Financial Sector Safety Net Strengthening Project – Component 02 and 03 - 2024

The audit of financial statements of the Financial Sector Safety Net Strengthening Project – Component 02 and 03 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 2 and 3 is US$ 4 million equivalent to Rs.1,270 million and full amount was agreed to be financed by International Development Association**.**
The Project became effective on 03 April 2024 and 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 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. Physical Performance

2.1 Physical progress of the activities of the Project

Audit Issue	Response of the Management	Auditor's Recommendation
As specified in the Project Operational Manual, the PIU was	Recruitment of the Consultant for the Long-Term Public	The Project Implementation Unit

required to recruit a consultant to support CBSL in the development and implementation of the long-term public awareness strategy. However, it was observed that no such recruitment had been made by the PIU as at 30 September 2025.	Awareness Strategy is included in the Annual Action Plan for the year 2025.	should expedite the recruitment of the consultant.

2.2 Underutilized Resources

Audit Issue	**Response of the Management**	**Auditor's Recommendation**
An amount of US$ 400,000 had been disbursed for component 2 and 3 for the year 2024. However, during the year under review, only Rs. 4,547,066 was incurred for the consultancy fee and publication expenses. The excess disbursed amount of US $ 300,000 was refunded to the World Bank due to any planned activity related to the component 2 had not been executed during the year under review.	Comments had not been received.	Action should be taken to utilize disbursements effectively.