

**1.1 Disclaimer of Opinion**

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The audit of the financial statements of the Lanka Government Information Infrastructure (Private) Ltd . (“Company”) for the year ended 31 December 2018 comprising the statement of financial position as at 31 December 2018 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 reported to Parliament appear in this report.

I do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters discussed in the Basis for Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**1.2 Basis for Disclaimer of Opinion**

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I do not express an opinion based on the matters described in Paragraph 1.5 of this report.

**1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements**

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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 Sub-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.

**1.4 Scope of Audit (Auditor’s Responsibility for the Audit of Financial Statement)**

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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 Institute
- Whether the Company has performed according to its powers, functions and duties; and

- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

## 1.5 Financial Statements

### 1.5.1 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. Issues with regard to maintenance of key accounting records such as General Ledger, Journal and Journal vouchers, payment vouchers etc. may include under this heading.

### 1.5.2 Accounting Deficiencies

<b>Audit Observation</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
Fully depreciated Property, Plant and Equipment costing Rs.77,340,402 as at 31 December 2018 had been revalued at Rs.11,601,568. However, a register of fixed assets and the basis for revaluation of assets had not been presented. As such, accuracy of those balances could not be established in audit.	It was noted. The revaluation of assets was carried out by a firm of Chartered Accountants. The scope thereof was to identify the assets and assess buildings or lands. Accordingly, the book value submitted by the assessor was taken into account as the assessed value.	Records pertaining to the revaluation of fixed assets and the register of fixed assets should be furnished to the Audit.

### 1.5.3 Non-compliance with Laws, Rules, Regulations and Management Decisions

<b>Reference to Laws, Rules, Regulations etc.</b>	<b>Non-compliance Rs.</b>	<b>Comments of the Management</b>	<b>Recommendation</b>
(a) Section 133(1) of the Companies Act No.07 of 2007.	No annual general meetings of the Company had been held following the establishment of the Company on 18 July 2011.	Due to delays in finalizing the audited financial statements, annual general meetings were not conducted.  In order to approve the audited financial statements from the year 2007 to 2015, an annual general meeting was convened in 2017.	Action should be taken to conduct annual general meetings in accordance with provisions of the Companies Act.

(b) Public Enterprises  
Circular No.PED/12  
dated 02 June 2003.

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| (i) Paragraph 6.5.1   | Financial statements for the year 2018 had been presented to Audit after a delay of 21 months and the draft annual report had not been submitted together with them. | It was noted. Financial statements for the year 2018 were presented to the Auditor General in September 2020 and the vacancy that remained in the post of Chief Financial Officer for a period of 09 months had contributed to the above situation.  | Action should be taken to submit financial statements and the draft annual report to the Auditor General without delay as per the circular provisions. |
| (ii) Paragraphs 03 and 04                                     | Board of Directors meetings had not been conducted.  | ICTA Institute, as the mother company, handles the decision making activities pertaining to the LGII Company and therefore, no separate approval of the Board of Directors is obtained for the operations of the LGII Company.   | Action should be taken to conduct Board of Directors meetings according to the circular provisions.  |
| (iii) Paragraph 5.1   | The Company had not prepared a Corporate Plan.   | Even though the ICTA, the mother company, had prepared an Institutional Plan for the LGII Company in the year 2017 and submitted to the Board of Directors, the proposed number of operations were reduced by the then Line Ministry. As a result, the Developed Institutional Plan could not be approved. | Action should be taken to prepare the Corporate Plan in accordance with the provisions in the circular.  |
| (c) State Finance Circular No.01/2014 dated 17 February 2014. | The Company had not prepared an Action Plan for the year 2018.   | The Action Plan of the LGII has been incorporated in the Action Plan of the ICTA Institute.  | An Action Plan should be prepared as per the circular provisions in order to increase performance of the Company.                                      |

## 2. Financial Review

### 2.1 Financial Results

The operations of the Company for the year under review had resulted in a deficit of Rs.2,133,327 against the surplus of Rs.357,100 for the preceding year, thus observing a deterioration of Rs.2,490,427 in the financial results. This deterioration was mainly due to increase in the project expenditure by Rs.15,571,543 and grants by Rs.12,240,994.

