

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the CESS Fund of the Securities and Exchange Commission of Sri Lanka, for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of financial performance, statement of changes in CESS Fund and cash flow statement for the year then ended and notes to the financial statements, including material accounting policy information, 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 of the National Audit Act No. 19 of 2018 and Finance Act No.38 of 1971. My comments and observations which I consider should be report to parliament appear in this report.

In my opinion, the financial statements give a true and fair view of the financial position of the fund as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 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.

1.3 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 Public Sector 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.

In preparing the financial statements, management is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

As per Section 16(1) of the National Audit Act No. 19 of 2018, the fund is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the fund.

1.4 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 the fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- 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.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Fund, and whether such systems, procedures, books, records and other documents are in effective operation;
- Whether the Fund has complied with applicable written law, or other general or special directions issued by the governing body of the Fund;
- Whether the Fund has performed according to its powers, functions and duties; and
- Whether the resources of the Fund had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

2. Financial Review

2.1 Financial Results

The operating result of the year under review amounted to a surplus of Rs.468.9 million and the corresponding surplus in the preceding year amounted to Rs. 563.6 million. Therefore a deterioration amounting to Rs. 94.7 million of the financial result was observed. The reasons for the deterioration are, the funds transferred to the SEC for operational and capital expenses increased by Rs. 213 million, and Interest on Treasury bonds decreased by 147 million.

2.2 Utilization of the Fund

Audit Issue	Management Comment	Recommendation
According to the Section 156(2) of the Securities and Exchange Commission of Sri Lanka Act, No. 19 of 2021, the monies lying to the credit of the Fund shall only be utilized for the purpose of developing the securities market; enhancing monies lying to the credit of the Compensation Fund or the Fund of the Commission established under this Part; meeting all expenditure incurred by the Commission in the management, administration, and operation of the Commission in the exercise, performance and discharge of its duties and functions; granting loans for housing, educational, health and transport purposes to the staff of the	SEC does not receive funds from the Consolidated Fund and it finances expenses incurred in the achievement of Statutory objectives through various fees and transfers from CESS Funds. Under Section 156 of the Securities and Exchange Commission Act No. 19 of 2021, the Commission is empowered to utilize funds from the CESS Fund to support in the management, administration and operation of the Commission in the exercise, performance and discharge of its duties and functions and other purposes. During the year under review, Rs. 645.93 million was transferred from the CESS Fund to cover total expenses amounting to Rs. 726.29 million. SEC had its own income of 80 million to	The Commission should ensure that all expenditures charged to the CESS Fund are strictly aligned with the purposes specified under Section 156(2) of the Securities and Exchange Commission Act, No. 19 of 2021.

Commission as the Commission deems appropriate; to make contributions to pension and provident funds and other schemes established for the benefit of the Director General and its officers and servants and their dependents and nominees; and to defray the costs of study, in Sri Lanka or abroad of the officers and servants of the Commission who are of proven merit as determined by the Commission. Accordingly, a sum of Rs. 663.9 million had been transferred to the Commission for operational and capital expenses during the year under review. Further, during the course of the audit, it was observed that staff welfare expenditures amounting to Rs. 8,489,239 had been charged by the Commission during the year under review. These expenditures were comprised of Rs. 6,275,880 incurred for the Christmas Staff Get-Together, Rs. 194,617 spent on entertainment and gifts, Rs. 1,768,083 incurred as general expenses for the Pirith ceremony, Rs. 51,020 expended on funeral-related items such as a flower wreath and banner, Rs. 35,738 spent on fruit baskets for hospitalized staff, and Rs. 163,900 incurred on farewell gifts and related arrangements.

cover a part of its expenditure for the year under review and only the balance expenditure had been charged to the CESS Fund. SEC had incurred all its expenditure as permitted by the SEC Act with approved budgetary provisions and accordingly, it is understood that any part of the SEC expenditure could be charged to the CESS Fund considering that the same was allowed to be charged to the CESS Fund in terms of Section 156 (2) of the SEC Act.

SEC incurred all the expenditure for the year 2024, in line with the purposes listed under the Section 156 (2) of the SEC Act only. And accordingly, those expenditures incurred by the Commission for the year 2024, are chargeable under the respective purposes. Despite insufficient funds, the SEC exercised prudence and due diligence in approving all the expenditures, ensuring they were in line under the Act., and accordingly, SEC carefully considered the expenditures prior to be incurred as they are chargeable under section 156(2) and it was charged to the Cess Fund.

Further, the captioned expenditure amounting to Rs. 8.48 Mn could be categorized under the listed purpose number 'c of the Section 156 (2) of the SEC Act and the same were incurred with the intention of boosting staff morale, promoting team bonding, fostering a positive work environment and continuing cultural practice to honor tradition. Some of the expenses had been incurred to maintain official relationships which were considered beneficial to the Secretariat's operations. This included engaging in activities that supported regulatory collaboration. Further, as a regulatory body, the Secretariat is required to uphold certain standards of engagement involving

such expenditures and the provisions for the same had been made in the annual budget estimates.

Hence, these are not merely discretionary expenses, they are integral to the SEC's ability to discharge its statutory duties effectively and maintain stakeholder confidence. Henceforth, as in summary, all the expenditure of SEC reflects alignment with statutory mandates.