

# Non-compliances with Sri Lanka Accounting and Auditing Standards Identified by SLAASMB

Presented by

Anusha Mohotti- Director General, SLAASMB

Hafsa Banu Razzak- Deputy Director General, SLAASMB

Kalani Hettiarachchi- Director Supervision, SLAASMB



## SLAASMB

Sri Lanka Accounting and Auditing  
Standards Monitoring Board

# Outline

Introduction to  
SLAASMB

Regulatory Findings by  
SLAASMB during 2023

- ❑ Established under Act No. 15 of 1995

- ❑ Functions

**Monitor  
compliance  
with**

Sri Lanka Accounting  
Standards by **SBEs**

Annual Audited  
Financial  
Statements

Sri Lanka Auditing  
Standards by **auditors**

Audit working  
papers re  
Annual Audit of  
Financial  
Statements

## What are SBEs?

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

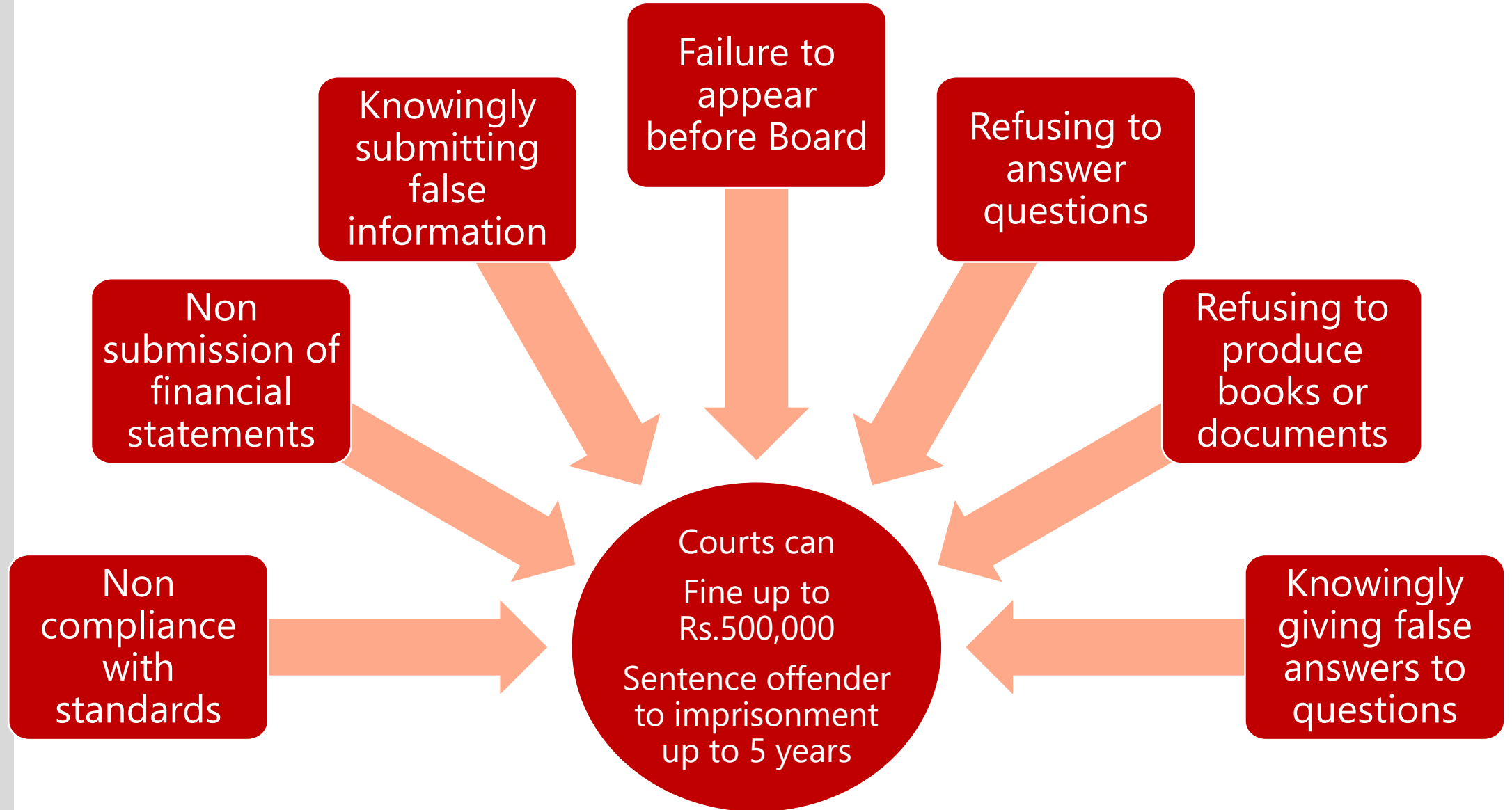
### **Private Companies**

- Turnover > Rs.500 mn
- Shareholders' equity > Rs.100 mn
- Gross Assets >Rs.300 mn
- Liabilities to Banks and FI > Rs. 100 mn
- No of employees >1000

## Powers of the Board

- **Call for information** from SBE or auditor relating to financial statements
- Carryout **investigations**
- **Summon** any Director, Officer or auditor of SBE
- **Issue Directions-** re-audit and re-publish or correct FS
- **Inform Professional Body** –violation by the Accountant who is its member
