

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Securities and Exchange Commission of Sri Lanka (“Commission”) 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 net assets 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 reported to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Commission 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 Audit Scope 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 Commission’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 intend to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Commission’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Commission 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 Commission.

1.4 Audit Scope

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 Commission'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 Commission 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 Commission, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Commission has complied with applicable written law, or other general or special directions issued by the governing body of the Commission;
- Whether the Commission has performed according to its powers, functions and duties; and
- Whether the resources of the Commission had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

Reference to Laws, Rules Regulations etc.	Non-compliance	Management Comment	Recommendation
Public Enterprises Circular 01/2021 dated 16 November 2021			
(i) Guidelines on Corporate Governance			
• Section 2.6	Although the Chief Executive Officer or any other employee already engaged in a different role within the institute should not be appointed as the Secretary to the Board of Directors, the Director General of the Commission had been appointed as the Board Secretary.	The Organization will consider alternative structuring with the approval of the Commission to ensure alignment with governance standards and enhance role clarity moving forward.	Necessary actions should be taken in accordance with the provisions of the Public Enterprise Circular.
• Section 3.2	Annual Performance Review Meetings (APRM) for the years 2022, 2023, and 2024 had not been conducted as of the date of this audit report, despite the requirement for these meetings to be held within five months following the balance sheet date and prior to the submission of the Annual Report to the Parliament.	Performance report for 2022, 2023 & 2024 already submitted to the Ministry of Finance (MoF) and Annual Report of 2022 approved by the Parliament. Going forward, SEC will coordinate with MoF to	- Do -

ensure timely conduct of APRM in compliance with the guidelines.

- Annexure III

It was noted that the Commission's Annual Report for the year 2024 had not incorporated several key disclosures required, including risk assessment and mitigating strategies, analysis of financial performance, and financial highlights for the preceding 10 years. The omission of these areas affects the completeness of the Annual Report and may reduce its effectiveness in facilitating decision-making.

Financial performance of three funds have been included in the current Annual Report and going forward, the financial performance of the organization will be added to same. Risk assessment and mitigating strategies and financial highlights for the preceding 10 years will also be added to the Annual Report from next year onwards.

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Operational
Manual for
State Owned
Enterprises

- Section 6.6

Although the draft Annual Report and financial statements are required to be submitted to the Auditor General within 60 days of the close of the financial year, the draft Annual Report for the year 2024 had not been submitted to the Auditor General together with the accounts.

The financial statements were submitted to the Auditor General within the stipulated 60 days period. However, the draft annual report was not submitted concurrently. The commission commits to ensuring both documents are submitted together in future years.

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2. Financial Review

2.1 Financial Result

The operating result of the Commission of the year under review amounted to a deficit of Rs. 645,930,836 before taking into account the transfer from the CESS fund towards excess of expenditure over income and the corresponding deficit in the preceding year amounted to a deficit of Rs. 446,662,381. Therefore an deterioration amounting to Rs.199, 268,455 of the financial result was observed. The main reasons for increasing the deficit are loss of income from Results based Funds received from FSMP and increase of personal cost during the year under review by Rs.164, 073, 632 and Rs.38, 013,834 respectively.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the Commission during year under review compared with the preceding year with the percentage of increase or decrease shown below.

	2024	2023	Difference as a percentage
	Rs.	Rs.	%
<u>Income of the Commission</u>			
License Fee	25,123,028	4,100,649	513%
Educational Programmes	12,836,609	11,629,061	10%
Government Grant (FSMP)	12,365,239	176,438,871	(93)%
<u>Expenditure of the Commission</u>			
Personnel Cost	431,513,003	393,499,169	10%
Administration & Establishment Expenses	256,769,019	236,006,969	9%
Capital Market Development Expenses	37,907,073	36,029,791	5%

- a. The Commission has received funds from Financial Sector Modernization Project (FSMP) of the World Bank under two components as follows.

Component I – Results Based Financing Component

Upon successful completion of identified policy reforms set forth by the World Bank as Disbursement-Linked Results (DLRs), the allocated funds were disbursed to the SEC. Accordingly, the SEC successfully completed all the policy action items stated under component I and, received the allocated funds amounting to a total of USD 2 Million (equivalent to LKR 533,396,869.32 of which final payment of LKR 164,073,632.20 was received by the SEC on 24.03.2023)

Component II – Investment Based Financing Component

Under component II of the FSMP, funding was made available to the Secretariat to procure identified goods and consultancy services and for staff capacity building. As at project closure, the World Bank has disbursed an amount of USD 519,059.54 (equivalent to LKR 163,324,066.66) to the SEC under

component II. Funds received to procure goods was considered as a grant and shown in the statement of financial position as a deferred income by amortising the same over its useful life time.

