



Regulatory Activity Report for the year 2021

Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) has been engaged in regulating compliance with Sri Lanka Accounting Standards and Sri Lanka Auditing Standards for over two decades.

This report gives the regulatory activities performed by SLAASMB during 2021 and the results from such regulatory activities.

SLAASMB is committed to enhancing the reliability of financial reporting in the country and expects the findings given in this report to be of use to the preparers of financial statements as well as the auditors and the other stakeholders to improve the financial reporting.

1. Regulatory Activities during 2021

1.1 Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)

SLAASMB being the independent accounting and auditing regulator in the country was established under Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995. During the year 2021, SLAASMB continued to monitor compliance with Sri Lanka Accounting Standards, by economically significant entities termed as Specified Business Enterprises (SBEs), when preparing their annual financial statements. Similarly, SLAASMB was engaged in monitoring compliance with Sri Lanka Auditing Standards by the auditors of these SBEs, when they conduct audits of financial statements.

The said monitoring activities and the related enforcement action under the statute result in improving the level of compliance with the Accounting Standards and Auditing Standards by the preparers of financial statements of SBEs and their auditors, respectively. This results in enhancing the reliability of the financial reporting in the country and in the capital market development.

1.2 SLAASMB's regulatory activities amidst the COVID 19 Control measures

SLAASMB gave due consideration to the challenges faced by SBEs and auditors when finalizing the preparation of financial statements and in completing the audits, due to the effects of the COVID 19 pandemic. Similarly, our concern for the challenges met by the SBEs in the physical delivery of financial statements to SLAASMB and in the practice of audit inspections taking place in the physical presence of the audit team, as well as in contacting the SBEs when seeking additional information due to work-from-home arrangements, lead to modifying our approaches in relation to contacting SBEs and auditors. Further, we maximized the use of available IT infrastructure and electronic media as far as practicable for information gathering and review processes. This enabled the staff to utilize the electronic medium to perform reviews, access reports, generate letters, conduct technical discussions, update records and conduct audit inspections and meetings with SBEs.

1.3 Regulatory activities performed by SLAASMB during the year

SLAASMB's regulatory activities during the year are detailed under the three aspects described below.

1.3.1 Receiving financial statements for review

With 1,680 entities being identified by SLAASMB as meeting the definition of SBEs in the schedule to the Act, all SBEs are vested with the responsibility to submit their annual audited financial statements to SLAASMB at the time the financial statements are issued to the shareholders. To draw attention to this requirement, SLAASMB published notices reminding the SBEs of the said obligation using diverse mediums, namely advertisements in newspapers and SLAASMB's website and by sending periodic reminders to the entities already identified by SLAASMB as SBEs.

During the year, 1,517 SBEs had submitted financial statements to SLAASMB, compared with the 1,194 SBEs that submitted financial statements during 2020. The increase of 27% in the said number of SBEs was mainly due to the lower number of financial statements submitted during 2020 due to the effects of the COVID 19 pandemic. The extensions granted to the submission timelines of financial statements of listed entities, by the Colombo Stock Exchange too was a reason for lower numbers during the preceding year.

1.3.2 Reviewing of financial statements

During the year, we completed the reviews of 552 sets of financial statements relating to 525 SBEs while meeting the number of financial statements planned for the year. In comparison, 732 sets of financial statements relating to 694 SBEs were completed during 2020. Of the total SBEs reviewed, 48% of SBEs reviewed were subject to regulation under other regulators and 52% were of private entities. Further, 32% of the SBEs reviewed during the year were entities listed in the Colombo Stock Exchange as against the comparative coverage in 2020 of 24%.

Findings on the review of financial statements during the year 2021 are detailed in section 2.2 of this report.

1.3.3 Inspecting audits

During the year, we inspected 34 audits carried out by 17 firms of practicing Chartered Accountants, compared with the inspections of 27 audits carried out by 7 firms during the preceding year. Amidst the challenges of meeting the social distancing requirements and the lockdowns experienced during the year, we were able to complete an increased number of inspections due to the timely scheduling of audit inspections and

the conduct of inspections remotely, through an electronic medium as far as practicable.

Findings from audit inspections during 2021 are detailed in section 3.4 of this report.

1.4 Knowledge enhancement and public awareness

Recognizing the importance of maintaining the technical competency of the inspection staff for the successful discharge of regulatory duties, staff were trained on developments in standards and of products in specific industries which are regulated by SLAASMB. They also attended the meetings and sessions conducted by the International organizations in which SLAASMB held membership, as and when such meetings were conducted virtually.

