

Lanka Government Information Infrastructure (Private) Limited Company -2020

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Lanka Government Information Infrastructure (Private) Limited Company for the year ended 31 December 2020 comprising the statement of financial positions as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

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

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.4 Audit Scope

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement

when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company.
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Audit Observations on the preparation of Financial Statements

1.5.1 Internal Control over the preparation of financial statements

Entities are required to “devise and maintain” a system of internal accounting controls sufficient to provide reasonable assurance that , transactions are executed in accordance with management’s general or specific authorization, transactions are recorded as necessary to permit preparation of financial statements in conformity with the applicable reporting standards , and to maintain accountability for assets, access to assets is permitted only in accordance with management’s general or specific authorization, and the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

1.5.2 Accounting Deficiencies

Audit Issue	Management Comment	Recommendation
Due to the understatement of Rs.357,000 in the accumulated surplus of the year 2019, a difference was displayed in the financial statement and the Changes in equity statement from that value.	Equity as per changes in equity statement as at 31 st December 2019 need to be corrected as Rs.44,821,799 due to formula error in equity as at 31 st December 2018. Equity in Financial position is correctly stated .Appreciate if you could allow us to replace the changes of equity statement with correct figures as there is no change to balance sheet.	Correct amount should be accounted.

1.6 Accounts Receivable and Payable

1.6.1 Receivables

Audit Issue	Management Comment	Recommendation
An amount of Rs.44,001,286 which was receivable from ICTA parent Company from the year 2015 had not been received at the end of year 2020.	LGII should have external liabilities in order to claim the same form ICTA. Without any such liability ICTA have no way to pay to LGII. At the moment there are no any outstanding payments to suppliers by LGII except for Rs. 822,800 and therefore ICTA is not able to pay this liability to LGII. On the other hand ICTA already passed a board resolution to amalgamate LGII with ICTA and with that these balances will set off. (Refer attachment for board paper & letter already send to ministry regarding proposal of amalgamation)	Receivable amount should be collected.

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.	No annual general meeting of the company had been held following the establishment of the company on 18 July 2011.	Due to the facts that delayed preparation of ICTA accounts, LGII Accounts were also delayed, and the consolidated accounts comprising ICTA and LGII were submitted to the Parliament. The sole shareholder of LGII is ICTA, and the ICTA Board had approved the Accounts of both Companies. It is accepted that not holding the AGM is in violation of the provisions of the Companies Act, however, once the backlogs of annual financial statements are cleared and the Accounts are brought up-to-date, the correct procedures will be adopted	Circular instructions should be followed.
(b) State Finance Circular No 01/2014 dated 17 February 2014.	The Company had not prepared an action plan for the year 2020.	The Action plan of LGII is incorporated under the action plan of ICTA. Furthermore, in year 2020, the Action Plan which included the functionalities of LGII under ICTA plan, has now addressed the work scope of LGII through the Digital Services strategy pillar in the proposed Digital strategy way forward designed by ICTA.	Circular instructions should be followed.
(c) Public Enterprises Circular No. PED/12 dated 2 June 2003-Guidelines for Good Governance.			

(i) Guideline 6.5.1	Financial statement for the year 2020 had been presented to audit after a delay of 18 months and draft annual report had not been submitted together with them.	We accept there was a delay in submission of the Financial Statements. This was due to the backlog that was being cleared from 2016 onwards. However, we have now prepared the 2021 accounts for Auditors and plan to be in line with the Government calendar.	Circular instructions should be followed.
(ii) Guidelines 9.2	The human resource plan should be prepared in consolidated with the Human resource budget and the approved cadre should be registered with the Department of public enterprise, General Treasury. Nevertheless, action had not been taken accordingly.	The Human Resource Plan and cadre have not been prepared, as ICTA had been granted operational flexibility and staffs were recruited on fixed term contracts (01 year) and renewed based on the business requirements. Further, operational independence has been granted to ICTA (through the Cabinet Memorandum dated 27-May-2003 (no. 3/0884/134/027) for managing human resources the operations of ICTA and its subsidiaries. In 2017, the cabinet of Ministers highlighted the requirement of restructuring ICTA and based on the same then Management initiated the restructuring process which was approved by the BoDs. As part of the restructuring process organization structure was redefined with approved cadre.	Circular instructions should be followed.
(iii) Guidelines 9.3.1	The Company had not prepared a Scheme of recruitment and promotion for each post.	Scheme of Recruitment developed in 2019 continued for the year 2020 (which was already shared to the Auditors during the 2020 Financial Statement Audit).	Circular instructions should be followed

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a deficit of Rs.1,480,734 and the corresponding deficit in the preceding year amounted to Rs.7,316,964. Therefore a deterioration amounting to Rs.5,836,230 of the financial result was observed. The reasons for the deterioration are decrease of grant receipt by Rs.5,710,114.