

# SMART CONTRACT AUDIT REPORT

for

Sake Finance

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PeckShield December 20, 2024

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# 1 Introduction

Given the opportunity to review the design document and related smart contract source code of the Sake Finance protocol, we outline in the report our systematic approach to evaluate potential security issues in the smart contract implementation, expose possible semantic inconsistencies between smart contract code and design document, and provide additional suggestions or recommendations for improvement. Our results show that the given version of smart contracts can be further improved due to the presence of several issues related to either security or performance. This document outlines our audit results.

#### 1.1 About Sake Finance

Sake Finance protocol forks from AaveV3 — the popular decentralized non-custodial money market protocol where users can participate as depositors or borrowers. Depositors provide liquidity to the market to earn a passive income, while borrowers are able to borrow in an over-collateralized (perpetually) or under-collateralized (one-block liquidity) fashion. Sake Finance maintains the same core business logic, but reconstructs with new oracle support. The basic information of the audited protocol is as follows:

ItemDescriptionNameSake FinanceTypeEthereum Smart ContractPlatformSolidityAudit MethodWhiteboxLatest Audit ReportDecember 20, 2024

Table 1.1: Basic Information of Sake Finance

In the following, we show the Git repositories of reviewed files and the commit hash value used in this audit. Note that Sake Finance assumes a trusted price oracle with timely market price feeds for supported assets.

- https://github.com/Sake-Finance/sake-core.git (a92997e)
- https://github.com/Sake-Finance/sone-core.git (f8e8b51)

And here is the commit ID after all fixes for the issues found in the audit have been checked in:

- https://github.com/Sake-Finance/sake-core.git (d46e78d)
- https://github.com/Sake-Finance/sone-core.git (e3e7a96)

#### 1.2 About PeckShield

PeckShield Inc. [10] is a leading blockchain security company with the goal of elevating the security, privacy, and usability of current blockchain ecosystems by offering top-notch, industry-leading services and products (including the service of smart contract auditing). We are reachable at Telegram (https://t.me/peckshield), Twitter (http://twitter.com/peckshield), or Email (contact@peckshield.com).

High Critical High Medium

High Medium

Low

Medium Low

High Medium

Low

High Medium

Low

Likelihood

Table 1.2: Vulnerability Severity Classification

### 1.3 Methodology

To standardize the evaluation, we define the following terminology based on the OWASP Risk Rating Methodology [9]:

- <u>Likelihood</u> represents how likely a particular vulnerability is to be uncovered and exploited in the wild;
- Impact measures the technical loss and business damage of a successful attack;
- Severity demonstrates the overall criticality of the risk.

Likelihood and impact are categorized into three ratings: *H*, *M* and *L*, i.e., *high*, *medium* and *low* respectively. Severity is determined by likelihood and impact and can be classified into four categories accordingly, i.e., *Critical*, *High*, *Medium*, *Low* shown in Table 1.2.

To evaluate the risk, we go through a checklist of items and each would be labeled with a severity category. For one check item, if our tool or analysis does not identify any issue, the contract is considered safe regarding the check item. For any discovered issue, we might further deploy contracts on our private testnet and run tests to confirm the findings. If necessary, we would additionally build a PoC to demonstrate the possibility of exploitation. The concrete list of check items is shown in Table 1.3.

In particular, we perform the audit according to the following procedure:

- Basic Coding Bugs: We first statically analyze given smart contracts with our proprietary static code analyzer for known coding bugs, and then manually verify (reject or confirm) all the issues found by our tool.
- <u>Semantic Consistency Checks</u>: We then manually check the logic of implemented smart contracts and compare with the description in the white paper.
- Advanced DeFi Scrutiny: We further review business logics, examine system operations, and place DeFi-related aspects under scrutiny to uncover possible pitfalls and/or bugs.
- Additional Recommendations: We also provide additional suggestions regarding the coding and development of smart contracts from the perspective of proven programming practices.

To better describe each issue we identified, we categorize the findings with Common Weakness Enumeration (CWE-699) [8], which is a community-developed list of software weakness types to better delineate and organize weaknesses around concepts frequently encountered in software development. Though some categories used in CWE-699 may not be relevant in smart contracts, we use the CWE categories in Table 1.4 to classify our findings. Moreover, in case there is an issue that may affect an active protocol that has been deployed, the public version of this report may omit such issue, but will be amended with full details right after the affected protocol is upgraded with respective fixes.

