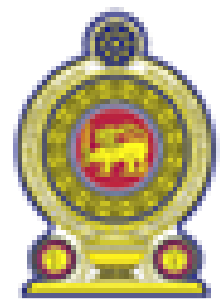


SLAASMB

Findings

Non-compliances with Sri Lanka Accounting
and Auditing Standards

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SLAASMB

Sri Lanka Accounting and Auditing
Standards Monitoring Board

Outline

- Overview of the functions of SLAASMB
- Non-compliances with SLFRS/LKASs-
Recognition and Measurement Issues
- Non-compliances with SLFRS/LKASs-
Presentation and Disclosure Issues
- Non-compliances with SLAuSs

SLAASMB

- Established under Act No. 15 of 1995
- Sole financial reporting regulator
- Function is to monitor the compliance with
SLFRS/LKASs by SBEs
and
SLAuSs by the auditors

SBEs

- Banks
- Finance Companies
- Insurance Companies
- Leasing Companies
- Listed Entities
- Stock Brokers
- Public Corporations
- Unit Trusts
- Factoring Companies
- Other Entities (Private Companies)

SBEs (Contd...)

Other Entities

Who meets any of the following criteria

- Turnover > Rs 500 mn
- Shareholders' equity > Rs 100 mn
- Gross assets > Rs 300 mn
- Liabilities to banks and other financial institutions > Rs 100 mn
- Staff > 1000 employees