The staff contributed as resource personnel at the 8th ASEAN Audit Regulators Group (AARG) Inspection Workshop held virtually and at the 7th International Conference for Accounting Researchers and Educators (ICARE) organized by the University

of Kelaniya, as a part of SLAASMB's outreach on knowledge sharing.

In the attempt to maintain stakeholder awareness of the activities and findings relating to its regulatory functioning, notices were published clarifying SLAASMB's Regulatory role to the stakeholders. Similarly, the report on findings on the review of financial statements and on inspection of audits conducted during 2020, was issued to the preparers of financial statements and auditors, during the first quarter of the year 2021, in its attempt to enhance the awareness of the stakeholders on a timely manner to enable them to improve on their financial reporting.

1.5 Future focus

With the impact of the current pandemic situation envisaged to continue in the immediate future, we have planned to improve the use of information technology in regulatory functions as far

as practicable. SLAASMB also expects to make a concerted effort towards maintaining an interactive dialogue with the stakeholders throughout the year, as means of improving their financial reporting.

2. Reviewing of financial statements during 2021

2.1 Overview

Based on the recommendations of the foreign consultant engaged to review the existing financial statement review methodology and to recommend changes to enhance the review coverage in an expedient manner, and also to align with the global best practices, SLAASMB adopted a mixed model to select financial statements for review, which combined a risk-based approach with random and rotation approaches.

Accordingly, the approaches to the financial statement reviews conducted were as follows;

- Comprehensive review of the financial statements
- Theme focused review based on industry-focused risk criteria

Adopting the said bases, SLAASMB completed reviews of 552 sets of financial statements relating to 525 SBEs during the year.

2.2 Results of monitoring compliance with Sri Lanka Accounting Standards

During the year, the undertakings were obtained from three SBEs to make the required corrections in the preparation and presentation of financial statements, where material deviations from the Sri Lanka Accounting Standards were detected. Undertakings by two of the said SBEs resulted in an increase in the net assets by Rs. 733 million and the impact on the other SBE is yet to be determined. Accordingly, the review findings during the year 2021 revealed 1% of the financial statements reviewed being non-compliant, 56% of financial statements reviewed being compliant, and 43% of the financial statements being compliant with observations communicated by letters of assistance.

There was an increase of 3% in the issue of letters of assistance when compared with the previous year, as a result of the increased findings from the focused reviews conducted during the year. The observations made during the year have been communicated by letters of assistance in respect of 237 sets of financial statements with the aim of improving their financial reporting.

2.2.1 Undertakings obtained from SBEs to make the required corrections

Based on the materiality of the findings on deviations from Sri Lanka Accounting Standards, SLAASMB obtained undertakings from three SBEs to make corrections in the preparation and presentation of financial statements.

Types of items for which the undertakings were obtained along with references to the Sri Lanka Accounting Standards (Prefixed SLFRS/ LKAS) not complied with by the SBEs are as follows;

- Incorrect recognition of contingent liabilities recognised by the acquirer in a business combination, as other payables in the financial statements of the acquiree entity
(Reference; LKAS 37 paragraphs 13 B, 14, 16, 17 and 20)

- Failure to recognise allowance for expected credit losses on trade and other receivables from related parties, in order to reflect the amounts receivable from related parties, at their recoverable values.
(Reference; SLFRS 9 paragraphs 5.5.1)
- Failure to recognize allowance for expected credit losses of hire purchase receivables, lease receivables and other loans and receivables of a Finance Company, in accordance with the requirements of the Sri Lanka Accounting Standards.
(Reference; SLFRS 9 paragraphs 5.5.1)

2.2.2 Observations communicated to enhance compliance with standards

Departures from Sri Lanka Accounting Standards detected, which were material, but did not require the use of procedures using statutory provisions, were informed to SBEs, as observations by letters of assistance, without extensive inquiries, so that the SBEs could, where necessary, improve on the compliance, on their own in the future.

Details of findings on the review of financial statements, based on the two approaches of conducting such reviews, are as follows.

