LayerZero

LzApp + Tokens Audit

3 May 2022

by <u>Ackee Blockchain</u>



Contents

1. Document Revisions	2
2. Overview	3
2.1 Ackee Blockchain	3
2.2 Audit Methodology	3
2.3 Review team	4
2.4 Disclaimer	4
3. Executive Summary	5
4. System Overview	7
4.1 Contracts	7
4.1.1 Revision 1.0	7
4.1.2 Revision 1.1	8
4.2 Actors	10
4.3 Trust model	10
5. Vulnerabilities risk methodology	11
5.1 Finding classification	11
6. Findings	13
H1 - Burn address issue	15
M1 - Condition bypass	16
W1 - Low test coverage	17
W2 - Code duplication	18
W3 - ERC721, ERC1155 reentrancy	19
W4 - Unresolved TODO	20
W5 - Unintended feature - Renounce ownership	21
I1 - Public functions can be external	22
I2 - Missing require message	23
13 - Missing zero length handling	24
I4 - Missing documentation	25
I5 - Hardcoded types	26
7. Appendix A - Unit test results	27
7.1 Revision 1.0	27
7.2 Revision 1.1	28



1. Document Revisions

Revision	Date	Description
1.0	3 May 2022	Initial revision
1.1	11 May 2022	Report updated according to the new commit



2. Overview

This document presents our findings in reviewed contracts.

2.1 Ackee Blockchain

<u>Ackee Blockchain</u> is an auditing company based in Prague, Czech Republic, specialized in audits and security assessments. Our mission is to build a stronger blockchain community by sharing knowledge – we run a free certification course <u>Summer School of Solidity</u> and teach at the Czech Technical University in Prague. Ackee Blockchain is backed by the largest VC fund focused on blockchain and DeFi in Europe, <u>Rockaway Blockchain Fund</u>.

2.2 Audit Methodology

- Technical specification/documentation a brief overview of the system is requested from the client and the scope of the audit is defined.
- 2. **Tool-based analysis** deep check with automated Solidity analysis tools and Slither is performed.
- Manual code review the code is checked line by line for common vulnerabilities, code duplication, and best practices. The code architecture is reviewed.
- 4. Local deployment + hacking contracts are deployed locally and we try to attack the system and break it.
- 5. **Unit testing** run unit tests to ensure that the system works as expected. Potentially we write our own unit tests for specific suspicious scenarios.



2.3 Review team

Member's Name	Position
Štěpán Šonský	Lead Auditor
Josef Gattermayer, Ph.D.	Audit Supervisor

2.4 Disclaimer

We have put our best effort to find all vulnerabilities in the system. However, our findings should not be considered as a complete list of all existing issues. The statements made in this document should not be interpreted as investment or legal advice, nor should its authors be held accountable for decisions made based on them.



3. Executive Summary

LayerZero engaged Ackee Blockchain to conduct a security review of LzApp and Tokens with a total time donation of 5 engineering days in a period between 27. April - 3. May 2022.

The scope included the following repository with a given commit:

- https://github.com/LayerZero-Labs/solidity-examples
 - o contracts/IzApp
 - o contracts/tokens
- 87941ce6160f27a4057372e78c552c780baae524

We began our review by using static analysis tools and then took a deep dive into the logic of the contracts. During the review, we paid special attention to:

- checking if nobody can exploit the system,
- ensuring access controls are not too weak,
- checking the architecture,
- · checking the code quality and Solidity best practices,
- and looking for common issues such as data validation.

The code quality is solid. However, we've identified a few code duplications so the inheritance could be better designed. Also, the unit test coverage is insufficient in some audited contracts. Although the code is simple, understandable, and contains few comments, it is a good practice to cover the code using NatSpec documentation.

Our in-depth code review resulted into 12 findings rated from informational to high. Most importantly issue H1 in the contract logic, which leads to the system's misbehavior, and medium severity issue M2 which can be misused by developers. Also, we have identified a few minor best practices violations.

Ackee Blockchain recommends LayerZero to:

- avoid code duplications,
- increase unit test coverage,
- use NatSpec documentation.



Executive Summary update rev. 1.1

We performed the fix review on the updated codebase between 11. - 13. May 2022. The re-audit has been done on the following commit.