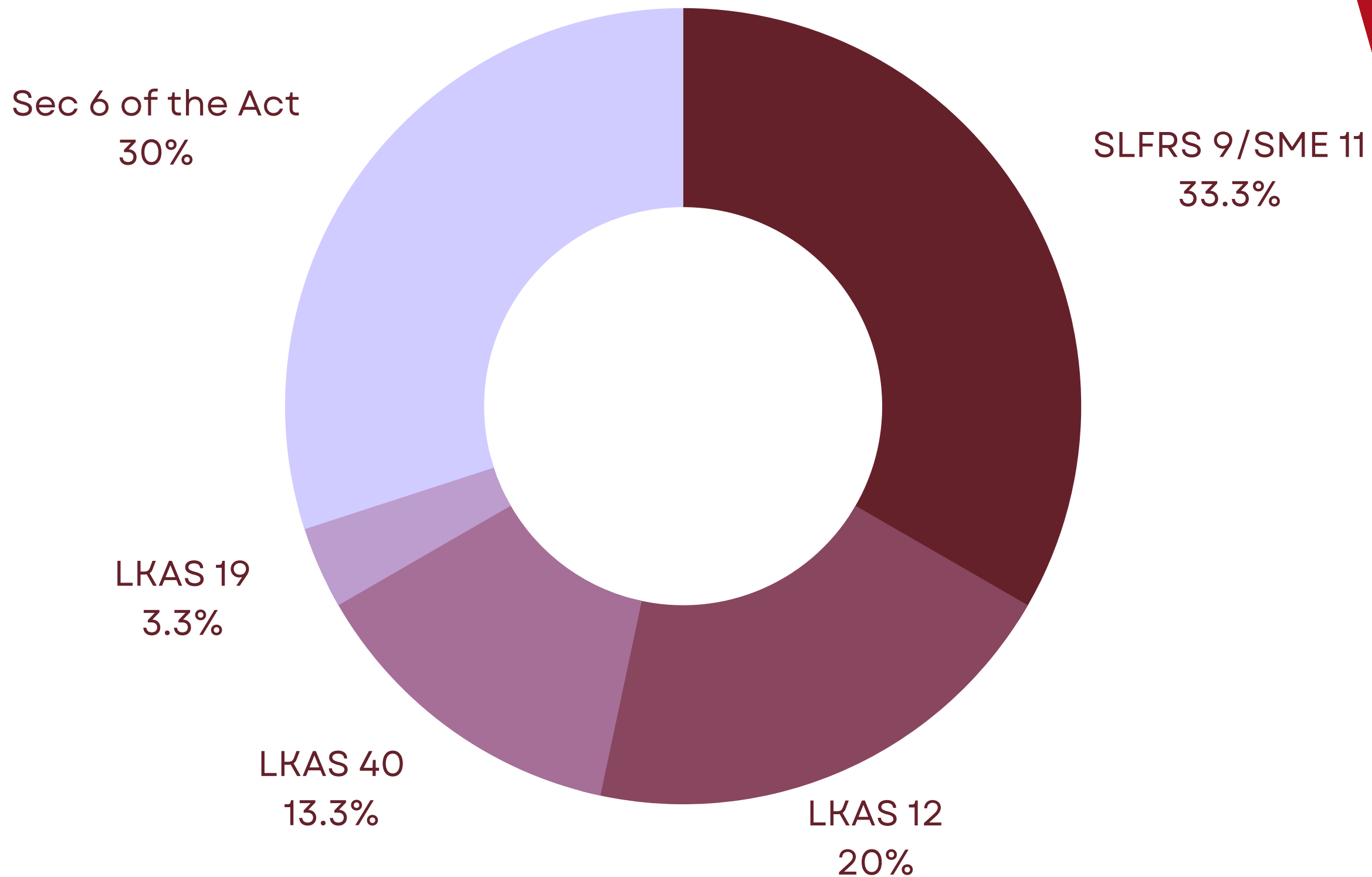
Types of reviews conducted by SLAASMB

- Financial Statement Reviews
 - Comprehensive Financial Statements Reviews
 - Focus Financial Statement Reviews
- Audit Inspections
 - Regular Audit Inspections
 - Thematic Audit Inspections