Table 1.3: The Full Audit Checklist

| Category                    | Checklist Items                           |
|-----------------------------|---|
|                             | Constructor Mismatch                      |
|                             | Ownership Takeover                        |
|                             | Redundant Fallback Function               |
|                             | Overflows & Underflows                    |
|                             | Reentrancy                                |
|                             | Money-Giving Bug                          |
|                             | Blackhole                                 |
|                             | Unauthorized Self-Destruct                |
| Basic Coding Bugs           | Revert DoS                                |
| Dasic Couling Dugs          | Unchecked External Call                   |
|                             | Gasless Send                              |
|                             | Send Instead Of Transfer                  |
|                             | Costly Loop                               |
|                             | (Unsafe) Use Of Untrusted Libraries       |
|                             | (Unsafe) Use Of Predictable Variables     |
|                             | Transaction Ordering Dependence           |
|                             | Deprecated Uses                           |
| Semantic Consistency Checks | Semantic Consistency Checks               |
|                             | Business Logics Review                    |
|                             | Functionality Checks                      |
|                             | Authentication Management                 |
|                             | Access Control & Authorization            |
|                             | Oracle Security                           |
| Advanced DeFi Scrutiny      | Digital Asset Escrow                      |
| Advanced Del 1 Scrutiny     | Kill-Switch Mechanism                     |
|                             | Operation Trails & Event Generation       |
|                             | ERC20 Idiosyncrasies Handling             |
|                             | Frontend-Contract Integration             |
|                             | Deployment Consistency                    |
|                             | Holistic Risk Management                  |
|                             | Avoiding Use of Variadic Byte Array       |
|                             | Using Fixed Compiler Version              |
| Additional Recommendations  | Making Visibility Level Explicit          |
|                             | Making Type Inference Explicit            |
|                             | Adhering To Function Declaration Strictly |
|                             | Following Other Best Practices            |

Table 1.4: Common Weakness Enumeration (CWE) Classifications Used in This Audit

| Category                   | Summary   |
|----------------------------|---|
| Configuration              | Weaknesses in this category are typically introduced during   |
|                            | the configuration of the software.  |
| Data Processing Issues     | Weaknesses in this category are typically found in functional-  |
|                            | ity that processes data.  |
| Numeric Errors             | Weaknesses in this category are related to improper calcula-  |
|                            | tion or conversion of numbers.  |
| Security Features          | Weaknesses in this category are concerned with topics like  |
|                            | authentication, access control, confidentiality, cryptography,  |
|                            | and privilege management. (Software security is not security  |
|                            | software.)  |
| Time and State             | Weaknesses in this category are related to the improper man-  |
|                            | agement of time and state in an environment that supports   |
|                            | simultaneous or near-simultaneous computation by multiple   |
|                            | systems, processes, or threads.   |
| Error Conditions,          | Weaknesses in this category include weaknesses that occur if  |
| Return Values,             | a function does not generate the correct return/status code,  |
| Status Codes               | or if the application does not handle all possible return/status  |
|                            | codes that could be generated by a function.  |
| Resource Management        | Weaknesses in this category are related to improper manage-   |
|                            | ment of system resources.   |
| Behavioral Issues          | Weaknesses in this category are related to unexpected behav-  |
|                            | iors from code that an application uses.  |
| Business Logic             | Weaknesses in this category identify some of the underlying   |
|                            | problems that commonly allow attackers to manipulate the  |
|                            | business logic of an application. Errors in business logic can  |
|                            | be devastating to an entire application.  |
| Initialization and Cleanup | Weaknesses in this category occur in behaviors that are used  |
|                            | for initialization and breakdown.   |
| Arguments and Parameters   | Weaknesses in this category are related to improper use of  |
| Funnacian Issues           | arguments or parameters within function calls.  |
| Expression Issues          | Weaknesses in this category are related to incorrectly written  |
| Cadina Duratia             | expressions within code.  |
| Coding Practices           | Weaknesses in this category are related to coding practices that are deemed unsafe and increase the chances that an ex- |
|                            |   |
|                            | ploitable vulnerability will be present in the application. They  |
|                            | may not directly introduce a vulnerability, but indicate the  |
|                            | product has not been carefully developed or maintained.   |

#### 1.4 Disclaimer

Note that this security audit is not designed to replace functional tests required before any software release, and does not give any warranties on finding all possible security issues of the given smart contract(s) or blockchain software, i.e., the evaluation result does not guarantee the nonexistence of any further findings of security issues. As one audit-based assessment cannot be considered comprehensive, we always recommend proceeding with several independent audits and a public bug bounty program to ensure the security of smart contract(s). Last but not least, this security audit should not be used as investment advice.



