

Financial Sector Safety Net Strengthening Project – Component 01 - 2024

The audit of financial statements of the Financial Sector Safety Net Strengthening Project – Component 01 for the year ended 31 December 2024 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 Loan Agreement No. 7418-LK dated 31 January 2024 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 Loan Agreement, the Ministry of Finance, Economic Stabilization and National Policies is the Executing Agency and Central Bank of Sri Lanka acting in the name of Sri Lanka Deposit Insurance Fund is the Implementing Agency of the Project.

The objective of the Project is to strengthen the financial and institutional capacity of Sri Lanka's financial sector safety net, with the focus on the deposit insurance scheme. The activities of the Project are implemented under three components namely Component 01, Component 02 and Component 03.

As per the Loan Agreement, the amount allocated for Component 1 is US\$ 146 million equivalent to Rs.46, 342 million and full amount was agreed to be financed by International Development Association.

The Project became effective on 03 April 2024 and is scheduled to be completed by 31 December 2027.

1.3 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 2024, statement of receipts and payments and its statement of designated account for the year then ended in accordance with Sri Lanka Accounting Standards.

1.4 Basis for 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 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

Audit Issue	Response of the Management	Auditor's Recommendation
As per the Section III C (1) of financing Agreement of the project, the recipient may request withdrawals of financing for the eligible expenditure under the part 1 of project prior to the Performance Based Conditions (PBCs) having met, provided that the recipient shall a) Meet such PBCs no later than the closing date b) Submit to the association evidence satisfactory to the association of such Performance Based Conditions (PBCs) having been met no later than the disbursement deadline date. Even though PBC 5, PBC 6(1), and PBC 8 were required to be completed within one year, as at 31 August 2025 they had been completed only to the extent of 80 per cent, 45 per cent, and 25percent, respectively.	Comments had not been received.-	Necessary measures should be taken to ensure the timely fulfilment of all Performance Based Conditions (PBCs).

2.2 Issues Related to Human Resources Management

Audit Issue	Response of the Management	Auditor's Recommendation
As per Section III of the Project Operational Manual (POM), a designated Procurement Specialist is required to be included in the Project Implementation Unit (PIU) under the Deposit Insurance and Resolution Department (DIRD) of Central Bank of Sri Lanka (CBSL) to coordinate all procurement activities in line with World Bank procurement regulations. However, as the Procurement	The World Bank agreed to the arrangement of an internal staff member of DIRD carrying out the role of the Procurement Specialist of the Financial Sector Safety Net Strengthening Project.	Action should be taken in compliance with the provisions of the Project Operational Manual.

Specialist had concluded his services upon completion of the one-year contract, the responsibility has currently been assigned to a permanent staff member of the Central Bank.