Non-compliances with Sri Lanka Accounting Standards identified by SLAASMB

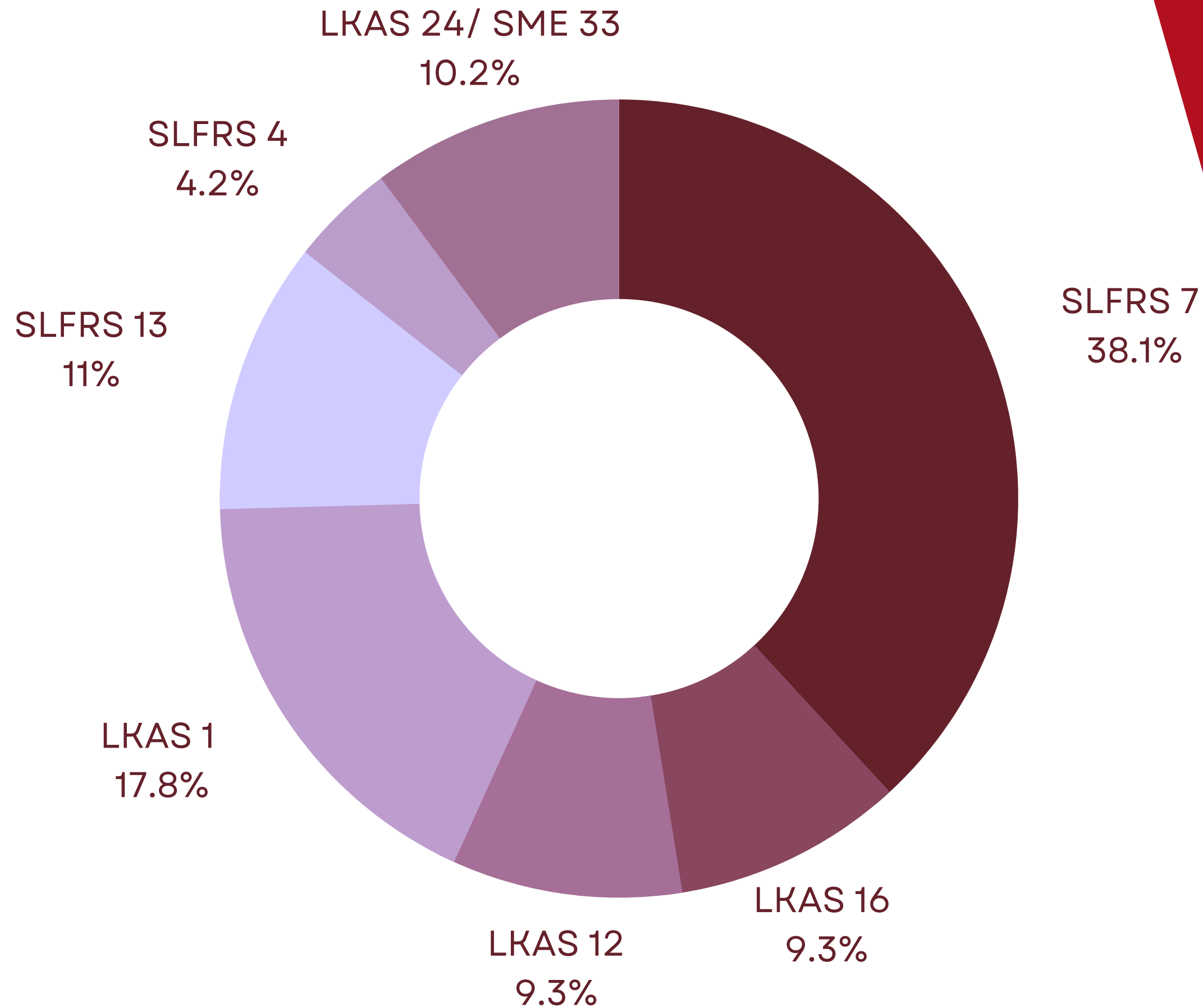
Non-compliances with SLFRSs/LKASs

Recognition and
Measurement Issues
identified during the
comprehensive reviews
(2022)



Non-compliances with SLFRSs/LKASs

Presentation and Disclosure
Issues identified during the
comprehensive reviews
(2022)



Main Findings of the comprehensive reviews

Inadequate disclosures on

- Information that enables users to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed

(SLFRS 7 paragraph 31)

- Quantitative and qualitative information for each types of risks arising from financial instruments

(SLFRS 7 paragraphs 33-34)

Main findings of the comprehensive reviews

SLFRS 13

Inadequate disclosures on

- Valuation techniques used
 - Inputs to the valuation techniques
 - Quantitative information about
 - Significant unobservable inputs used,
 - Significant adjustments made to the inputs
 - Level of fair value hierarchy
- (SLFRS 13 paragraphs 91 and 93)

Main findings of the comprehensive reviews

- Inadequate disclosure relating to the nature of the related party relationships as well as information about the transactions with related parties
(LKAS 24 paragraph 18)

Main findings of the comprehensive reviews

SLFRS 4

Inadequate disclosures relating to

- Information that explains the amounts in the financial statements arising from insurance contracts
- Information which enables the users of financial statements to evaluate the nature and extent of risk arising from insurance contracts

(SLFRS 4 paragraphs 36 to 39)

Main findings of the comprehensive reviews

SLFRS 9/SME Section 11

- Not recognizing loss allowance for expected credit losses on financial assets that are measured at amortized cost, when objective evidence of impairment exists (SLFRS 9 paragraph 5.5.1 and SME Section 11 paragraph 11.21)

Main findings of the comprehensive reviews

LKAS 12

Inadequate disclosure of the relationship between tax expense and accounting profit (LKAS 12 paragraph 81 (c))

- Inadequate disclosures on evidence to support recognition of deferred tax assets arising from tax losses (LKAS 12 paragraph 82)
- Not considering all taxable or deductible temporary differences when recognizing deferred tax liabilities or recognizing deferred tax assets
(LKAS 12 paragraphs 15 and 24)

Main findings of the comprehensive reviews

LKAS 12

- Recognizing deferred tax asset for unused tax losses and unused tax credits irrespective of the extent of future taxable profits available to utilize the unused tax losses (LKAS 12 paragraph 34)
- Not measuring current and deferred tax liabilities (assets) at tax rates that have been enacted (LKAS 12 paragraph 48)

Main findings of the comprehensive reviews

LKAS 40

- Not recognizing rental earning properties as investment properties in the financial statements (LKAS 40 paragraph 5)

Main findings of the comprehensive reviews

Act No 15 of 1995

- Not preparing financial statements in compliance with SLFRSs/LKASs with the objective of presenting a true and fair view of the financial performance and financial condition
(Act No 15 of 1995 Section 6 (1))

