

## **Financial Sector Modernization Project - 2018**

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The audit of financial statements of the Financial Sector Modernization Project for the year ended 31 December 2018 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 the provisions in the financing Agreement No. 6006 LK dated 04 October 2018 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association.

### **1.2 Implementation, Objectives, Funding and Duration of the Project**

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According to the Financing Agreement, the Ministry of Finance is the Executing Agency and the Central Bank of Sri Lanka, Security Exchange Commission and Insurance Regulatory Commission of Sri Lanka are the Implementing Agencies of the Project. The objective of the Project is to contribute to increasing financial market efficiency and use of financial services among micro, small and medium enterprises and individuals. The activities of the Project are implemented under 04 components namely supporting selected Mid-Level Reforms through Results – Based Financing, Strengthening Regulators institutional capacity upgrading the legal and Regulatory Frame Work and Modernizing Financial Market Infrastructure, Project implementation and Monitoring, Front-end fee. As per the Financing Agreement, the estimated total cost of the Project was US\$ 75 million equivalent to Rs. 13,125 million was agreed to be financed by IDA. The Project had commenced its activities on 18 October 2018 and scheduled to be completed by 31 December 2022.

### **1.3 Opinion**

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In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2018, financial performance and its cash flows for the year then ended in accordance with Generally accepted Accounting Principles.

### **1.4 Basis for Opinion**

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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.

## **1.5 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 Generally accepted Accounting Principles, 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.

## **1.6 Auditor's Responsibilities for the audit of the Financial Statements**

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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 skepticism 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 internal control of the Project.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

**2. Physical Performance**

**2.1 Physical progress of the activities of the Project**

Component	Activity	As at 31 December 2018		Audit Issue	Impact	Reasons for delays
		Expected physical performance	Performance achieved			
		Units	Units			
01	Supporting selected Mid-Level reforms through Results-Based financing	10 Disbursement Linked Results	02 Disbursement Linked Results	08 Disbursement Linked Results had not been achieved.	Delay in implementation of the Project.	Delay in establishment of the Project office.

**Response of the Management** Due to delay in the commencement of the project, there had been a delay in achieving the DLRR as planned in the Project Appraisal Document.

**Auditor's Recommendations** Action should be taken to achieve all targets as intended.

## 2.2 Delays in commencements/ implementation/ completion of activities of the Project

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No	Activity	Date scheduled to be commenced	Date of implementation	Delay	Impact	Response of the Management	Auditor's Recommendations
01	Establishment of Project Monitoring Unit	February 2018	October 2018	06 Months	Delay in implementation of the Project.	Since the delays have occurred prior to the establishment of Central Project Coordination Unit, project have no details on this matter.	Relevant units of the Project should be established as agreed.