865a1ab26759b5754e5ca51f11a5f1594c6f11ba

The scope has little bit changed due to architecture refactor. There are a few new files and the original ones have been refactored to the better inheritance model. All the details about the changes are described in the updated system overview below.

5 of 12 reported findings have been fixed. Also, we can see improvement in unit test count and coverage (see Appendix A). However, we recommend increasing the coverage to 80-90% at a minimum to avoid common issues during the development or refactoring. The rest of the findings has been marked as acknowledged.

During the complete re-audit, we didn't find any new issues.



4. System Overview

This section contains an outline of the audited contracts. Note that this is meant for understandability purposes and does not replace project documentation.

4.1 Contracts

Contracts we find important for better understanding are described in the following section.

4.1.1 Revision 1.0

LzApp

LzApp is a generic implementation of <code>ILayerZeroReceiver</code>, which interacts with LZ Endpoint and performs <code>lzReceive()</code> and <code>lzSend()</code> with basic input checks. Also holds <code>trustedRemoteLookup</code> map, where trusted sources are stored. The contract also uses <code>OpenZeppelin</code>'s <code>Ownable</code> pattern. The ownership can be transferred or renounced.

NonblockingLzApp

The default LzApp implementation is blocking, so failed messages block the channel. NonblockingLzApp wraps the receive logic into the try-catch block and failed messages are stored for the future retry.

BasedOFT

BasedOFT extends OFT and overrides just _debitFrom(), _creditTo() and getType() functions. This contract is not used in other audited contracts.

PausableOFT

Pausable implementation of the OFT contract. The owner can pause the contract, so block the cross-chain transactions. This contract is not used in other audited contracts.

ProxyOFT

ProxyOFT wraps the existing ERC-20 token and adds NonblockingLzApp cross-chain logic.

OFT

OFT extends from NonblockingLzApp and OpenZeppelin ERC20 implementation, which means the token itself has cross-chain abilities.

ProxyONFT721



ProxyONFT721 extends NonblockingLzApp and wraps existing ERC-721 non-fungible token and adds LZ cross-chain abilities.

ProxyONFT1155

ProxyONFT1155 extends NonblockingLzApp, wraps existing ERC-1155 multi-token and adds LZ cross-chain logic.

UniversalONFT721

ONFT721 implementation with auto-incrementing mint ID and maxMintId boundary.

ONFT721

LZ cross-chain NFT, extends from NonblockingLzApp and OpenZeppelin ERC721 implementation.

ONFT1155

Extends from NonblockingLzApp and OpenZeppelin ERC1155 multi-token implementation, which means tokens have cross-chain abilities.

4.1.2 Revision 1.1

The codebase and the architecture have slightly changed between audit revisions. There are also a few new contracts in the scope. In this sub-chapter, we summarize these changes.

GlobalCappedOFT

A new contract extends <code>BasedOFT</code> and <code>OpenZeppelin</code> <code>ERC20Capped</code> which limits the maximum total supply in the constructor.

OFTCore

The common logic from the OFT and ProxyOFT has been moved into this new contract. It extends NonblockingLzApp, OpenZeppelin ERC165, and implements IOFTCore interface.

OFT

OFT extends the new OFTCore contract and just overrides virtual functions circulatingSupply(),_debitFrom(),_creditTo() and supportsInterface().

ProxyOFT

ProxyOFT extends the new OFTCore contract and just overrides virtual functions circulatingSupply(), debitFrom() and creditTo().

ONFT721Core



ONFT721 and ProxyONFT721 common logic have been moved into this new base contract. It extends NonblockingLzApp, OpenZeppelin ERC165, and implements IONFT721Core interface.

ONFT721

ONFT721 extends the ONFT721Core, OpenZeppelin ERC721 and implements IONFT721 interface. Overrides virtual functions _debitFrom(), _creditTo() and supportsInterface().

ProxyONFT721

ProxyONFT721 extends the ONFT721Core, and implements OpenZeppelin IERC721Receiver interface. Overrides virtual functions _debitFrom(), creditTo(), supportsInterface() and onERC721Received().

ONFT1155Core

Common logic from the ONFT1155 and ProxyONFT1155 has been moved into the ONFT1155Core.