Focus Reviews 2022

- Risk disclosures in SLFRS 7 by finance companies
- LKAS 36 by listed companies
- SLFRS 15 by listed companies
- LKAS 19 by listed companies in the plantation sector
- SLFRS 9 by banks
- LKAS 39 by insurance companies
- LKAS 12 by listed companies
- LKAS 7 and Liquidity Disclosures in SLFRS 7 by listed companies

Main findings of the focus reviews

Not disclosing;

- Definition of default for different financial instruments (SLFRS 7 paragraph 35 (F) (b))
- How the requirements of SLFRS 9 in relation to financial assets that have been renegotiated or modified (but not derecognized) were applied and information to evaluate the entity's restructuring and modification (SLFRS 7 paragraph 35 (F) (f))
- Reconciliation showing the changes in the loss allowance during the period and the reasons for those changes (SLFRS 7 paragraph 35 (H))
- Quantitative and qualitative information about amounts arising from expected credit losses in relation to modification of contractual cash flows and the effect of such modifications on the measurement of expected credit losses (SLFRS 7 paragraph 35 (J))
- Explanation on how significant changes during the period in the gross carrying amount of financial instruments had contributed to changes in the loss allowances (SLFRS 7 paragraph 35 (I))

Main findings of the focus reviews

Not disclosing ;

- The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity (SLFRS 7 paragraph 35 (L))
- The gross carrying amount of financial assets and the exposure to credit risk on loan commitments and financial guarantee contracts by credit risk rating grades (SLFRS 7 paragraph 35 (M))
- Qualitative information about collateral held as security and other credit enhancements (SLFRS 7 paragraph 35 (K)(b))
- Quantitative information about the collateral held as security and other credit enhancements for credit impaired financial assets at the reporting date (SLFRS 7 paragraph 35 (K)(c))
- Sensitivity analysis for each type of market risk to which the entity is exposed at the end of the reporting period, the methods and assumptions used in preparing the sensitivity analysis and changes from the previous period, and reasons for such changes (SLFRS 7 paragraph 40)

Main findings of the focus reviews

- Estimating future cash flows on a post-tax basis when the discount rate is determined on a pre-tax basis

(LKAS 36 paragraph 51)

Not disclosing information on impairment assessment of goodwill;

- The basis on which the CGU's recoverable amount has been determined (LKAS 36 paragraph 134 (c))
- A description of management's approach to determine the value(s) assigned to each key assumption when the CGU's recoverable amount is based on VIU (LKAS 36 paragraph 134 (d) (ii))

Main findings of the focus reviews

Not disclosing information on impairment assessment of goodwill;

- When a period greater than five years is used for a CGU, an explanation of why that longer period is justified (LKAS 36 paragraph 134 (d) (iii))
- The growth rate used to extrapolate cash flow projections beyond the period covered by the most recent budgets/forecasts, and the justification for using such growth rate (LKAS 36 paragraph 134 (d) (iv))

Main findings of the focus reviews

- Inadequate disclosures about the entity's performance obligations
 - (a) when the entity typically satisfies its performance obligations
 - (b) the significant payment terms
 - (c) the nature of the goods or services that the entity has promised to transfer
 - (d) obligations for returns, refunds, and other similar obligations; and
 - (e) types of warranties and related obligations (SLFRS 15 paragraph 119)

Main findings of the focus reviews

- Post-employment benefits for key management personnel was not disclosed (LKAS 19 paragraph 151 (b))
- Information that are necessary to provide an indication of the effect of the defined benefit plan on the entity's future cash flows were not disclosed (LKAS 19 paragraph 147)

Main findings of the focus reviews

LKAS 7 and Liquidity Disclosures of SLFRS 7

- Not disclosing information which enable the users to evaluate the nature and extent of risks arising from financial instruments in the financial statements or incorporating them by cross-referencing from financial statements to some other statements

(SLFRS 7 paragraph B6)

Main findings of the focus reviews

- Errors in the explanation of the relationship between tax expense (income) and accounting profit (LKAS 12 paragraphs 81 (c))
- Not disclosing information about the amount (and expiry date, if any) of deductible temporary differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognized in the statement of financial position (LKAS 12 paragraphs 81 (e))

