

## **Financial Sector Modernization Project - 2019**

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The audit of financial statements of the Financial Sector Modernization Project for the year ended 31 December 2019 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 (IDA).

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

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According to the Financing Agreement of the Project 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 Regulations institutional capacity upgrading the legal and Regulatory Frame work and Modernizing Financial Market Infrastructure, project implementation and Monitoring, Disbursement Linked Indicators. 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 2019, financial performance and its cash flow for the year then ended in accordance with Sri Lanka 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.

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

## 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. Comments on Financial Statements

### 2.1 Financial Performance

Audit Issue	Impact	Response of the Management	Auditor's Recommendation
Out of total allocation of Rs. 680.4 million had been made in the Budget Estimate for the activities of the Project for the year under review, a sum of Rs.331.18 million representing 49 percent had only been utilized by the Project, due to non-achievement of the Disbursement Linked Results as scheduled and delays in procurement process.	Delay in implementation of the Project.	Due to non achievement of the disbursement linked results as scheduled and delays in procurement process, allocated provision could not be utilized as expected	It is required to take necessary action to achieve all targets as intended.

## 3. Physical Performance

### 3.1 Physical progress of the activities of the project

Component	As at 31 December 2019		Delay/ Audit Issue	Impact	Response of the Management	Auditor's Recommendations
	Expected physical performance	Performance achieved				
	Units	Units				
Disbursement Linked Indicators	12	02	10	Delay in implementation of the project.	Due to delay in the commencement of the project, there had been a delay in achieving the DLRR as planned in the Project	It is required to take necessary action to achieve all targets as intended.

Appraisal  
Document.  
Further,  
amendment  
had been  
made to the  
Financing  
Agreement  
with regard to  
the date of  
achievement  
of  
Disbursement  
Linked  
Results on  
April 2020.