ONFT1155

ONFT1155 extends the ONFT1155Core, OpenZeppelin ERC1155 and implements IONFT1155 interface. Overrides virtual functions _debitFrom(), _creditTo() and supportsInterface().

ProxyONFT1155

ProxyONFT1155 extends the ONFT1155Core, and implements OpenZeppelin IERC1155Receiver interface. Overrides virtual functions _debitFrom(), _creditTo(), supportsInterface(), onERC721Received() and onERC721BatchReceived().



4.2 Actors

Owner

The owner has special privileges in the LzApp contract, which allows him to setTrustedRemote() for other chains. And also to execute these specific functions on the LayerZero Endpoint:

- setConfig()
- setSendVersion()
- setReceiveVersion()
- forceResumeReceive()

In the PausableOFT contract, the owner can pause cross-chain transactions.

User

User means any external address in the network which can interact with the protocol and call unprotected public/external functions. The user can execute very similar operations as on any other ERC-20 / ERC-721 / ERC-1155 contract. Also the user can call retryMessage() on NonblockingLzApp.

4.3 Trust model

In the case of LzApp, users have to trust the owner in terms of setting the correct configuration. The owner is potentially able to cause a denial of service by setting the wrong config and versions.

In the PausableOFT the owner has the ability to pause cross-chain transactions for all users of that specific token. We do not recommend using this implementation because the owner could potentially abuse this feature.

Generally, users have to trust the owner in all LzApp descendants. Also, users have to trust the LayerZero protocol itself, including the owner.



5. Vulnerabilities risk methodology

Each finding contains an Impact and Likelihood ratings.

If we have found a scenario in which the issue is exploitable, it will be assigned an impact of *High*, *Medium*, or *Low*, based on the direness of the consequences it has on the system. If we have not found a way, or the issue is only exploitable given a change in configuration (such as deployment scripts, compiler configuration, use of multi-signature wallets for owners, etc.) or given a change in the codebase, then it will be assigned an impact rating of *Warning* or *Informational*.

Low to High impact issues also have a Likelihood that measures the probability of exploitability during runtime.

5.1 Finding classification

The complete definitions are as follows:

Impact

High

Conditions that activate the issue will lead to undefined or catastrophic consequences for the system.

Medium

Conditions that activate the issue will result in consequences of serious substance.

Low

Conditions that activate the issue will have outcomes on the system that are either recoverable or do not jeopardize its regular functioning.

Warning

The issue cannot be exploited given the current code and/or configuration (such as deployment scripts, compiler configuration, use of multi-signature wallets for owners, etc.) but could be a security vulnerability if these were to change slightly. If we have not found a way to exploit the issue given the time constraints, it might be marked as "Warning" or higher, based on our best estimate of whether it is currently exploitable.

Informational

The issue is on the borderline between code quality and security. Examples



include insufficient logging for critical operations. Another example is that the issue would be security-related if code or configuration (see above) was to change.

Likelihood

High

The issue is exploitable by virtually anyone under virtually any circumstance.

Medium

Exploiting the issue currently requires non-trivial preconditions.

Low

Exploiting the issue requires strict preconditions.



6. Findings

This section contains the list of discovered findings. Unless overridden for purposes of readability, each finding contains:

- a Description,
- an Exploit scenario, and
- a Recommendation

Many times, there might be multiple ways to solve or alleviate the issue, with varying requirements in terms of the necessary changes to the codebase. In that case, we will try to enumerate them all, clarifying which solves the underlying issue better (albeit possibly only with architectural changes) than others. Issues can be also acknowledged by developers as not a risk.



Summary of Findings

ID		Туре	Impact	Likelihood	Status
H1	Burn address issue	Syntax	High	High	Fixed
M1	Condition bypass	Inheritance	High	Low	Acknowledged
W1	Low test coverage	Tests	N/A	N/A	Partially fixed
W2	Code duplication	Best practices	N/A	N/A	Fixed
W3	ERC721, ERC1155 reentrancy	Reentrancy	N/A	N/A	Acknowledged
W4	Unresolved TODO	Best practices	N/A	N/A	Fixed
W5	Unintended feature - Renounce ownership	Access controls	N/A	N/A	Acknowledged
11	Public functions can be external	Gas optimization	N/A	N/A	Acknowledged
12	Missing require message	Best practices	N/A	N/A	Fixed
13	Missing zero length handling	Data validation	N/A	N/A	Acknowledged
14	Missing documentation	Documentation	N/A	N/A	Acknowledged
15	Hardcoded types	Best practices	N/A	N/A	Fixed