2.2.2.1 Findings from the comprehensive review of the financial statements

The main findings from the comprehensive review of financial statements relating to which observations were communicated to SBEs in the form of letters of assistance are;

- The nature and extent of risks arising from financial instruments to which the entity is exposed, and quantitative and qualitative information about the amounts arising from expected credit losses, have not been adequately disclosed at the end of the reporting period - in 57 SBEs (Reference; SLFRS 7 paragraphs 31 to 42)

- Disclosures relating to valuation techniques used, inputs to the valuation techniques, quantitative information about significant unobservable inputs used, significant adjustments made to the inputs and the fair value hierarchy for each class of assets and liabilities measured at fair value, have not been adequately made – in 42 SBEs (Reference; SLFRS 13 paragraphs 91 and 93)
- When objective evidence of impairment in respect of a financial asset or group of financial assets exists, not recognizing loss allowance for expected credit losses on financial assets that are measured at amortized cost– in 37 SBEs including 12 in SME sector (Reference; SLFRS 9 paragraph 5.5.1 and SME Section 11 paragraph 11.21)

- When recognizing deferred tax liabilities or recognizing deferred tax assets in relation to carried forward tax losses, not considering all taxable temporary differences, irrespective of the extent of future taxable profits available to utilize the unused tax losses – in 29 SBEs including 3 in SME sector
(Reference; LKAS 12 paragraphs 15, 24, 34 and 48 and SME Section 29 paragraph 29.12)
- Adequate disclosure of the relationship between tax expense and accounting profit and evidence to support recognition of deferred tax assets arising due to tax losses have not been made –in 23 SBEs including 2 in SME sector
(Reference; LKAS 12 paragraph 81and SME Section 29 paragraph 29.32)
- Adequate disclosures in relation to the basis of preparation of the financial statements and the specific accounting policies and/or significant accounting policies which comprise of the measurement bases and other accounting policies that are relevant for an understanding of the financial statements have not been made – in 23 SBEs
(Reference; LKAS 1 paragraphs 112 and 117)
- All relevant information in relation to the revaluation of property plant and equipment have not been disclosed – in 21 SBEs including 11 in the SME sector
(Reference; LKAS 16 paragraph 77 and SME Section 17 paragraph 17.33)
- Adequate disclosure relating to the nature of the related party relationships as well as information about the transactions with related parties – in 19 SBEs including 12 in SME sector (Reference; LKAS 24 paragraph 18 and SME Section 33 paragraph 33.9)
- Preparing financial statements in compliance with Sri Lanka Accounting Standards and taking all necessary measures to ensure that the financial statements are audited in accordance with Sri Lanka Auditing Standards with the object of presenting a true and fair view of the financial performance and financial condition has not been carried out – in 19 SBEs (Reference; Act No 15 of 1995 Section 6 (1))
- The time value of money has not been reflected in the measurement of expected credit losses on financial instruments – in 13 SBEs
(Reference; SLFRS 9 paragraph 5.5.17)
- Depreciation of certain assets have not been recognized from the time they have been available for use or the depreciation method used does not reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity – in 11 SBEs
(Reference; LKAS 16 paragraphs 55 and 60)

- Regular revaluations have not been carried out when fair values of revalued assets differ materially from the carrying amounts – in 9 SBEs
(Reference; LKAS 16 paragraphs 31)
- When indicators of impairment exist at the end of the reporting period, the recoverable amount of certain assets have not been estimated– in 7 SBEs including 1 in SME sector
(Reference; LKAS 36 paragraphs 8 and 9 and SME Section 27 paragraph 27.5)

2.2.2.2 Findings from focused reviews based on industry-focused risk-criteria

In order to facilitate a more effective coverage of financial statement reviews and to align with the global best practices, the reviews conducted by focusing on selected themes enabled staff to focus into greater depth on complying with specific aspects of standards. It also shed light on good practices adopted by identifying aspects that are important for good corporate reporting. In addition, this paved the way to enhance the review coverage of SBEs by maximizing the acute resource limitations. Accordingly, the reviews were conducted with a focus on areas such as risk disclosures by banks, disclosure requirements of SLFRS 4 by Insurance companies, fair value measurement and disclosures by entities in the real estate sector, and disclosures of the going concern due to effects of COVID 19 on the hotel sector.

The findings of the focus reviews are as follows;

(a) Risk disclosures by Banks

Financial statements of 19 Banks were reviewed with special focus on the disclosures made by the SBEs as per the requirements of Sri Lanka Accounting Standard, SLFRS 7, Financial Instruments: Disclosures.

The main findings for which observations were communicated to banks by letters of assistance are set out below.

