

IFIAR 2020 Member Profile – SLAASMB

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| <p>1. Jurisdiction</p> | <p>1.1 Insert the name of the jurisdiction in English:</p> <p>Sri Lanka</p> |
| <p>2. Member¹</p> | <p>2.1 Insert the name of the Member, both in the local language and in English:</p> <p>Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)</p> <p><i>Sri Lanka Ginum ha Viganana Pramithi Sameekshana Mandalaya</i></p> <p>2.2 Include relevant contact information, including postal address, telephone numbers, a link to the website and other relevant information:</p> <p>3rd Floor, 293 Galle Road, Colombo 3, Sri Lanka</p> <p><u>Tel.:</u> +94 11 2301210 <u>Fax:</u> +94 11 2301211 <u>Email:</u> slaasmb@slt.net.lk <u>Website:</u> www.slaasmb.gov.lk</p> <p>2.3 Include the basis for establishment of the Member, as well as the legislation or regulations which provide the Member the authority/mandate with respect to audit regulation. Please describe with an appropriate level of detail the mission and responsibilities of the Member with respect to audit regulation:</p> <p>SLAASMB was established under Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995 for the purpose of monitoring compliance with Accounting Standards and Auditing Standards in relation to public interest entities in Sri Lanka.</p> <p>The mission of SLAASMB is to ensure that financial statements are prepared by public interest entities to present a true and fair view by monitoring compliance with Accounting Standards and Auditing Standards.</p> <p>SLAASMB is responsible to ensure the auditors of public interest entities in Sri Lanka conduct audits in compliance with the Auditing Standards.</p> |

¹ In the case where there are two or more regulators from the same jurisdiction that have been approved according to Section 2.3 of the IFIAR Charter, they together are considered as one Member. In that case, regulators are requested to include information for both organizations in the Member Profile.

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| | <p>2.4 Have there been any major changes to the Member’s organization or to the governing legislation since completing last year’s Member Profile?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes, please describe these changes with an appropriate level of detail:</p> |
| <p>3. Governing Body Composition and members</p> | <p>3.1 Describe with an appropriate level of detail the current composition of the Member’s governing body, including the ratio between Board members who are independent from the audit profession and those who are not². The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p>The Governing Board of the SLAASMB consists of 13 members of whom the Registrar of Companies, the Director General of Securities and Exchange Commission of Sri Lanka and the Commissioner General of Inland Revenue are ex-officio members. Other ten members of the Board, including the Chairman of the Board are appointed by the Minister of Finance and Planning in terms of Act no. 15 of 1995.</p> <p>The other ten members are ,</p> <ul style="list-style-type: none"> (i) An officer of the Central Bank (ii) 3 members of the Institute of Chartered Accountants of Sri Lanka (President, Vice President and Immediate past President. All of them are practicing members) (iii) Nominee of Chartered Institute of Management Accountants of the United Kingdom (Company Director) (iv) A senior lawyer (v) A Company Director (vi) Banker (vii) Nominee from the University Grants Commission <p>The current Chairman is an Assistant Governor from Central Bank of Sri Lanka. The number of practicing accountants in the Board are 3 out of 13.</p> <hr/> <p>3.2 What are the eligibility criteria / requirements and composition requirements for the members of the governing body?</p> <ul style="list-style-type: none"> • To be the Registrar of Companies, the Director General of Securities and Exchange Commission of Sri Lanka and the Commissioner General of Inland Revenue (ex-officio members). |

² An individual is independent of the profession even if he is a CPA, Chartered Accountant, or holder of another equivalent qualification, as long as this individual is not employed by or affiliated to a registered audit firm, nor employed by or affiliated to of a professional accountancy body, nor employed by or affiliated to bodies or entities associated with the audit profession.

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| | <ul style="list-style-type: none"> • An officer of the Central Bank nominated by the Governor of the Central Bank • 3 members of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) being nominated by the CA Sri Lanka • A member of the Chartered Institute of Management Accountants of the United Kingdom being nominated by the Sri Lanka Division of CIMA • Senior lawyer nominated by the Bar Association of Sri Lanka • Member of Ceylon Chamber of Commerce • Member of the Federation of Chambers of Commerce and Industry of Sri Lanka • Senior banker being nominated by the Sri Lanka Banks' Association • Nominee of the University Grants Commission representing the academic institutes |
| | <p>3.3. Is each member of the governing body independent from the audit profession? The audit profession includes, for example: audit firms, professional accountancy bodies and bodies or entities associated with the audit profession.</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> |
| | <p>3.4 If the answer to question 3.3 is “No”, is the majority of the members of the governing body non-practitioner?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>10 out of 13 are non-practitioners.</p> |
| | <p>3.5 If the answer to question 3.3 is “No”, which safeguards are in place to provide for the Member’s overall independence from the audit profession?</p> <p>When a member of the Board who is in practice is a Partner, Employee or a Director of an entity regulated by SLAASMB or of an audit firm of an entity regulated by SLAASMB which is being deliberated by the governing Board, all circulations and discussions relating to such entity or firm are excluded from the relevant Board Member.</p> |
| | <p>3.6 Is there a restriction or recusal process that is applicable to members of the governing body of the Member who are current or former auditors/practitioners?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Does this include a “cooling-off” period for former auditors?</p> <p><input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>If yes to either of the above, please describe:</p> |