H1 - Burn address issue

Impact:	High	Likelihood:	High
Target:	ONFT721, ONFT1155, ProxyOFT, ProxyONFT721, ProxyONFT1155	Type:	Syntax

Description

The syntactic bug, which is present in _nonblockingLzReceive() function in contracts ONFT721, ONFT1155, ProxyOFT, ProxyONFT721 and ProxyONFT1155.

```
if (toAddress == address(0x0)) toAddress == address(0xdEaD);
```

There is a comparison operator instead of assignment, so toAddress is not being assigned to address (0xdEaD) in case that address (0x0) is in the _payload, so toAddress stays address (0x0).

Then address(0x0) is passed into the _afterReceive() function which calls _mint() or _safeTransfer()`with address(0x0) in parameter to.

This leads to transaction revert in _mint() ("mint to the zero address") or _safeTransfer() ("transfer to the zero address") and then stacking failedMessages in the parent contract (NonblockingLzApp) without being able to successful retry.

Exploiting scenario

This bug in the logic affects all incoming messages which contain `address (0x0)` in the payload.

Recommendation

Use the assignment operator instead of comparison.

```
if (toAddress == address(0x0)) toAddress = address(0xdEaD);
```

Update rev. 1.1

The issue has been fixed by removing this line.



M1 - Condition bypass

Impact:	High	Likelihood:	Low
Target:	LzApp, NonblockingLzApp	Type:	Inheritance

Description

Conditions in virtual functions can be overridden and bypassed. Example contracts should not give developers such an ability. The affected functions and conditions are:

```
LzApp.lzReceive():
require(_msgSender() == address(lzEndpoint));

NonblockingLzApp.nonBlockingLzReceive():
require(_msgSender() == address(this), "LzReceiver: caller must be
LzApp");
```

Exploiting scenario

Developers of descendant proxy tokens can override these functions to bypass conditions in receive functions, which could give them ability to drain tokens from the contract.

Recommendation

Remove the virtual keyword from LzApp.lzReceive() and NonblockingLzApp.nonBlockingLzReceive() to disallow function override.

Update rev. 1.1

The issue has been acknowledged.



W1 - Low test coverage

Impact:	Warning	Likelihood:	N/A
Target:	/**/*	Туре:	Tests

Description

Audited contracts has very low test coverage. In some of them, tests are completely missing (PausableOFT, ProxyOFT, ONFT721, ONFT1155). See Appendix A for the test results.

Recommendation

Add more testing scenarios and increase the test coverage. Unit testing is essential bug prevention and should not be underestimated.

Update rev. 1.1

Unit test amount and coverage have been increased. However, in some contracts (LzApp, NonblockingLzApp, OFT, OFTCore, ONFT721Core, ProxyONFT1155 and ProxyONFT721), the test coverage is still under 80%, see Appendix A rev.1.1.



W2 - Code duplication

Impact:	Warning	Likelihood:	N/A
Target:	OFT, ONFT721, ONFT1155, ProxyOFT, ProxyONFT721, ProxyONFT1155	Type:	Architecture

Description

Contracts contains a lot of duplicated code which can be the source of many bugs. Also, it decreases the readability of the code and effective long-term maintainability. E.g. functions <code>estimateSendFee()</code>, <code>send()</code>, <code>_nonBlockingReceive()</code>...

Recommendation

Review the architecture and refactor contracts using inheritance or libraries to remove code duplications.

Update rev. 1.1

The architecture has been refactored to eliminate the duplicated code.



W3 - ERC721, ERC1155 reentrancy

Impact:	Warning	Likelihood:	N/A
Target:	ONFT721, ONFT1155	Туре:	Reentrancy

Description

ERC721 and ERC1155 implementation can be subject to reentrancy attack using IERC721Receiver and IERC1155Receiver. We have not found any exploitable scenario in current contracts, so we marked this hypothetical issue as a warning.

Recommendation

Double check your ERC721 and ERC1155 implementations to whether they are not vulnerable to this kind of attack. Eventually, add the ReentrancyGuard to public/external functions.