Undertakings sought during the year 2022

- Not measuring the fair value of equity shares (SLFRS 9)
- Not recognising the lands in the financial statements when the entity has the right and potential to produce economic benefits from the lands (The Conceptual Framework for Financial Reporting)

Undertakings sought during the year 2022

- Recognized a deferred tax asset relating to tax losses incurred, without assessing the availability of the future taxable profits (LKAS 12)
- Impairment has not been provided for the receivables with objective evidence (LKAS 39)
- Not making a reliable estimate of the long overdue payable (LKAS 37)

Warnings issued 2022

On submitting misleading
information to the regulator which is
a violation of the Sri Lanka
Accounting and Auditing Standards
Act No. 15 of 1995

Non compliances with Sri Lanka Auditing Standards identified by SLAASMB

Regulation of auditors

- Duty of auditors to certify in their audit report that the audit has been conducted in accordance with the SLAuS and that accounts have been prepared and presented in accordance with the SLFRS/LKASs.
(Section 7(1) of Act No. 15 of 1995)

**Accounting
standards**

**Auditing
standards**

**Audit
Report**

- Auditors of SBEs
- Dual responsibility

Non-compliances identification and communication

Regular audit inspections

- Draft observations
- Auditors' response
- Final letter

Final letter with observations

Final letter with suggestions for improvement

Final letter with no concerns

Thematic audit inspections

Final report is issued with good practices and areas to improve

Significant findings 2022

- Risk assessment
- Risk response
- Audit evidence
- Conclusion and reporting
- Fraud risk
- Professional skepticism

Significant Findings

Requirement	Observations/ suggestions for improvements
Planning an audit involves, establishing the overall audit strategy for the engagement and developing an audit plan. (SLAuS 300- Planning an Audit of Financial Statements)	The auditor had failed to establish the overall audit strategy and to develop the audit plan accordingly
Concept of materiality should be applied by the auditor appropriately when planning and performing the audit. (SLAuS 320- Materiality in Planning and Performing an Audit)	There was no evidence of the: <ul style="list-style-type: none">• Factors considered in determining overall materiality and performance materiality levels

Significant Findings

Requirement	Observations/ suggestions for improvements
<p>Identify and assess the risks of material misstatements through understanding the entity and its environment, including its internal controls, as they provide a basis for the auditor to design audit procedures to the assessed risks.</p> <p>(SLAuS 315- (Revised)- Identifying and Assessing the Risk of Material Misstatement Understanding the Entity and Its Environment)</p>	<ul style="list-style-type: none">• Absence of evidence of obtaining an understanding of the entity, its environment, and internal controls relevant to the audit engagements.• Not performing walkthrough tests appropriately (not checking the source documents with accounting records)• Controls identified relating to 'completeness' assertion were not relevant for the said assertion.• IT controls have not been tested (Application controls and general IT controls)

Significant Findings

Requirement	Observations/ suggestions for improvements
<p>Design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p> <p>(SLAuS 540 (Revised)- Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures)</p>	<ul style="list-style-type: none">• Not performing audit procedures to check the recoverability of loan receivable balances when impairment indicators exist.• Not performing any substantive audit procedures relating to the cost of sales• Failure to obtain sufficient appropriate audit evidence relating to revenue, trade receivables, and financial assets of a life insurance company.• Not checking the reasonability of the impairment assessment of trade debtors.

Significant Findings

Requirement	Observations/ suggestions for improvements
<p>Design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion.</p> <p>(SLAuS 540 (Revised)- Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures)</p>	<ul style="list-style-type: none">• Not performing substantive procedures appropriately in relation to revenue• Not performing adequate audit procedures to verify the fair value of land and buildings focusing on the work of the management's expert• Not performing appropriate audit procedures to ensure completeness of data used in concluding an assumption used for impairment computation of a finance company

Significant Findings

Requirement	Observations/ suggestions for improvements
<p>Comply with SLAuS 530, when the auditor has decided to use audit sampling, to provide a reasonable basis to draw conclusions about the population from which the sample is selected.</p> <p>(SLAuS 530- Audit Sampling)</p>	<ul style="list-style-type: none">• An appropriate sampling methodology had not been used• When designing the audit sample, the purpose of the audit procedure and the characteristics of the population from which the sample is drawn were not considered