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| | <p>When matters relating to such member (where such member is a Partner, Employee or a Director of a public interest entity or audit firm) are being discussed at the Board, all circulations and discussions relating to such entity or firm are excluded from the relevant Board Member.</p> |
| | <p>3.7 Other than the governing body, are members of the profession involved in the Member’s organization (including in any inspections, committee or panel role)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>If yes, please describe their role with an appropriate level of detail, including the ratio between those who are independent and those who are not in the relevant function and whether such role includes decisional or control authority:</p> <p>As SLAASMB conducts reviews of financial statements of Specified Business Enterprises for compliance with accounting standards, SLAASMB has engaged a panel of external reviewers to conduct the initial review of the financial statements, which are scrutinized in-depth and followed up to enforcement level by the staff of the Board. When some external review panel members who are practicing accountants perform the financial review function, the financial statements in which the audit firm in which they have a conflicting interest is excluded from such member. However, these external review panel members do not engage in any audit inspections. Presently the number of practicing members in the external review panel approximates to 11%.</p> |
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| <p>4.Funding Arrangements</p> | <p>4.1 Describe the main funding arrangements of the Member, including the setting and approval of the budget and the fees, if any:</p> <p>The Board is presently funded entirely out of funds appropriated by the Parliament of Sri Lanka through the Government Budget. Act No. 15 of 1995 provides for the imposition of a compulsory cess on specified business enterprises, which has not been implemented yet.</p> <hr/> <p>4.2 Is the funding free from undue influence by the profession?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p> <p>Please describe with an appropriate level of detail the safeguards in place to prevent undue influence by the profession:</p> <p>The funding is provided from the Government’s budgetary allocation to the Ministry of Finance. As there is no contribution from the profession, there is no undue influence by the profession.</p> |
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| 5. Inspection System | 5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No |
| | 5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization? <input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight <p>SLAASMB is required by the statute to monitor the auditors of commercially significant entities on their compliance with auditing standards. This is presently carried out by inspecting audit engagements. Audit inspections are conducted by the staff of SLAASMB and findings are communicated to the auditors in the form of an observation letter. Based on the significance of the finding, the Board issues a warning letter to the auditor cautioning the auditor on the need to apply due care and professional skepticism when conducting audits in the future.</p> <p>SLAASMB receives a copy of all audited financial statements of public interest entities (PIEs). The technical Staff of SLAASMB reviews compliance with Accounting Standards of a sample of financial statements received.</p> <p>If through oversight of another organization, please describe with an appropriate level of detail the other organization, its relation to the Member, its role, and the arrangements for oversight:</p> |
| | 5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections: <p>Sample of audits of these PIEs are selected for reviewing compliance with Auditing Standards based on a plan for the year which focus on a regular coverage of high-risk audits. The sample is decided in a manner that audits of high risk entities, specially of Banks, finance companies, Insurance Companies and Leasing Companies are inspected within a 3 year cycle while audits of entities audited by smaller firms conducting less than 3 PIE audits are reviewed once in 3-5 years.</p> |
| 6. Audit and Financial Market | 6.1 Provide the number of audit firms subject to inspections. Include an indication of the number of public interest audits (PIEs) and other audits that fall under the Member’s oversight or mandate. <p>74 audit firms which audit 1,603 public interest entities are subject to SLAASMB’s audit reviews.</p> |
| | 6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction? <p>Out of these entities, majority are audited by Ernst & Young (37%), KPMG (22%), and PricewaterhouseCoopers (6%).</p> |

