

## **Financial Sector Modernization Project - 2022**

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The audit of financial statements of the Financial Sector Modernization Project for the year ended 31 December 2022 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 in the Financing Agreement No. 6006 dated 04 October 2017 entered into between the Democratic Socialist Republic of Sri Lanka and the International Development Association. My comments and observations which I consider should be reported to Parliament appear in this report.

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

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 objectives of the Project are 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 03 components namely results based financing, investment based financing and project implementation and monitoring and front end fee. As per the Financing Agreement, the estimated total cost of the Project was US\$ 75 million equivalent to Rs. 22,500 million and this amount 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 Qualified Opinion**

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Project as at 31 December 2022, statement of expenditure and its cash flow for the year then ended in accordance with Sri Lanka Accounting Standards.

### **1.4 Basis for Qualified Opinion**

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**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, 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

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 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. Financial and Physical Performance

### 2.1 Financial Performance

The following observations are made.

<b>Audit Issue</b>	<b>Response of the Management</b>	<b>Auditor's Recommendation</b>
(a) As per the Section 39(a) of Sri Lanka Accounting Standard 21, Parity adjustments amounting to Rs. 1,978 million relating to the foreign loan of the project had not been accounted in the financial statements as at 31 December 2022.	Not Response.	Financial Statements should be prepared in accordance with SLAS.

- (b) The Project had utilized only 15 percent of the total loan amount from the year 2018 to 31 December 2022. The Project is liable to pay 2.5 percent commitment charges on unutilized loan and the commitment charges amounting to USD 159,389 had been already paid to the funding agency uneconomically as at 31 December of the year under review.
- Not Response. Action should be taken to utilize the total allocated funds as intended.

## 2.2 Physical Performance

Component /Sub Component	As at 31 December 2021		Audit Issue	Response of the Management	Auditor's Recommendations
	Expected physical performance	Performance achieved			
Component 01	- 09 Disbursement Linked Results. (DLR)	03 Disbursement Link Results	Nine (09) Activities had been planned to be implemented under this Component. Out of these Activities which had been supposed to complete in the year 2022, six (06) Activities no progress has been made in 2022.	Not Response	It is required to take necessary action to achieve all targets as intended.
Component 02	- 25 Disbursement Linked Results. (DLR)	04 Disbursement Link Results	Twenty five (25) Activities had been planned to be Implemented under this Component. out of this Activities which had been supposed to complete in the year 2022, twenty one (21) Activities no progress has been made in 2022.	Not Response	It is required to take necessary action to achieve all targets as intended.