- The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was not disclosed- in 12 SBEs (Reference; SLFRS 7 paragraph 35 (L))
- Quantitative and qualitative information about amounts arising from expected credit losses in relation to modification of contractual cash flows on financial assets that have not resulted in derecognition and the effect of such modifications on the measurement of expected credit losses have not been disclosed- in 11 SBEs (Reference; SLFRS 7 paragraph 35 (J))
- The nature and carrying amount of the assets, of collateral it holds as security or calling on other credit enhancements (e.g., guarantees), and whether such assets meet the recognition criteria in other SLFRSs, and when such assets are not readily convertible into cash, its policies for disposing

of such assets or for using them in this operation, has not been disclosed - in 10 SBEs

(Reference; SLFRS 7 paragraph 38)

- 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, were not disclosed to enable users of financial statements to assess an entity's credit risk exposure and understand its significant credit risk concentrations - in 9 SBEs (Reference; SLFRS 7 paragraph 35 (M))
- Quantitative information about the collateral held as security and other credit enhancements (for example, quantification of the extent to which collateral and other credit enhancements mitigate credit risk) for financial assets that are credit-impaired at the reporting date, were not disclosed- in 8 SBEs (Reference; SLFRS 7 paragraph 35 (K)(c))
- An explanation on how significant changes during the period in the gross carrying amount of financial instruments had contributed to changes in the loss allowances, were not provided - in 5 SBEs (Reference; SLFRS 7 paragraph 35 (I))

(b) Disclosure requirement of SLFRS 4 by Insurance Companies

Financial statements of 24 SBEs in the Insurance sector were reviewed on the disclosures made by the SBEs as per the requirements of Sri Lanka Accounting Standards, SLFRS 4, Insurance Contracts. Based on the findings, 7 Insurance companies were found to have made adequate disclosures in relation to aspects focused on the requirements of SLFRS 4.

The main findings for which observations were communicated by letters of assistance to Insurance companies are set out below.

- The changes in assumptions used to measure insurance assets and insurance liabilities were not disclosed to separately reflect the effect of each change that has a material effect on the financial statements - in 16 SBEs
(Reference; SLFRS 4 paragraph 37 (d))
- Information about the sensitivity to insurance risk, (i.e., both before and after the risk mitigation by reinsurance) were not disclosed - in 13 SBEs
(Reference; SLFRS 4 paragraph 39 (c) (i))
- Company's objectives, policies and processes for managing risks arising from insurance contracts and method used to manage those risks were not disclosed- in 9 SBEs
(Reference; SLFRS 4 paragraph 39 (a))

(c) Fair Value Measurement and Disclosures by entities in the real estate sector

Financial statements of 11 SBEs in the Real Estate sector were reviewed with special attention to the disclosures made by the SBEs as per the requirements of Sri Lanka Accounting Standard, SLFRS 13, Fair Value Measurement.

The main findings are as follows;

- Adequate disclosures relating to valuation techniques used, inputs to the valuation techniques, quantitative information about significant unobservable inputs used, significant adjustments made to the inputs and the fair value hierarchy for each class of assets and liabilities measured at fair value, were not made – in 5 SBEs
(Reference; SLFRS 13 paragraphs 91 and 93)

(d) Adequacy of Going Concern assumption and disclosures relating to the impact of COVID 19

Financial statements of 36 SBEs in the Hotel sector were reviewed with special attention on the appropriateness of the use of going concern assumption along with the adequacy of the disclosures made in relation to the impact of COVID 19 to its business operations.

The main findings are as follows;

- Disclosure relating to the judgments made by the management to conclude the going concern of the company was not adequately made- in 2 SBEs
(Reference; LKAS 1 paragraph 122)

- Information on the liquidity risk management of the company was not adequately disclosed- in 2 SBEs
(Reference; SLFRS 7 paragraph 39)

Further details on findings from focused reviews can be found in <http://slaasmb.gov.lk/>

3. Inspection of Audits during 2021

3.1 Overview

SLAASMB performs Audit monitoring as engagement-specific Regular audit inspections and Theme specific audit inspections which focus on a comprehensive review of a predetermined theme. Audits for inspection are selected considering a risk-based approach as well as a random selection approach.

During the year, SLAASMB continued to engage in audit monitoring in the form of engagement-specific Regular audit inspections, to ascertain compliance with Sri Lanka Auditing Standards (SLAuS) by the auditors of SBEs when they conduct audits of the financial statements of SBEs

In the light of the continuing economic and social impact of the COVID 19 pandemic, SLAASMB has identified its impact on the operating environment of the businesses, taken together with a high level of uncertainties and dynamic changes in macro and micro business environments, which have resulted in significant judgment and estimation uncertainties in entities. These judgment and estimation uncertainties have resulted in increasing the overall audit risks through risk associated with the audit of accounting estimates. These challenges have required the auditors to exercise a significant amount of professional

judgment, remain skeptical and focus on ethical responsibility when carrying out audits.