- **Inform other Supervising Authorities** including Inland Revenue Dept

# Offences



## Enforcement Actions on Findings from Financial Statements Reviews

- **Compliant**
- **Compliant with issues** communicated to improve in the future
- **Undertakings** to make corrections in next set of FS
- **Directions** when the issue is **not of a serious nature**
- **Legal Action** –fine and/or imprisonment

# Enforcement Actions on Findings from Audit Inspections

- **Compliant**
- **Compliant with issues** communicated to improve in the future
- **Suggestions for Improvements** - to enhance audit quality
- **Communicate to AC Chair** - provide insights to AC on the quality of audit
- **Issue warnings** - failed to exercise the fundamental ethical principles in the conduct of an audit
- **Refer to CA SL** on ethical conduct
- **Directions** to re-audit and re-publish (if not of a serious nature)
- **Legal Action** -fine and/or imprisonment



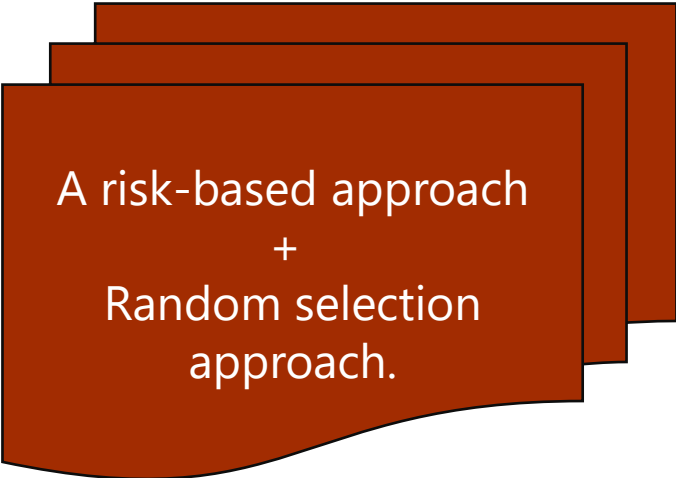
# Financial Statement Reviews and Audits Inspections

- ❑ **Regular Reviews/ Inspections**

- ❑ **Theme Focused Reviews/Inspections**

How we select financial statements for reviews/audits to inspect?

- ❑ A mixed model



A risk-based approach  
+  
Random selection  
approach.