Significant Findings

Requirement	Observations/ suggestions for improvements
Obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting, in the preparation of financial statements (SLAuS 570 (Revised)- Going Concern)	<ul style="list-style-type: none">• Not performing risk assessment procedures when events and conditions that may cast significant doubt on the going concern.• Not obtaining sufficient appropriate audit evidence in relation to the parent's ability to provide financial assistance.• Not evaluating the reliability of data and underlying assumptions used in the preparation of financial forecasts to assess the appropriateness of using the going concern basis.• Not obtaining management representation relating to their plans and the feasibility of those plans.• when material uncertainties had existed, the auditor had not concluded the appropriateness of the preparation of financial statements on the going concern basis.

Significant Findings

Requirement	Observations/ suggestions for improvements
<p>Form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to express opinion. (SLAuS 700 (Revised)-- Forming an Opinion and Reporting on Financial Statements)</p>	<ul style="list-style-type: none">• When the financial statements had contained significant non-compliances with Sri Lanka Accounting Standards, expressing a clean opinion by the auditor• When the financial statements had contained material and pervasive non-compliances with Sri Lanka Accounting Standards, the auditor had expressed a qualified opinion on the financial statements.

Significant Findings

Requirement	Observations/ suggestions for improvements
<p>Form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.</p> <p>(SLAuS 700 (Revised)-- Forming an Opinion and Reporting on Financial Statements)</p>	<ul style="list-style-type: none">• Not referring the correct financial reporting framework• Audit report defer from the illustrative audit report set out in SLAuS 700• Audit report not signed

Significant Findings

Requirement	Observations/ suggestions for improvements
<ul style="list-style-type: none">• Identify and assess the risks of material misstatements due to fraud, obtain sufficient appropriate audit evidence regarding the assessed risks and respond appropriately to frauds or suspected frauds, during the audit.• Test appropriateness of journal entries <p>(SLAuS 240 - The Auditor's Responsibilities Relating to Fraud in the Audit of Financial Statements)</p>	<ul style="list-style-type: none">• The auditor had not tested the journal entries.• Not having engagement team discussions on the susceptibility of the entity's financial statements to material misstatements due to fraud• Not making inquiries from the appropriate individuals of the company• Some audit teams did not have an understanding as to who TCWG are and of their role and as to whether TCWG exercise oversight of the management processes.

Warnings to auditors

Warnings are issued when;

- Significant or extensive additional procedures would have been necessary to determine whether the financial statements were fairly stated and free from material misstatements
- Significant departures from auditing standards were identified which resulted in a potential financial statement misstatement or potential changes to the audit opinion

Warnings issued to the auditors

Year	Number of firms	Reason/s
2022	1	Failure to identify a possible impairment of assets which should have been recognized in the financial statements and failure to obtain sufficient appropriate audit evidence in relation to management estimate
2021	1	Failure to comply with the requirements in relation to the retention of audit working papers and for not providing adequate evidence of planning and performing the audit in accordance with auditing standards.
2020	--	
2019	2	<ul style="list-style-type: none">• Failure to issue an adverse opinion when the identified misstatements are material and pervasive, and failure to comply with the requirements of SLAuS 240• Failure to exercise the fundamental ethical principles of professional competence and due care when conducting the audit of an SBE

Audit quality improvement measures

- Participation at IFIAR's 25 % reduction initiative
Submit to IFIAR the relevant findings from inspections finalized during the survey period (2019-2022), relating to the local firms of the Global Public Policy Committee (GPPC) firms BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG and PricewaterhouseCoopers on PIEs and SIFIs.
- Communication of audit inspection outcome to the Audit Committee Chair of the respective listed companies
- Circulation of Activity Report, SLAASMB Findings leaflet
- Publications in the website of SLAASMB

Link to SLAASMB publications

[http://slaasmb.gov.lk/other
-information/](http://slaasmb.gov.lk/other-information/)

Any suggestions



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Thank you!