3. Operational Review

3.1 Uneconomic Transactions

Audit Issue	Management Comment	Recommendation
Although the National Budget Circular No. 01/2024 dated 10 January 2024 requires that all non-essential expenses be incurred in a frugal manner with due control, it was observed that staff welfare expenditures amounting to Rs. 8,489,239 had been incurred by the Commission during the year under review, including Rs. 6,275,880 for a Christmas Get - Together, Rs. 1,768,083.47 for Pirith expenses, Rs. 194,617 for entertainment and gifts, Rs. 51,020 for funeral arrangements, Rs. 35,738 for fruit baskets for hospitalized employees, and Rs. 163,900 for farewell gifts and arrangements, which were contrary to the provisions of the said circular.	The expenses were incurred to strengthen staff morale, organizational culture, and employee wellbeing—key factors for retaining trained personnel and ensuring effective regulatory operations. These expenditures form part of the SEC’s employee engagement and retention strategy and are distinct from uneconomic transactions, as they yield organizational benefits. The annual Christmas Get-together, a tradition since 1997, was resumed after 2019 to address high staff turnover and promote team cohesion, similar to practices in peer organizations. Certain expenses also related to maintaining official relationships and regulatory collaboration necessary for the Secretariat’s functions.	All non-essential expenditures should be strictly justified, incurred in a cost-effective manner, and aligned with the provisions of National Budget Circular No. 01/2024.
	All expenditures were included in the annual estimates and made in accordance with Section 156(2) of the SEC Act, which authorizes the use of Cess Fund resources for staff welfare, capacity building, and internal operations. These activities were undertaken in good faith to balance economic prudence with human capital and operational needs.	

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
In terms of Sections 16(r) and 16(s) of the SEC Act, the Commission is empowered to inquire into and conduct investigations of market institutions, intermediaries, registered persons, listed public companies, and listed foreign entities, including alleged violations of the SEC Act, regulations, rules, directives, or instructions, and to take enforcement measures as necessary. However, it was observed that a significant number of investigation cases remain unresolved for extended periods. As at 06 August 2025, seven cases have been pending for 5–7 years, one case for 2 years. Such delays in finalizing investigations may adversely impact the Commission’s ability to enforce regulatory compliance, undermine market confidence, and expose the Commission to potential legal and reputational risks.	During the year 2024, the SEC concluded 36 investigations out of a total of 62 investigations (55 investigations that were carried forward from 2023 and seven new investigations commenced during the year). The SEC is diligently working to complete older investigations while simultaneously managing new investigations that have a significant impact on the market. For example, during the year 2024, the Division finalized 11 investigations that had been pending for over a year.	Necessary measures should be taken to expedite the completion of long-pending investigations by establishing clear timelines and monitoring mechanisms to ensure timely enforcement and enhanced regulatory effectiveness.

3.3 Procurement Management

Audit Issue	Management Comment	Recommendation
(a) According to Section 4.2(a) and (b), of the Procurement Guidelines – 2006, the Procurement Entity (PE) shall prepare the Master Procurement Plan (MPP), which should include procurement activities envisaged at least for a period of three years shall be listed in MPP. However, the commission had not been prepared the Master Procurement Plan.	Currently, SEC prepares the MPP on an annual basis. Whilst this approach supports short-term planning and execution, moving forward, SEC will take steps to develop a comprehensive MPP covering at least a three-year horizon to ensure compliance and enhance strategic procurement planning.	Action should be taken in accordance with the National Procurement Guidelines and related circulars.

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| <p>(b) According to Sections 4.2(c) and (e), of the Procurement Guidelines – 2006, procurement activities for the immediately succeeding year must be prepared in detail using the specific format prescribed in Section 4.2.1 of the Procurement Manual and must be updated at intervals not exceeding six months. However, the Commission has not prepared such procurement plan for the year 2024 in the prescribed format, nor has it updated accordingly.</p> | <p>Going forward, the SEC will ensure that the updating at intervals not exceeding six months as in the prescribed format by to maintain compliance with the Procurement Manual.</p> | <p>- Do -</p> |
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3.4 Defects in Contract Administration

