



IFIAR 2019 Member Profile – SLAASMB

<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>Sri Lanka Ginum ha Viganana Pramithi Sameekshana Mandalaya</p> <hr/> <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>Telephone: +94 11 2301210 Fax: +94 11 2301211 Email: slaasmb@slt.net.lk Website: www.slaasmb.gov.lk Contact Person for IFIAR: Anusha Mohotti, Deputy Director General</p> <hr/> <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>

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.



	<p>SLAASMB is responsible to ensure the auditors of public interest entities in Sri Lanka conduct audits in compliance with the Auditing Standards.</p> <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>Of the other ten members, one remains vacant and the other 8 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>

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.



	<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). • 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 (CASL)being nominated by the CASL • 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 matters relating to such member (where such member is a Partner, Employee or a Director of a public interest entity or an 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>3.6 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> <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 type="checkbox"/> Yes <input checked="" 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>1. 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>
<p>2. Inspection System</p>	<p>5.1 Does the Member have the responsibility for recurring inspections of audit firms undertaking audits of public interest entities (PIEs)?</p> <p><input checked="" type="checkbox"/> Yes <input type="checkbox"/> No</p>



	<p>5.2 Is this responsibility undertaken directly or through oversight of inspection conducted by another organization?</p> <p><input checked="" type="checkbox"/> Directly <input type="checkbox"/> Through Oversight</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> <hr/> <p>5.3 Please describe with an appropriate level of detail the requirements and practices regarding the frequency of inspections:</p> <p>SLAASMB receives a copy of all audited financial statements of public interest entities. The technical Staff of SLAASMB reviews compliance with Accounting Standards of a sample of financial statements received. A sample of audits of these public interest entities are selected for reviewing compliance with Auditing Standards based on a plan for the year. Audit firms are advised on non-compliances with Auditing Standards and on improvements required on their auditing process. Prior to finalising the findings of the auditor, one-to-one discussions with the engagement partner are conducted by the staff. The advice is communicated as a tentative finding and after seeking the response of the firms, the final findings are released to the firm. The advised improvements are followed up for compliance in the following year. The inspections are performed as file inspections and also as thematic inspections. Further, subject to amendments to the statute, firm-wide quality inspections on selected themes are also being carried out when such firm volunteers to be subject for such inspection.</p>
<p>3. Audit and Financial Market</p>	<p>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> <p>79 audit firms which audit 1,579 public interest entities are subject to SLAASMB’s audit reviews.</p> <hr/> <p>6.2 What are the sizes and market shares of each of the largest audit firms in the Member’s jurisdiction?</p> <p>Out of these entities, majority are audited by Ernst & Young (37%), KPMG (24%), and PricewaterhouseCoopers (6%). Each of the other firms audits less than 5% of these entities, with 53 firms auditing 1-3 entities each.</p>



<p>4. Main Other Responsibilities of the Member <u>within</u> the area of Audit Oversight</p>	<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 checked="" type="checkbox"/> Permanent Education of Auditors <input type="checkbox"/> Enforcement <input checked="" type="checkbox"/> Other: _____ To review compliance with Accounting Standards by Specified Business Enterprises (Public Interest Entities under a regulation). </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? 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? 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> <p> <input type="checkbox"/> Directly <input checked="" 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</p>



	<p>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>During the inspections, our team explains the non-compliances observed to the auditors. Further, the same issues are explained to the Partner-in-charge at the discussion prior to finalizing observations. SLAASMB also educates the auditors by indicating improvements needed to the systems by including them in the Observation letter under a different heading 'areas for improvement'. Annually, recurrent observations are produced in the form of a Report and sent to the auditors.</p> <p>SLAASMB has issued a report on Thematic Inspections which is on the website. This report is also used by auditors to educate their teams as it explains the deviations identified as well as best practices.</p> <p>From time to time SLAASMB organizes sessions of presentations on issues and possible issues to audit managers and to partners</p> <p>Discussions were held with 6 large firms to understand their audit methodology. At this session, the partners of firms were informed of SLASSMB's audit approach and focus quality improvement</p> <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>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 results of the audit inspection, SLAASMB selects the entity audited 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 deviations are informed to the entities by a letter of Observation. If the deviations are material and are significant, agreement is sought from the SBEs 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>
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	<p>Based on the above findings, if a letter of Observation is being issued to the entity, the said non-compliance is copied to the auditor. If an agreement is obtained from the entity to correct the non-compliance in the next set of financial statements, the said letter is copied to the auditor, Securities regulator, Stock exchange and to any other regulator such as Central Bank of Sri Lanka, Insurance Regulatory Commission etc, if applicable to the SBE. If the auditor has not identified the violation, when such agreement is published in the SLAASMB’s website and the Annual Report, the fact that the auditor had failed to identify such issue is disclosed. Based on the non-compliance to accounting standards identified, an audit inspection may be conducted to ascertain why the auditor failed to observe such non-compliance. In such instance, auditors may be issued with Letters of Observation on non compliance with Auditing standards or even a warning.</p> <p>If the financial statements are 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.</p>
<p>5. 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>
<p>6. Major Events and Activities</p>	<p>9.1 Describe any recent major events and activities:</p> <p>2000 -Commencement of monitoring compliance with Accounting Standards</p> <p>2007 -Commencement of monitoring compliance with Auditing Standards</p> <p>2013 - Enhanced technical staff strength</p> <p>2014 Expanded no of financial statements reviewed and audits inspected (no of financial statements from 750 to 1,200 and audits from 50 to 100)</p>



	<p>2016 - Due to the receipt of a special government assistance for capacity building, staff were provided in-depth training on firm reviews and thematic reviews by an International Expert on Audit Quality.</p> <p>2016 - Conducted two sessions of training to audit partners and managers</p> <p>2016 – Conducted a session (in small groups) for Audit Committee Chairs on Audit Quality and Audit Report prior to its effective date</p> <p>2017-Commenced thematic inspections</p> <p>2018-Commenced Firm-wide quality inspections (as volunteered by firms since the Statute needs to be amended to be mandatory. Statute is under revision)</p> <p>2018- Hosted the 12th IFIAR Inspection Workshop in Colombo</p> <p>2018 – Copied Audit inspection findings to Audit Committee Chairs</p> <p>2018- Issued an initial report of SLAASMB on the findings of the Thematic Inspections</p> <p>2018-Conducted a dialogue with Audit Committee Chairs regarding the involvement as Those Charged with Governance and also on the work of the external auditor</p>
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