Considering these requirements, SLAASMB has conducted Regular audit inspections with a special focus on the following areas of high-risk entities.

- Risk assessment – Elevated combined risks arising from uncertainties and dynamic changes in business operations and environments
- Group audits – High risks relating to impairment assessments at group level and in changes to group structures
- Going concern and subsequent events - Evidence of events/ conditions that may cast significant doubt on the entity's ability to continue as a going concern, and impact of events after the reporting period, due to the impact of COVID 19 pandemic on the businesses
- Valuation of assets – Significance of judgements made by management, key assumptions and other inputs to valuation models, in the context of high level of uncertainty.

3.2 Regular audit inspections

During the year, 34 audit engagements conducted by 17 audit firms were inspected, compared with 27 audit engagements conducted by 7 firms during 2020. The audits inspected during

the year included 21 audits carried out by 4 firms, which are members of international networks.

3.3 Enforcement

3.3.1 Overview of Enforcement Actions

Based on the severity of the observations made during the inspection of audits, SLAASMB adopts diverse measures in its effort to make the auditors to improve themselves, in order to achieve the objective of improving the audit quality environment in Sri Lanka.

When regular audit inspections result in finding of non-compliances with Sri Lanka Auditing Standards, which do not require further action under the statute, such deficiencies are communicated to the audit firms by letters of assistance termed as “Letters of Observations”. When improvements to audit quality are required, such improvements are communicated as “Suggestions for improvements”. In addition, when the auditor is observed to have failed to exercise the fundamental ethical

principles of professional competence and due care, in the conduct of an audit of a SBE, a Letter of Warning is issued to the audit firm with approval of the Board, requiring the said firm to act diligently and in accordance with the requirements of applicable auditing standards, when they conduct audits of financial statements in the future. Further, based on the significance of the issues, where necessary, SLAASMB refers the deviations from auditing standards to the Attorney General for advice, and where there are deficiencies in the audit quality, such matters are directed to CA Sri Lanka, the licensing authority of the auditors, and to any other regulator governing the entity being audited, as applicable.

3.3.2 Enforcement Actions taken during the year

3.3.2.1 Referral to Attorney General

One audit inspection was referred to Attorney General and based on Attorney Generals' advice, evidence gathering is in-process to instigate legal action.

3.3.2.2 Letter of Warning

A Letter of Warning was issued by SLAASMB to one audit firm, warning the firm of the failure to comply with SLAuSs when conducting the audit of an SBE. Accordingly, the audit firm was required to act diligently and in accordance with the requirements of the applicable auditing standards, when conducting audits of financial statements, in the future.

3.3.2.3 Letter of Assistance

During the year, Letters of Assistance termed as "Letters of Observations" in respect of 12 audit engagements were issued to 12 firms, communicating findings of non-compliances with Auditing Standards that do not require further action under the statute.

3.4 Significant Findings

3.4.1 Fraud Risk

When conducting an audit of financial statements, auditor is required to 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.

We communicated following deficiencies in relation to fraud risk, observed during the audit inspections.

- Even though the auditor is required to test appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements irrespective of the auditor's assessment of risks of management override of controls, the auditor had not tested the journal entries.
- Not having discussions with the engagement team on the susceptibility of the entity's financial statements to material misstatements due to fraud was observed in some instances.
- When the auditor should make inquiries from the appropriate individuals of the company such as Those Charged with Governance (TCWG), operating personnel, in-house legal counsel, and employees with different levels of authority, etc., limiting conducting of inquiries regarding fraud risks only to the staff of the finance department of an entity, and not making inquiries from appropriate individuals of the internal audit department, when the entity has an internal audit department.
- 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.

3.4.2 Identifying and Assessing the Risks of Material Misstatements

The auditor is required to 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.

Deviations communicated included the following;

- Absence of evidence of obtaining an understanding of the entity, its environment, and internal controls relevant to the audit engagements.
- Walkthrough tests revealed deficiencies in some instances which resulted in the walkthrough tests not being performed appropriately. Such deficiencies include not checking the important source documents and not testing accounting entries with relevant supporting documents.
- In one instance, the controls identified relating to ‘completeness’ assertion were not relevant for the said assertion.
- In some audit engagements, IT controls have not been tested. Controls over IT systems include application controls and general IT controls which supports the effective functioning of the application controls.