Audit Issue	Management Comment	Recommendation
Several Service Level Agreements (SLAs) had been executed with significant delays following the commencement of their respective validity periods. The Standard Annual Maintenance Agreement had been delayed by 2 months and 18 days, the DMS – Application Software Maintenance Agreement by 3 months, the Standard Maintenance Contract by 3 months and 1 day, the Maintenance Agreement by 1 month and 21 days, and the License Renewal and Maintenance Agreement by 6 months and 18 days.	Contract discussions commenced two months prior to the effective date to finalize the terms and conditions. Although the negotiation process took time, the final contract terms agreed upon with the service providers were ultimately more beneficial to the Securities and Exchange Commission of Sri Lanka. Despite delays in signing the Service Level Agreements (SLAs), there were no service disruptions from any supplier during this period. Furthermore, DTD assures that these delays did not impact system performance or uptime for end users. Moving forward, the contract review process has been enhanced with additional steps to ensure that SLA agreements are finalized and signed ahead of their scheduled effective dates. Further, SLAs are administered through the SEC Vendor Management Solution.	All Service Level Agreements should be finalized and executed before their effective dates to ensure continuity of services and compliance with contractual requirements.

3.5 Human Resources Management

Audit Issue	Management Comment	Recommendation
(a) In terms of the Declaration of Assets and Liabilities Law No. 1 of 1975, as amended by Act No. 74 of 1988, the Anti-Corruption Act No. 9 of 2023, and Chapter XXIX of the Establishments Code, all public officers, including SEC employees, are required to submit an initial declaration of assets and liabilities upon appointment, as well as periodic updates thereafter. In accordance with the Establishments Code, these declarations are required to be submitted using the prescribed Form General 261 at the time of appointment and maintained in the personal files of employees to ensure transparency, accountability, and compliance with statutory obligations. However, it was noted during the audit that the Asset and Liabilities Declaration Form had not been included in the personal files of any employee selected in the sample, indicating non-compliance with both statutory and internal control requirements.	SEC confirms that annual declarations are collected from employees at the end of June, covering the period from April 1 to March 31 of the following year. However, this requirement was not applied to employees who had not yet assumed duties during the declaration period. The observation is duly noted. Going forward, the organization will ensure that Asset and Liability Declaration Forms are included in the personal files of all staff recruited from July 2025 onwards whilst adhering to the CIABOC procedures, aligning with statutory compliance requirements.	The Asset and Liability Declaration Forms should be obtained from all employees using Form General 261 and duly maintained in their personal files to ensure full compliance with statutory requirements.
(b) The oath or affirmation, as required under Article 165(1) and Article 165(2) of the Constitution of the Democratic Socialist Republic of Sri Lanka, had not been included in the personal files of any of the employees selected in the audit sample.	The comment is noted. The SEC will ensure that an Oath document, signed by all new employees, is included in the recruitment process with effect from future appointments.	Oath or affirmation documents, as required under Articles 165(1) and 165(2) of the Constitution should be obtained from all employees and maintained in their personal files to ensure compliance with constitutional requirements.
(c) Several key Director positions, including Director–Capital Market Development, Director–Surveillance, Director–External Relations & Capital	SEC had called for applications and conducted preliminary interviews to fill all of the aforementioned	Cadre of the board should be periodically reviewed and made necessary adjustments with the approval.

Market Education, Director–Human Resources, and Director–Supervision, had remained vacant for periods ranging from 6 months to over 2 years as at 31 July 2025. Furthermore, despite the Risk Committee decision of 04 June 2024 to immediately recruit a Chief Risk Officer, this post had also remained unfilled. These prolonged vacancies in strategically important positions may have adversely affected the Commission’s governance, risk management, and overall operational effectiveness.

vacancies. However, all short-listed candidates were expecting salaries higher than the existing SEC salary scales for these ranks. The impact of these vacancies on the divisions has been minimized since acting/covering up arrangements have been made. In addition, the position of Chief Risk Officer will also be advertised within the year.

- (d) Applications were invited for the post of Managers through advertisements published in the Sunday Observer on 31 December 2023, on topjobs.lk, and on the SEC website, which specified that candidates are required to possess a minimum of eight years of experience at the Assistant Manager/Executive level. However, as per Commission Paper No. 510/14 dated 13 February 2025, an additional requirement of at least three years of experience in capital markets had been introduced, which was not reflected in the published advertisements. Consequently, external applicants who satisfied the advertised criteria were rejected despite being otherwise qualified, while internal applicants, including those with less than two years of experience as Senior Assistant Managers, were recruited as Managers. This inconsistency in recruitment criteria raises concerns regarding the fairness and transparency of the selection process, potentially undermines merit-based recruitment by excluding qualified external candidates, and exposes the Commission to

When shortlisting candidates, the SEC decided to prioritize those with greater capital market experience. This decision was driven by the urgent need to strengthen the middle-level management, as 29 employees at the level of Assistant Manager and above resigned during 2023 and 2024.