# 2 | Findings

### 2.1 Summary

Here is a summary of our findings after analyzing the implementation of the Sake Finance protocol. During the first phase of our audit, we study the smart contract source code and run our in-house static code analyzer through the codebase. The purpose here is to statically identify known coding bugs, and then manually verify (reject or confirm) issues reported by our tool. We further manually review business logic, examine system operations, and place DeFi-related aspects under scrutiny to uncover possible pitfalls and/or bugs.

| Severity      | # of Findings |
|---------------|---------------|
| Critical      | 0             |
| High          | 0             |
| Medium        | 1             |
| Low           | 3             |
| Informational | 0             |
| Total         | 4             |

We have so far identified a list of potential issues: some of them involve subtle corner cases that might not be previously thought of, while others refer to unusual interactions among multiple contracts. For each uncovered issue, we have therefore developed test cases for reasoning, reproduction, and/or verification. After further analysis and internal discussion, we determined a few issues of varying severities need to be brought up and paid more attention to, which are categorized in the above table. More information can be found in the next subsection, and the detailed discussions of each of them are in Section 3.

### 2.2 Key Findings

Overall, these smart contracts are well-designed and engineered, though the implementation can be improved by resolving the identified issues (shown in Table 2.1), including 1 medium-severity vulnerability and 3 low-severity vulnerabilities.

ID Title **Status** Severity Category PVE-001 Timely Rate Adjustment Upon Pool In-Low **Business Logic** Resolved terest Rate Strategy Change **PVE-002** Improved Asset Addition Logic in Con-Resolved Low **Business Logic** figuratorLogic **PVE-003** Resolved Accommodation of None-ERC20-**Coding Practices** Low Compliant Tokens **PVE-004** Medium Trust Issue of Admin Keys Security Features Mitigated

Table 2.1: Key Sake Finance Audit Findings

Beside the identified issues, we emphasize that for any user-facing applications and services, it is always important to develop necessary risk-control mechanisms and make contingency plans, which may need to be exercised before the mainnet deployment. The risk-control mechanisms should kick in at the very moment when the contracts are being deployed on mainnet. Please refer to Section 3 for details.

# 3 Detailed Results

# 3.1 Timely Rate Adjustment Upon Pool Interest Rate Strategy Change

• ID: PVE-001

Severity: Low

• Likelihood: Low

Impact: Low

• Target: Pool

• Category: Business Logic [7]

• CWE subcategory: CWE-837 [4]

#### Description

The Sake Finance protocol allows the governance to dynamically configure the interest rate strategy for current reserves. The supported interest rate strategy implements the calculation of the interest rates depending on the reserve state. While reviewing current configuration logic, we notice the update of the interest rate strategy warrants the need of refreshing the latest stable borrow rate, the latest variable borrow rate, as well as the latest liquidity rate.

To elaborate, we show below the setReserveInterestRateStrategyAddress() function. It implements a rather straightforward logic in validating and applying the new interestRateStrategyAddress contract. It comes to our attention that the internal accounting for various rates is not timely refreshed to make it immediately effective. As a result, even if the interest rate strategy is already updated, current rates are not updated yet. In other words, the latest stable/variable borrow rate and the latest liquidity rate are still based on the replaced interest rate strategy.

```
require(_reserves[asset].id != 0 _reservesList[0] == asset, Errors.ASSET_NOT_LISTED
);
636    _reserves[asset].interestRateStrategyAddress = rateStrategyAddress;
637 }
```

Listing 3.1: Pool::setReserveInterestRateStrategyAddress()

**Recommendation** Revise the above logic to apply the given interestRateStrategyAddress for the input reserve.

**Status** This issue has been resolved as the team confirms the plan to timely update the interest rate before applying the new strategy.