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| | Each of the other firms audits less than 7% of these entities, with 49 firms auditing 1-3 entities each. |
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| 7.Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight | <p>7.1 Please indicate whether the Member has responsibility for tasks other than Inspections within the area of Audit Oversight:</p> <p><input type="checkbox"/> Registration/Licensing <input type="checkbox"/> Audit and/or Ethics Standard Setting <input type="checkbox"/> Permanent Education of Auditors <input checked="" type="checkbox"/> Enforcement <input checked="" type="checkbox"/> Other: _____ To review compliance with Accounting Standards by Specified Business Enterprises (Public Interest Entities).</p> |
| | <p>7.2 If the Member has the responsibility for <u>Registration/Licensing</u>, please indicate whether this responsibility is undertaken directly or through oversight of Registration/Licensing conducted by another organization?</p> <p style="text-align: center;">Not Applicable</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedure applied, as well as the role of the Member in these procedures.</p> |
| | <p>7.3 If the Member has the responsibility for <u>Audit and/or Ethics Standard Setting</u>, please indicate whether this responsibility is undertaken directly or through oversight of Audit and/or Ethics Standard Setting conducted by another organization?</p> <p style="text-align: center;">Not Applicable</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> |
| | <p>7.4 If the Member has the responsibility for <u>Permanent Education of Auditors</u>, please indicate whether this responsibility is undertaken directly or through oversight of Permanent Education of Auditors conducted by another organization?</p> |

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| | <p>No. Auditor education is a responsibility of the professional body. I.e., Institute of Chartered Accountants of Sri Lanka</p> <p><input type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</p> <p>If directly, please describe the responsibility with an appropriate level of detail. If through oversight, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <hr/> <p>7.5 If the Member has the responsibility for <u>Enforcement</u>, please indicate whether this responsibility is undertaken directly or through referral to other organization(s)?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Referral</p> <p>If through referral, please indicate the name of the other organization and its composition (i.e. whether practitioners from the audit profession are involved in decision-making). Also give a description of the enforcement powers of the other organization and procedures applied, as well as the role of the Member in these procedures.</p> <p>Based on the findings from audit inspections,</p> <ul style="list-style-type: none"> • if the noncompliance is material, a letter of Observation is issued to the auditor and the letter is copied to the Audit Committee Chair of the PIE. • If the noncompliance is significant but not serious enough to take action under the statute, a direction is issued to re audit the financial statements, or a warning letter is issued to the auditor to take due care when performing future audits, or the auditor is referred to the licensing authority • When the non-compliance observed is significant and serious to take action under the Act , legal action is taken <ul style="list-style-type: none"> • If the auditor has failed to identify a violation in accounting standards when auditing the financial statements, and when the entity undertakes to make the correction in the next published financial statements, when such undertaking is published in the SLAASMB’s website and the Annual Report, the fact that the auditor had failed to identify such issue is disclosed. • If the financial statements are found to be misleading, legal action is taken against the entity and if the auditor is found to be responsible for the status of the financial statement/ Audit report, legal action is taken against the auditor too |
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| | <p>7.6 If the Member has the responsibility for other tasks within the area of Audit Oversight, please describe with an appropriate level of detail:</p> <p>Based on the plan on the Audits to be inspected, SLAASMB selects the entity for audit and reviews its audited financial statements to ascertain whether such financial statements have been prepared and presented according to Sri Lanka Financial Reporting Standards which are fully aligned with International Financial Reporting Standards (IFRSs). If the deviation is material, such deviation is informed to the entity by a letter of Observation. If the deviations are material and are significant, agreement is sought from the SBE to correct the next financial statements to be issued. However, based on the significance, SLAASMB requests the SBE's to republish the financial statements and if the financial statements are considered to be misleading, due to non-compliance with accounting standards, SLAASMB files legal action against the Directors of such entity and against those who are directly responsible for the non-compliance.</p> |
| <p>8. Main Other Responsibilities of the Member <u>outside</u> the area of Audit Oversight</p> | <p>8.1 Please describe with an appropriate level of detail whether the Member has responsibility for tasks outside the area of audit oversight such as Supervision of Financial Reporting or Securities Regulation:</p> <p>SLAASMB has the responsibility to review compliance with Accounting Standards by Specified Business Enterprises (SBEs). SBEs are specified by the statute and include listed entities, other regulated entities such as banks, finance, insurance entities and also unlisted entities, exceeding specified thresholds.</p> <p>The Act No. 15 of 1995 has provided power to SLAASMB to review financial statements, inspect books of accounts of such entities, call up on or summon any Director or employee to ascertain information, and to take legal action for violation of standards.</p> |
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| <p>9. Major Events and Activities</p> | <p>9.1 Describe any recent major events and activities:</p> <p><u>2019</u></p> <ul style="list-style-type: none"> - Conducted the thematic inspection on Related Parties - Conducted inspections with specific focus on Key Audit Matters (KAM), as a proactive measure to review the adoption of Sri Lanka Auditing Standard SLAuS 701 which became effective for audits of financial statements for periods ending on 31 March 2018. |