## 3. Operating Review

### 3.1 Operating Inefficiencies

#### Audit Observation

According to the Articles of Association of the Company, the Company's main objective was to hold the responsibility for the management and maintenance of Lanka Government Network and the Lanka Gateway operations. It was observed that the relevant project management activities were being handled by the mother company and the Company had been confined to operations and maintenance of the projects.

#### Comments of the Management

It was noted. Operations of the LGII are implemented according to its provisions.

#### Recommendation

The Company should act in accordance with the Articles of Association of the Company.

### 3.2 Operating Inefficiencies

#### Audit Observation

(a) Since the World Bank as the funds provider of the e-Sri Lanka project had indicated the necessity of independency of the Sri Lanka Information and Communication Technology Agency, absolute independency for the financial and administration sectors had been received by the Sri Lanka Information and Communication Technology Agency according to the Cabinet decision dated 16 July 2003. However, as a subsidiary thereof, the Company totally depends on the consolidated funds at present. Nevertheless, it was observed that the previous financial and administration independency existed in terms of the Cabinet decision further remained unchanged.

#### Comments of the Management

By the Cabinet Memorandum dated 27 May 2003, the operating independency had been given to the ICTA and in the year 2017, the Interim Cabinet Committee agreed that the ICTA could continuously carry out its operations on this basis.

#### Recommendation

In case of an institute funded by the Consolidated Fund of the Government, it should be considered as to whether the financial and administrative independency is further applicable on that behalf.

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| <p>(b) Although all functions of the Company including project planning, preparation of accounts, administration and human resource management are handled by the parent company, the building rent of the office premises of the Company for the year under review had been Rs.6.35 million. Even though the Operating Officers of the Lanka Government Network Project only had been attached to the office premises of the Company, the Programme and Project Managers of that project had been attached to the mother company. Accordingly, establishment of a separate company for the aforesaid project was questionable.</p> | <p>Cabinet approval has already been given to the Cabinet Memorandum of the ICTA presented to the Cabinet in 2020. It has proposed the necessary steps to be taken to resolve the issues arisen.</p> | <p>As an institute functioning under the funds of the Consolidated Fund, action should be taken so as to minimize the cost.</p> |
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### 3.3 Human Resource Management

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#### Audit Observation

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#### Comments of the Management

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#### Recommendation

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Public Enterprises Circular No.PED/12 dated 02 June 2003.

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| <p>(i) In terms of Section 9.2, the human resource plan should be prepared in consolidated with the Human Resource Budget and the Organization Chart and the approved cadre should be registered with the Department of Public Enterprises, General Treasury. Nevertheless, action had not been taken accordingly.</p> | <p>The ICTA institute has been provided with a link to carry out operating activities of the LGII. As the staff of the LGII Company is appointed for one year contract period, the Company does not maintain an approved cadre.</p>  | <p>Action should be taken in terms of circular provisions.</p> |
| <p>(b) The company had not prepared a scheme of recruitment and scheme of promotion for each post as required by Section 9.3(1)</p>  | <p>Appointments are granted for a one year contract period and that process was continued even after transferring the source of funds to the General Treasury. Likely, the ICTA has been ensured independency for operating activities through a Cabinet Memorandum and attention has already been focused on the above matters by a Cabinet Memorandum approved in November 2020.</p> | <p>Action should be taken in terms of circular provisions.</p> |

- (iii) All employees and consultants had been recruited and their salaries and allowances had been paid without an approved cadre and a scheme of recruitment. Appointments had been granted for a one year contract period and that process was continued even after transferring the source of funds to the General Treasury. Likely, independency has been ensured for human resource management through a Cabinet Memorandum and attention has already been focused on the above matters by an approved Cabinet Memorandum. Action should be taken in terms of circular provisions.