3.4.3 Planning an Audit

The auditor is required to plan the audit in order to perform an audit in an effective manner. Planning an audit involves, establishing the overall audit strategy for the engagement and developing an audit plan. However, in a few instances, the auditor had failed to establish the overall audit strategy and to develop the audit plan accordingly.

3.4.4 Materiality

Concept of materiality should be applied by the auditor appropriately when planning and performing the audit.

Deficiencies included the following;

- In some cases, there was no evidence of the factors considered by the auditor in determining the benchmark and the percentage for the materiality for the financial statements as a whole, and of the basis used to determine the performance materiality.
- In a few instances, the auditor had not used an appropriate basis to determine the materiality levels.

3.4.5 Audit Evidence

The auditor is required to 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.

Summary of key findings are:

- 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, to obtain sufficient appropriate audit evidence.
- Failure by the auditor 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.

3.4.6 Going Concern

The auditor is required to 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, in accordance with Sri Lanka Auditing Standards.

Following lapses were communicated regarding obtaining sufficient appropriate audit evidence on the use of going concern basis in preparing financial statements.

- In one instance, we have observed the following;
 - Not performing risk assessment procedures when events and conditions that may cast significant doubt on the entity's ability to continue as a going concern existed.
 - Not obtaining sufficient appropriate audit evidence in relation to the parent's ability to provide financial assistance, when a subsidiary had concluded that the use of going concern assumption was appropriate based on the parent's confirmation 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.
- In another case, when material uncertainties had existed, the auditor had not concluded the appropriateness of the preparation of financial statements on the going concern basis.

3.4.7 Audit Sampling

The auditor is required to comply with Sri Lanka Auditing Standard SLAuS 530 – Audit Sampling, when the auditor has decided to use audit sampling.

Key findings included the following.

- An appropriate sampling methodology had not been used in a few cases.
- When designing the audit sample in two instances, the purpose of the audit procedure and the characteristics of the population from which the sample is drawn were not considered

3.5 Suggestions for Improvements

During the year, with the aim of improving the audit quality, suggestions for improvements have been communicated relating to two audit engagements. The auditor is expected to improve on these suggestions when conducting their audits in the future.

Suggestions for improvements communicated during the year included;

- Ensuring compiling all documents important for the audit as part of the audit file
- Obtaining management’s representation letter on a date close as possible to the date of the auditor’s report on the financial statements

3.6 Other measures taken by SLAASMB to enhance audit quality

3.6.1 Communicating findings of audit inspections to Audit Committees

SLAASMB continues to recognize the contribution of the Audit Committees as Those Charged with Governance towards enhancing the quality of the financial reporting and audit environment. Accordingly, we continued to communicate the outcome of our audit inspections to the chair of the Audit Committee in companies listed on the Colombo Stock Exchange. Further, we communicated the annual findings on the conduct of financial statements reviews and audit inspections to the Chairs of the aforesaid Audit Committees. We believe that these will have a direct positive impact on the quality of the audits of such companies' financial statements.

3.6.2 International Affiliations to support audit quality

- SLAASMB has been a member of the International Forum of Independent Audit Regulators (IFIAR) since its first plenary meeting held in 2007. During the year, SLAASMB has been participating at meetings of IFIAR conducted virtually and in fulfilling IFIAR's information requirements and participating in routine surveys.
- SLAASMB has been member a of the Consultative Advisory Groups of the International Auditing and Assurance Standards Board (IAASB) since 2007 and a member of the Consultative Advisory Group of the International Ethics Standards Board for Accountants (IESBA) since 2009. During the year, SLAASMB has been contributing to the meetings held remotely on deliberations on standards relating to Auditing and Ethics.

3.7 Participation at IFIAR's 25% reduction initiative

With IFIAR being committed towards improving audit quality on a global basis, in 2019, IFIAR has implemented a new 25% reduction target initiative to monitor changes in the rate of audits inspected with findings over the next four years, considering the findings of the survey in 2019 as the base year, for comparison.

Accordingly, the Global Public Policy Committee (GPPC) firms which includes BDO, Deloitte, Ernst & Young, Grant Thornton,

KPMG and PricewaterhouseCoopers, have agreed to IFIAR measuring results of findings, relating to the listed Public Interest Entity (PIE) engagements, with one or more finding.

At the local level, SLAASMB has undertaken to submit to IFIAR, the relevant findings from audit inspections finalized during the survey period relating to the local firms of the said international networks, on an annual basis commencing from 2019.

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