salary increments granted to 30 employees contrary to the main decision taken by the Board of Directors. Accordingly, the Company had paid Rs. 7,211,465 in excess as salaries during the year under review.	Since March 2024, we have been forced to reduce these salary adjustments as we received funds to pay salaries after the salary adjustments were reduced. Employees have expressed their dissatisfaction with these reductions and have complained to the Department of Labor.	Payments should be made according to the approved salary scales. Overpaid salaries should be recovered.

3.2 Operational Inefficiencies

Audit Observation	Comments Of the Management	Recommendation
Due to the cancellation of projects in the year under review, Rs. 27,253,057 received for the Court Automation Project and Rs. 61,996,498 received for the Video Conferencing Project had to be returned.	The money received for this project has been returned to the relevant parties.	Planned projects should be implemented.

3.3 Transactions in Controversial Nature

Audit Observation	Comments Of the Management	Recommendation
The company had retained an amount of Rs. 506,558 as other projects (administrative liabilities) and carried forward in the accounts while repaying the money received from the Ministry of Justice, Prisons and Constitutional Affairs for the Court Automation project.	The amount received to cover the company's administrative expenses for the currently completed court automation project has not been recognized as income in the profit and loss account.	Income should be recorded after it is recognized.

3.4 Idle or Under Utilized Assets

Audit Observation	Comments Of the Management	Recommendation
A building sufficient for 235 staff had been acquired on rent but the actual staff during the year under review was 75 and amount of Rs. 21,054,840 was paid in vain as building rent for 10320 square feet while office furniture worth Rs. 16,048,194 remained underutilized.	The current restriction on hiring employees due to the Cabinet's decision to wind up the company will result in underutilization of space and furniture.	Assets should be utilized with maximum efficiency.

3.5 Procurement Management

Audit Observation	Comments Of the Management	Recommendation
Without conducting procurement activities in accordance with the Government Procurement Guidelines of the National Procurement Agency No. 08 dated 25th January 2006 and without entering into an agreement an amount of Rs. 1,677,656 was spent on acquiring the company's file storage facilities from a private company and Rs. 2,496,000 was spent on acquiring land for parking vehicles from a private party at a monthly rent of Rs. 96,000 for the period from November 2021 to December 2023.	This procurement file could not be found. The need for this facility arose due to limited space in the previous building. The contract continued despite no price revisions.	All procurements should be carried out in accordance with the guidelines.

3.6 Resources released to other organizations

Audit Observation	Comments Of the Management	Recommendation
In accordance with paragraph 3.5 of the Corporate Governance Operational Manual introduced by the Public Enterprise Circular No. 01/2021 dated 16 November 2021, an employee of a State-owned enterprise shall not be released to a Ministry or other institution without the approval of the Cabinet and no allowance shall be paid during the periods of release. However, the company had released one officer to the Ministry of Technology without such approval and had paid Rs. 1,948,000 and Rs. 2,066,400 as salary and telephone allowance respectively in the year under review and the previous year.	It had to be released to the Ministry of Technology at the request of the Secretary to the Ministry.	Action should be taken in accordance with the circular provision.

4. Accountability and Good Governance

4.1 Corporate plan

Audit Observation	Comments Of the Management	Recommendation
Although the Strategic plan, Action plan and Budget should be submitted to the Department of Public Enterprises through the line Ministry 15 days before the beginning of the year, as per Section 2.3 of the Guidelines on Corporate Governance introduced by the Public Enterprises Circular No. 01/2021 dated 16 November 2021, the Company had not acted accordingly.	The budget has been prepared and submitted to the Ministry in accordance with the directives set out in Budget Circular No. 05/2022. The action plan and strategic plan were also sent to the state enterprises, but the relevant documents could not be easily found.	The strategic plan and action plan should be prepared in accordance with the guidelines.