All eligibility requirements should be clearly incorporated in the published advertisements and consistently applied throughout the recruitment process to ensure fairness, transparency, and compliance with established policies.

reputational and governance risks, as the process did not fully comply with established policies and the advertised criteria.

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| <p>(e) No approved limit for overtime payments per month on a position-wise basis had been established. The absence of a defined ceiling or guideline for overtime may have resulted in inconsistent or excessive payments, lack of transparency, and potential misalignment with budgetary provisions.</p> | <p>Non-executive staffs only entitle for overtime payment, and going forward the SEC will implement approved limits or ceilings for the overtime payments.</p> | <p>Approved position-wise limits for overtime payments should be established and implemented to ensure consistency, transparency, and alignment with budgetary provisions.</p> |
| <p>(f) It was observed that internal controls over access to the payroll system were inadequate. In particular, the system password had not been updated regularly, contrary to good security practices, thereby increasing the risk of unauthorized access and compromised data integrity. Furthermore, only a single password exists for the payroll system, and no procedure has been established to ensure that a secondary access credential is securely maintained by the Finance Director or another authorized officer. These weaknesses in access control heighten the risk of misuse and undermine the reliability and security of payroll data.</p> | <p>The payroll system password was updated recently, and steps taken to change the password on a 90 day cycle in line with good security practices. At present, access is restricted to a single authorized user to minimize exposure to unauthorized access, though it is recognized that the absence of a secondary access credential presents a limitation in the current payroll system. The Commission approval has obtained at its 521st meeting held on 16th September 2025 to implement a comprehensive Human Resource Information System (HRIS) with integrated payroll functionality, which will enhance compliance, improves data security, and address current system constraints, with full implementation expected before the end of the year.</p> | <p>The internal controls governing access to the payroll system should be strengthened to ensure adequate security and accountability.</p> |

3.6 Management of Vehicle fleet

Audit Issue	Management Comment	Recommendation
The organization does not maintain a formal document outlining the procedures and responsibilities related to the usage of assigned vehicles, nor has it assigned a separate responsible individual for each vehicle. These weaknesses increase the risk of misuse, lack of accountability, and difficulties in monitoring vehicle utilization.	The organization acknowledges that the existing document outlines only the conditions for the use of common vehicles and does not specifically address the procedures applicable to assigned vehicles. To rectify this shortcoming, a revised document incorporating detailed procedures, responsibilities, and controls for both common and assigned vehicles is currently under review and awaiting approval. In the interim, each assigned vehicle has been allocated to a designated driver who is responsible for its proper usage, maintenance, and reporting. This interim arrangement has been implemented to ensure accountability and to mitigate risks associated with vehicle monitoring and control until the revised policy is formally approved.	A formal document outlining procedures and responsibilities for the usage of assigned vehicles should be approved and implemented, with clear assignment of responsibility for each vehicle to ensure accountability and effective monitoring.

4. Accountability and Good Governance

4.1 Budgetary Control

Audit Issue	Management Comment	Recommendation
Significant variances were observed between budgeted and actual expenditure during the year under review, suggesting that the budget had not been effectively utilized as a tool of management control. The Subscription of Membership recorded a 74 per cent variance,	The variance between budgeted and actual expenses was mainly due to event postponements, cancellations, staff turnover, and restrictions on foreign training imposed by National Budget Circular No. 01/2024. Several planned programs and initiatives,	Budget planning and monitoring should be strengthened to ensure that allocations are realistic and fully utilized, particularly for critical areas such as capital market development.

Foreign Training and Conferences – including public awareness Staff a 61 per cent variance, and activities and the BBO & OMS Capital Market Development project, were either deferred or Expenses a 53 per cent variance, not executed, while digital with actual expenditure falling delivery and lower participation considerably short of the budgeted reduced educational program provisions. Although some training costs. Although some training importance of capital market budgets were slightly exceeded, development to the mandate of the overall under spending reflects Securities and Exchange both operational constraints and Commission, underutilization of strategic reallocations, with funds in this area is of particular groundwork laid in 2024 to concern. These variances indicate support continuity in 2025. that the budget estimates in respect of the above three areas had been substantially overstated in comparison to the actual requirements.