### 3.2 Improved Asset Addition Logic in ConfiguratorLogic

• ID: PVE-002

• Severity: Low

• Likelihood: Low

• Impact: Low

• Target: ConfiguratorLogic

• Category: Coding Practices [6]

• CWE subcategory: CWE-561 [3]

#### Description

The Sake Finance protocol has a core ConfiguratorLogic contract to allow for dynamic update of protocol parameters. In the process of examining the related setters, we notice one specific setter can be improved.

In particular, we show below the implementation of this related setter routine, i.e., executeInitReserve. As the name indicates, it is used to initialize a reserve by creating and initializing aToken, stable debt token, and variable debt token. It comes to our attention that it requires the underlying token's decimals to be larger than ReserveConfiguration.DEBT\_CEILING\_DECIMALS.

```
50
     function executeInitReserve(
51
        IPool pool,
52
       ConfiguratorInputTypes.InitReserveInput calldata input
53
     ) public {
54
        address aTokenProxyAddress = _initTokenWithProxy(
55
          input.aTokenImpl,
56
          abi.encodeWithSelector(
57
            IInitializableAToken.initialize.selector,
58
            pool,
59
            input.treasury,
60
            input.underlyingAsset,
            input.incentivesController,
61
62
            input.underlyingAssetDecimals,
63
            input.aTokenName,
```

```
64     input.aTokenSymbol,
65     input.params
66     )
67     );
68     ...
69 }
```

Listing 3.2: ConfiguratorLogic::executeInitReserve()

**Recommendation** Revise the above setter to ensure the given reserve's underlying asset meets the minimal decimals requirement.

Status This issue has been fixed in the following commit: d46e78d.

## 3.3 Accommodation of Non-ERC20-Compliant Tokens

ID: PVE-003Severity: LowLikelihood: Low

• Impact: Low

• Target: Multiple Contracts

Category: Coding Practices [6]

• CWE subcategory: CWE-1126 [1]

#### Description

Though there is a standardized ERC-20 specification, many token contracts may not strictly follow the specification or have additional functionalities beyond the specification. In this section, we examine the approve() routine and analyze possible idiosyncrasies from current widely-used token contracts.

In particular, we use the popular stablecoin, i.e., USDT, as our example. We show the related code snippet below. On its entry of approve(), there is a requirement, i.e., require(!((\_value != 0) && (allowed[msg.sender][\_spender] != 0))). This specific requirement essentially indicates the need of reducing the allowance to 0 first (by calling approve(\_spender, 0)) if it is not, and then calling a second one to set the proper allowance. This requirement is in place to mitigate the known approve()/transferFrom() race condition (https://github.com/ethereum/EIPs/issues/20#issuecomment-263524729).

```
/**

* @dev Approve the passed address to spend the specified amount of tokens on behalf of msg.sender.

* @param _spender The address which will spend the funds.

* @param _value The amount of tokens to be spent.

*/

*/

* function approve(address _spender, uint _value) public onlyPayloadSize(2 * 32) {

// To change the approve amount you first have to reduce the addresses'

// allowance to zero by calling 'approve(_spender, 0)' if it is not
```

```
// already 0 to mitigate the race condition described here:
// https://github.com/ethereum/EIPs/issues/20#issuecomment -263524729

require(!((_value != 0) && (allowed [msg.sender] [_spender] != 0)));

allowed [msg.sender] [_spender] = _value;
Approval (msg.sender, _spender, _value);
}
```

Listing 3.3: USDT Token Contract

Because of that, a normal call to approve() is suggested to use the safe version, i.e., safeApprove(), In essence, it is a wrapper around ERC20 operations that may either throw on failure or return false without reverts. Moreover, the safe version also supports tokens that return no value (and instead revert or throw on failure). Note that non-reverting calls are assumed to be successful. Similarly, there is a safe version of transfer() as well, i.e., safeTransfer().

```
38
39
         * @dev Deprecated. This function has issues similar to the ones found in
40
         * {IERC20-approve}, and its usage is discouraged.
41
42
         * Whenever possible, use {safeIncreaseAllowance} and
43
         * {safeDecreaseAllowance} instead.
44
45
       function safeApprove(
46
           IERC20 token,
47
           address spender,
48
           uint256 value
       ) internal {
49
50
           // safeApprove should only be called when setting an initial allowance,
51
            // or when resetting it to zero. To increase and decrease it, use
52
           // 'safeIncreaseAllowance' and 'safeDecreaseAllowance'
53
           require(
54
                (value == 0) (token.allowance(address(this), spender) == 0),
55
                "SafeERC20: approve from non-zero to non-zero allowance"
56
           );
57
            _callOptionalReturn(token, abi.encodeWithSelector(token.approve.selector,
                spender, value));
58
```

