

Financial Sector Modernization Project - 2020

The audit of financial statements of the Financial Sector Modernization Project for the year ended 31 December 2020 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. As per the Financing Agreement, the estimated total cost of the Project was US\$ 75 million equivalent to Rs. 13,125 million and entire 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 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 2020, statement of expenditure and its cash flow 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

Component	As at 31 December 2020		Audit Issue	Reasons for delays
	Expected physical performance	Performance achieved		
	Units	Units		
Component - 01	13 Disbursement Linked Results. (DLR)	03 Disbursement Link Results	10 Disbursement Link Results scheduled to be achieved as at 31 December 2019 as per the project appraisal document and had not been achieved as at that date. However, as per the amendment to the Finance Agreement made on April 2020, achievement year of these Disbursement Linked Results had been revised as year 2021.	Delay in implementation.
Component - 02	Strengthening the Organization Capacity of three regulatory institutions	-	Under the Components 02, its progress was weak due to delays in procurement work to strengthen the Organizational Capacity of regulators.	Delay in procurement process.
Response of the Management	Expected to be completed within the year 2021 and due to the most of procurement activities under the components 02, are expected to be completed and awarded within the year 2021.			
Auditor's Recommendation	It is required to take necessary action to achieve all targets as intended.			

2.2 Unutilized Resources

No	Audit Issues	Responses of the Management	Auditor's Recommendations
(a)	Out of total allocation of Rs. 430.3 million had been made in the Budget Estimate for the activities of the Project for the year under review, a sum of Rs.74.96 million representing 17 percent had only been utilized by the Project.	Due to non-achievement of the disbursement linked results as scheduled and delays in procurement process and due to the covid epidemic in the country, allocated provision could not be utilized as expected.	It is required to take necessary action to achieve all targets as intended and maximum utilization of allocated funds.
(b)	Total estimated cost of the Project is US\$ 75 million, equivalent to Rs. 13,125 million. Although two years lapsed since the inception of the project, by 31 December 2020 the total loan utilization of Rs. 577.11 million, which is only 4 percent of the estimated cost of the project.	As 10 Disbursement Linked Results are planned to be achieved in the year 2021 and most of the Procurement activities under the Component 02, are expected to be completed and awarded in the year 2021, the utilization of those payments can significantly increase the utilization in the year 2021.	Action should be taken to utilize the total allocated funds.