Sri Lanka CERT (Private) Limited - 2022

---

1. Financial Statements

1.1 Qualified Opinion

The audit of the financial statements of the Sri Lanka CERT (Private) Limited “Company” for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit and loss, 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 for Small and Medium sized Entities.

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 for Small and Medium sized Entities, 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 (Auditor's Responsibilities for the Audit of the 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 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 Standards

	Non-Compliance with the reference to particular Standard	Management Comment	Recommendation
(a)	According to paragraph 2.52 of the Sri Lanka Accounting Standards for Small and Medium Entities, although assets and liabilities should not be set off in the accounting statements, according to the negative balance of cash book was Rs.21,119,645 as at December 31, 2022, that had been set off against the balance of cash and cash equivalents was Rs.84,484,182.	Sri Lanka CERT maintains only Rs. 200,000 balance in its current account on the basis of automatic debit or credit from the savings account in case of transaction exceeding Rs.200,000. When making payments through current accounts, even if the bank column of the company's cash book shows a negative value, when the relevant cheques are presented to the bank, the amount required for those cheques is automatically credited from the savings account to the current account. Accordingly, this negative Rs.21,119,645 is not actually an overdraft with the bank but is a balance in the books of the company.	Accounts should be prepared as per standard.

(b)	According to the paragraph 7.8(b) of Sri Lanka Accounting standards for small and medium business entities, when preparing the cash flow statement as per the indirect method, only non-cash items should be adjusted to calculate the cash flow generated from operating activities, but the gratuity value which was amount of Rs.660,000 paid in the year under review was stated under non-cash adjustments.	The value of the gratuity paid in advance is not shown under non-cash adjustments but below it is shown under the cash flow generated from operating activities.	Accounts should be prepared as per standard.

1.6 Accounts Receivable

Audit Issue	Management Comment	Recommendation
As at 31 December 2022, the company had failed to recover the balance of Rs.44,001,285 due from the Information Communication and Technology Agency since 2017.	A committee was appointed by the line ministry to investigate the balance of Rs.40.2 million as several letter transactions were made between ICTA and Sri Lanka CERT regarding this matter but it was unsuccessful. As soon as the committee observes, the related work will be done accordingly.	All receivable amounts must be recovered.

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

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comments	Recommendation
Guidelines 4.3.iii of Public Enterprise Circular No: 01/2021 dated 16 November 2021	As per the guidelines the company must ensure that a formal inventory management system is in place for the management of both the inputs and the output, but no system has been introduced for inventory.	I agree. In the future, action will be made to introduce a formal system regarding inventory.	A proper inventory system should be maintained.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to surplus of Rs.7,902,861 and the corresponding surplus in the preceding year amount to Rs.5,512,737. Therefore, an improvement amounting to Rs.2,390,124 of the financial result was observed. The reason for the improvement was increase of other income by 71 percent amounting to Rs.5,459,000.

3. Operational Review

3.1 Management Inefficiencies

Audit Issue	Management Comments	Recommendation
From the year 2018, the company had taken the services of an external company for the purpose of payroll processing. Although an agreement was entered into with the private company for a period of 03 years on August 24, 2018 for a contract value of Rs.3,060,000, the service was still obtained without carrying out the procurement activities even after the contract period had expired. And the contract price had revised from Rs.85,000 to Rs.100,000 and a payment of Rs.1,110,000 was made during the year under review. The company had transfer cash to the payroll processing company for the payment of staff salaries, out of which employees' provident funds and employees' provident funds per month were approximately Rs.1,279,332 and in the year under review Rs.15,351,987 were withheld from 03 to 41 days without remitting to the Employees Trust Fund and Employees Provident Fund.	The Board of Directors decided to extend the period by increasing the fees for the same company that had previously received the service without going to call for tender again. Also, compared to August 2021, the expiry date of this contract, the time to start calling for new tenders is the period during which work was carried out using limited human resources due to the spread of covid. By establishing an account department in the company, all accounts and payroll processing activities were absorbed into the company from date of 01July 2023.	Action should be taken as per the Procurement guidelines.

4. Accountability and Good Governance

4.1 Submission of Financial Statements

Audit Issue	Management Comments	Recommendation
As per paragraph 6.6 of Public Enterprise Circular Operations Manual No: 01/2021 dated November 16, 2021, the draft annual report and accounts should be submitted to the Auditor General within 60 days of the end of the financial year, but the company had submitted the accounts 270 days later.	I acknowledge that the draft annual report and accounts must be submitted to the Auditor General within 60 days of the end of the financial year.	Accounts should be submitted to the Auditor General within 60 days.

4.2 Corporate plan

Audit Issue	Management Comments	Recommendation
Public Enterprise Circular No: 01/2021 dated November 16, 2021. According to paragraph 2.3 of the operational manual, a strategic plan for five years should be prepared along with the annual budget, action plan, but the company had not acted accordingly.	The company prepared the annual action plan and strategy plan for the year 2022. But as this company has so far only used the allocations, allocated by the Appropriation Act, an expenditure document had been prepared and submitted to the line ministry only for that allocated allocation.	The strategic plan should be prepared covering five years as per circular provisions, As prepared only for the year of under review,