Listing 3.4: SafeERC20::safeApprove()

In current implementation, if we examine the StakedTokenTransferStrategy::renewApproval() routine that is designed to renew the token approval to the stake contract. To accommodate the specific idiosyncrasy, there is a need to use safeApprove(), instead of approve() (lines 64, 65, and 73).

```
68  );
69  }
70
71  /// @inheritdoc IStakedTokenTransferStrategy
72  function dropApproval() external onlyRewardsAdmin {
73     IERC20(UNDERLYING_TOKEN).approve(address(STAKE_CONTRACT), 0);
74  }
```

Listing 3.5: StakedTokenTransferStrategy::renewApproval()/dropApproval()

Note other contracts can be similarly improved, including Collector, SoneAToken, and PsmAToken.

**Recommendation** Accommodate the above-mentioned idiosyncrasy about ERC20-related approve().

Status This issue has been fixed in the following commit: 7cb7acc.

### 3.4 Trust Issue of Admin Keys

• ID: PVE-004

Severity: MediumLikelihood: Medium

• Impact: Medium

• Target: Multiple Contracts

• Category: Security Features [5]

• CWE subcategory: CWE-287 [2]

#### Description

In the Sake Finance protocol, there are a few privileged admin accounts that play a critical role in governing and regulating the system-wide operations (e.g., parameter setting and marketing adjustment). It also has the privilege to control or govern the flow of assets managed by this protocol. Our analysis shows that the privileged account needs to be scrutinized. In the following, we examine the privileged account and their related privileged accesses in current contracts.

```
398
      function setUnbackedMintCap(
399
        address asset,
400
        uint256 newUnbackedMintCap
401
      ) external override onlyRiskOrPoolAdmins {
402
        DataTypes.ReserveConfigurationMap memory currentConfig = _pool.getConfiguration(
403
        uint256 oldUnbackedMintCap = currentConfig.getUnbackedMintCap();
404
        currentConfig.setUnbackedMintCap(newUnbackedMintCap);
405
        _pool.setConfiguration(asset, currentConfig);
406
        emit UnbackedMintCapChanged(asset, oldUnbackedMintCap, newUnbackedMintCap);
407
408
409
      /// @inheritdoc IPoolConfigurator
      function setReserveInterestRateStrategyAddress(
```

```
411
         address asset,
412
         {\tt address} \ \ {\tt newRateStrategyAddress}
413
      ) external override onlyRiskOrPoolAdmins {
414
         DataTypes.ReserveData memory reserve = _pool.getReserveData(asset);
415
         address oldRateStrategyAddress = reserve.interestRateStrategyAddress;
416
         _pool.setReserveInterestRateStrategyAddress(asset, newRateStrategyAddress);
417
         emit ReserveInterestRateStrategyChanged(asset, oldRateStrategyAddress,
             newRateStrategyAddress);
418
      }
419
420
      /// @inheritdoc IPoolConfigurator
421
      function setPoolPause(bool paused) external override onlyEmergencyAdmin {
422
         address[] memory reserves = _pool.getReservesList();
423
424
         for (uint256 i = 0; i < reserves.length; i++) {</pre>
425
           if (reserves[i] != address(0)) {
426
             setReservePause(reserves[i], paused);
427
428
        }
      }
429
430
      /// @inheritdoc IPoolConfigurator
431
432
      function updateBridgeProtocolFee(uint256 newBridgeProtocolFee) external override
           onlyPoolAdmin {
433
         require(
434
           newBridgeProtocolFee <= PercentageMath.PERCENTAGE_FACTOR,</pre>
435
           Errors.BRIDGE_PROTOCOL_FEE_INVALID
436
437
         uint256 oldBridgeProtocolFee = _pool.BRIDGE_PROTOCOL_FEE();
438
         _pool.updateBridgeProtocolFee(newBridgeProtocolFee);
439
         emit BridgeProtocolFeeUpdated(oldBridgeProtocolFee, newBridgeProtocolFee);
440
441
442
      /// @inheritdoc IPoolConfigurator
443
      function updateFlashloanPremiumTotal(
444
        uint128 newFlashloanPremiumTotal
445
      ) external override onlyPoolAdmin {
446
        require(
447
           newFlashloanPremiumTotal <= PercentageMath.PERCENTAGE_FACTOR,</pre>
448
          Errors.FLASHLOAN_PREMIUM_INVALID
449
450
         uint128 oldFlashloanPremiumTotal = _pool.FLASHLOAN_PREMIUM_TOTAL();
451
         _pool.updateFlashloanPremiums(newFlashloanPremiumTotal, _pool.
             FLASHLOAN_PREMIUM_TO_PROTOCOL());
452
         {\tt emit} \ \ Flashloan Premium Total Updated (old Flashloan Premium Total \ , \ new Flashloan Premium Total \ )
             );
453
      }
454
455
      /// @inheritdoc IPoolConfigurator
456
      function updateFlashloanPremiumToProtocol(
457
         uint128 newFlashloanPremiumToProtocol
458
      ) external override onlyPoolAdmin {
```

```
459
460
           newFlashloanPremiumToProtocol <= PercentageMath.PERCENTAGE_FACTOR,</pre>
461
           Errors.FLASHLOAN_PREMIUM_INVALID
462
463
         uint128 oldFlashloanPremiumToProtocol = _pool.FLASHLOAN_PREMIUM_TO_PROTOCOL();
464
         _pool.updateFlashloanPremiums(_pool.FLASHLOAN_PREMIUM_TOTAL(),
             newFlashloanPremiumToProtocol);
465
         emit FlashloanPremiumToProtocolUpdated(
466
           oldFlashloanPremiumToProtocol,
467
           {\tt newFlashloanPremiumToProtocol}
468
         );
469
```

