



SLAASMB

**Sri Lanka Accounting and Auditing
Standards Monitoring Board**

Notice : Clarification on SLAASMB's regulatory role

Issued on 2 February 2021

The Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), the independent accounting and auditing regulator in the country, learns that there have been a misconception of facts regarding the regulatory role of SLAASMB, in the recent past and wish to clarify the role of SLAASMB.

SLAASMB has been established under Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. By section 6 of the said Act, commercially significant entities (referred as Specified Business Enterprises -SBEs) in the Act are required to prepare their financial statements in accordance with Sri Lanka Accounting Standards. Similarly, section 7 requires the said financial statements to be audited in accordance with Sri Lanka Auditing Standards.

Under section 23 of the Act, SLAASMB's role is to monitor compliance by the SBEs with Sri Lanka Accounting Standards when preparing their annual financial statements and to monitor compliance by the auditors of these SBEs, with Sri Lanka Auditing Standards when conducting audits of these financial statements.

The Sri Lanka Accounting Standards guide the preparers of financial statements in recognition and measurement of financial transactions and in disclosure and presentation of the information required for the users of financial statements to make informed decisions. The financial statements to which the accounting

standards are applicable are the general purpose financial statements and not financial statements prepared for a specific purpose.

Sri Lanka Auditing Standards guide the auditors on the conduct of the audit of general purpose financial statements to form an opinion as to whether the financial statements so audited, give a true and fair view of the financial position, financial performance and its cash flows. Further, the standards guide the auditor on the required reporting form when the auditor forms the opinion.

Accordingly, SLAASMB's role is to focus on enhancing reliability in financial reporting in Sri Lanka. As a result, SLAASMB's role does not include determining the appropriateness of how the business is operated by the SBE. However, SLAASMB's role includes examining the appropriateness of the application of the Sri Lanka Accounting Standards in recording, reporting and disclosing the transactions and events which take place when carrying out the operations of the SBE. It also includes examination of the appropriateness of the application of the Sri Lanka Auditing Standards by the auditors, when conducting audits of the financial statements of such SBE.

SLAASMB has been engaged in financial statement regulation since the year 2000 and in audit regulation since 2007, and continues to be engaged in the said regulatory activities. SLAASMB's monitoring activity does not cover all entities every year, but ensures financial statements of all SBEs are subjected to review periodically, selected on a risk criterion. The action taken by SLAASMB on the findings vary including more severe action such as legal action, based on the extent of materiality of the non-compliances with the standards.

SLAASMB is keen to ensure the audit quality of the country is improved to enhance reliability of financial reporting. In doing so, SLAASMB engages in facilitating knowledge sharing with auditors by conducting sessions on aspects which require audit quality to be improved and by sharing the annual inspection

findings with the SBEs and auditors as well as through the issue of reports on the audit inspections termed Thematic Inspections, conducted focused on a theme. SLAASMB also shares the findings related to publicly listed entities with their Audit Committees to facilitate the required corrective action.

Accordingly, SLAASMB's regulatory functions focus on ensuring the reporting by the entity and the auditor are in accordance with the Accounting and Auditing Standards.