Update rev. 1.1

The warning has been acknowledged.



W4 - Unresolved TODO

Impact:	Warning	Likelihood:	N/A
Target:	ProxyONFT721	Туре:	Best practices

Description

We found unresolved TODO in the code of ProxyONFT721.

// TODO: to send cross chain tx

Recommendation

Resolve the TODO and remove the comment.

Update rev. 1.1

TODO has been removed.



W5 - Unintended feature - Renounce ownership

Impact:	Warning	Likelihood:	N/A
Target:	*.sol implements Ownable	Type:	Access control

Description

The OpenZeppelin's Ownable pattern contains renounceOwnership() which sets the owner address to address(0). This could lead to irreversible damage to the contract.

Exploiting scenario

This is not a directly exploitable issue, but can be considered as an unintended feature of the system. This function can be called accidentally or intentionally by a malicious owner.

Recommendation

We recommend using a multisig wallet for the owner to avoid accidental renounceOwnership() call. Or it can be handled by overriding the renounceOwnership() function in contracts inherited from Ownable.

Update rev. 1.1

The warning has been acknowledged.



11 - Public functions can be external

Impact:	Informational	Likelihood:	N/A
Target:		Туре:	Best practices

Description

Some of the contracts' functions are declared as public, but not called from the contract itself or from descendants.

Recommendation

Review functions' visibility and change it to external in cases where it is possible.

Update rev. 1.1

The info has been acknowledged.



12 - Missing require message

Impact:	Informational	Likelihood:	N/A
Target:	LzApp	Туре:	Best practices

Description

Missing revert message in the require statement.

```
require(_msgSender() == address(lzEndpoint));
```

Recommendation

Adding the revert message into the require statement is generally good practice to achieve human-readable errors.

Update rev. 1.1

The revert message has been filled.



13 - Missing zero length handling

Impact:	Informational	Likelihood:	N/A
Target:	ONFT1155, ProxyONFT1155	Туре:	Data validation

Description

The following code is missing the code path in case tokenIds.lenght == 0. This does not have to be an issue, but maybe require/revert can be used here.

Recommendation

Review the code whether the require/revert can be more suitable in this case.

Update rev. 1.1

The info has been acknowledged.



14 - Missing documentation

Impact:	Informational	Likelihood:	N/A
Target:		Туре:	Documentation

Description

The code is missing detailed documentation.

Recommendation

Although the code is relatively simple and understandable, we recommend to use NatSpec documentation. High quality documentation has to be essential part of any professional project.

Update rev. 1.1

The NatSpec documentation in contracts is still missing.



15 - Hardcoded types

Impact:	Informational	Likelihood:	N/A
Target:	OFT, BasedOFT	Туре:	Best practices

Description

Token types are hardcoded integers (0, 1), which is confusing and not self-explainable. Hardcoded values decrease the code readability and also could lead to bugs.

```
function getType() public view virtual override returns (uint) {
   return 0;
}
```

Recommendation

Use well-named constants instead of hardcoded values.

Update rev. 1.1

The getType() function has been removed from interfaces and contracts.



7. Appendix A - Unit test results

7.1 Revision 1.0

		l 	I		II
File	% Stmts	% Branch	% Funcs	% Lines	Uncovered Lines
examples/	100	62.5	70	100	
ExampleBasedOFT.sol	100	100	0	100	i i
ExampleOFT.sol	100	100	o i	100	i i
ExampleUniversalONFT721.sol	100	100	0	100	i i
OmniCounter.sol	100	100	100	100	i i
PingPong.sol	100	62.5	100	100	i i
interfaces/	100	100	100	100	i i
ILayerZeroEndpoint.sol	100	100	100	100	i i
ILayerZeroReceiver.sol	100	100	100	100	i i
ILayerZeroUserApplicationConfig.sol	100	100	100	100	i i
lzApp/	66.67	33.33	64.29	66.67	i i
LzApp.sol	76.47	50	60	76.47	46,51,55,59
NonblockingLzApp.sol	50	16.67	75	50	42,43,44,46,48
mocks/	85.37	70	54.29	85.88	l I
ERC1155Mock.sol	66.67	100	75	66.67	20
ERC721Mock.sol	0	100	0	0	14,18,22
LZEndpointMock.sol	89.47	70	59.26	89.87	299,303,307
token/oft/	69.57	75	60	72.73	l I
IOFT.sol	100	100	100	100	l I
IOFTCore.sol	100	100	100	100	l I
OFT.sol	69.57	75	60	72.73	29,30,38,73
token/oft/extension/	8.7	0	20	8.7	
BasedOFT.sol	66.67	100	75	66.67	14
PausableOFT.sol	0	100	0	0	18,22
ProxyOFT.sol	0	0	0	0	8,89,98,106
token/onft/	77.61	55.56	77.78	80.3	!!
IONFT1155.sol	100	100	100	100	!!
IONFT721.sol	100	100	100	100	! !
ONFT1155.sol	76.09	58.33	76.47	77.78	42,43,47,51
ONFT721.sol	80.95	50	80	85.71	17,18,22
token/onft/extension/	69.01	58.33	63.33	70.42	!!
ProxyONFT1155.sol	95.65	62.5	94.44	97.78	171
ProxyONFT721.sol	0	0	0	0	55,64,85,90
UniversalONFT721.sol	100	100	100	100	
All files	72.35	56.58	59.57	73.8	
					i