Listing 3.6: Example Privileged Functions in the PoolConfigurator Contract

If these privileged admin accounts are managed by a plain EOA account, this may be worrisome and pose counter-party risk to the exchange users. A multi-sig account could greatly alleviate this concern, though it is still far from perfect. Specifically, a better approach is to eliminate the administration key concern by transferring the role to a community-governed DAO. In the meantime, a timelock-based mechanism can also be considered as mitigation.

Moreover, it should be noted that current contracts have the support of being deployed behind a proxy. And there is a need to properly manage the proxy-admin privileges as they fall in this trust issue as well.

**Recommendation** Promptly transfer the privileged account to the intended DAO-like governance contract. All changed to privileged operations may need to be mediated with necessary timelocks. Eventually, activate the normal on-chain community-based governance life-cycle and ensure the intended trustless nature and high-quality distributed governance.

**Status** This issue has been mitigated as the team has confirmed that these privileged functions should be called by a trusted multi-sig account, not a plain EOA account.

# 4 Conclusion

In this audit, we have analyzed the design and implementation of the Sake Finance protocol, which forks from AaveV3 — the popular decentralized non-custodial money market protocol where users can participate as depositors or borrowers. Depositors provide liquidity to the market to earn a passive income, while borrowers are able to borrow in an over-collateralized (perpetually) or under-collateralized (one-block liquidity) fashion. Sake Finance maintains the same core business logic, but reconstructs with new oracle support. The current code base is well structured and neatly organized. Those identified issues are promptly confirmed and fixed.

Moreover, we need to emphasize that Solidity-based smart contracts as a whole are still in an early, but exciting stage of development. To improve this report, we greatly appreciate any constructive feedbacks or suggestions, on our methodology, audit findings, or potential gaps in scope/coverage.

# References

- [1] MITRE. CWE-1126: Declaration of Variable with Unnecessarily Wide Scope. https://cwe.mitre.org/data/definitions/1126.html.
- [2] MITRE. CWE-287: Improper Authentication. https://cwe.mitre.org/data/definitions/287.html.
- [3] MITRE. CWE-561: Dead Code. https://cwe.mitre.org/data/definitions/561.html.
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