7.2 Revision 1.1

File	 % Stmts	% Branch	* Funcs	 % Lines	 Uncovered Lines
examples/ ExampleBasedOFT.sol	100 100	62.5 100	80 100	100 100	
ExampleOFT.sol	100	100	0	100	; ;
ExampleUniversalONFT721.sol	100	100	Õ	100	i i
OmniCounter.sol	100	100	100	100	i i
PingPong.sol	100	62.5	100	100	İ İ
interfaces/	100	100	100	100	ļ ļ
ILayerZeroEndpoint.sol	100	100	100	100	!!
ILayerZeroReceiver.sol	100	100	100	100	!!
<pre>ILayerZeroUserApplicationConfig.sol lzApp/</pre>	100 66.67	100 33.33	100 64.29	100 66.67	!!
LzApp.sol	76.47	50	60	76.47	46,51,55,59
NonblockingLzApp.sol	50	16.67	75	50	42,43,44,46,48
mocks/	88.1	70	66.67	88.51	,, ,
ERC1155Mock.sol	66.67	100	75	66.67	j 20 j
ERC20Mock.sol	100	100	100	100	i i
ERC721Mock.sol	66.67	100	75	66.67	22
LZEndpointMock.sol	89.47	70	59.26	89.87	299,303,307
ONFT721Mock.sol	100	100	100	100	!!
token/oft/ IOFT.sol	75 100	100 100	63.64 100	75 100	!!
IOFTCore.sol	100	100	100	100	!!
OFT.sol	71.43	100	60	66.67	15,19
OFTCore.sol	76.92	100	66.67	78.57	13,18,19
token/oft/extension/	83.33	75	69.23	76.92	i,, i
BasedOFT.sol	80	50	75	80	j 11 j
GlobalCappedOFT.sol	0	100	0	0	j 15 j
PausableOFT.sol	100	100	100	100	ļ ļ
ProxyOFT.sol	100	100	75	80	18
token/onft/	87.23	78.57	78.26	87.23	!!
IONFT1155.sol IONFT1155Core.sol	100 100	100 100	100 100	100 100	!!
IONFT721.sol	100	100	100	100	!!
IONFT721.Soc	100	100	100	100	; ;
ONFT1155.sol	80	100	75	80	i 15 i
ONFT1155Core.sol	95.83	75	88.89	95.65	i 13 i
ONFT721.sol	80	75	75	80	j 15 j
ONFT721Core.sol	76.92	100	66.67	78.57	13,18,19
token/onft/extension/	73.08	62.5	76.92	83.33	!!!
ProxyONFT1155.sol	58.33	50	66.67	70	21,35,36
ProxyONFT721.sol UniversalONFT721.sol	77.78	66.67	80	87.5	21
Universatunti/21.sot	100	100	100	100	
All files	83.4	64.47	70.73	84.45	i



```
BasedOFT:
✓ sendFrom() - tokens from main to other chain (66ms)
OFT:
setting up stored payload
Proxy0FT:
ONFT721:
```

Thank You

Ackee Blockchain a.s.

- Prague, Czech Republic
- https://discord.gg/z4KDUbuPxq