# SLAASMB

## Regulatory Findings - 2023



# Financial Statements Reviews

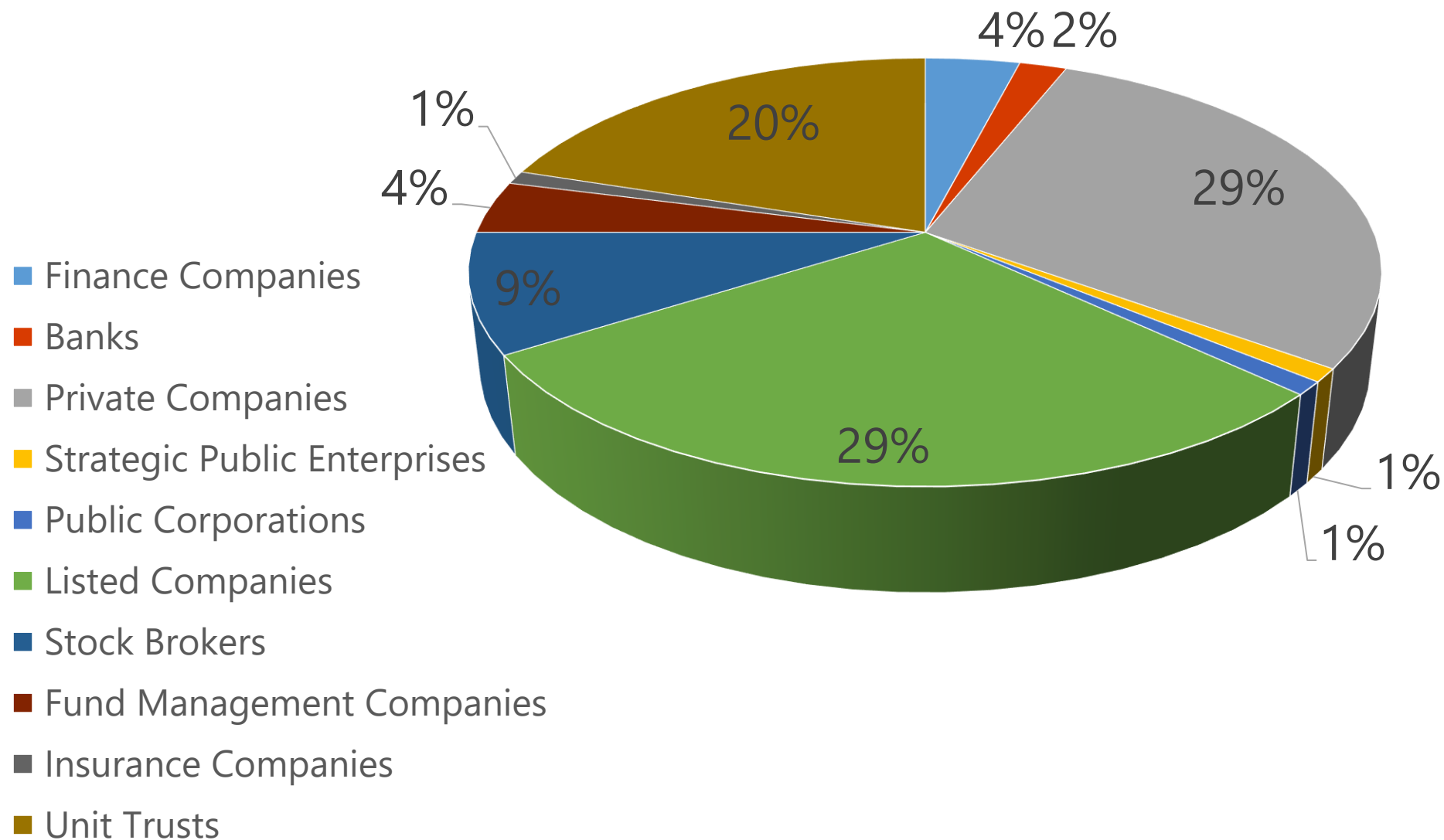
**Regular reviews**

**Theme focused reviews**

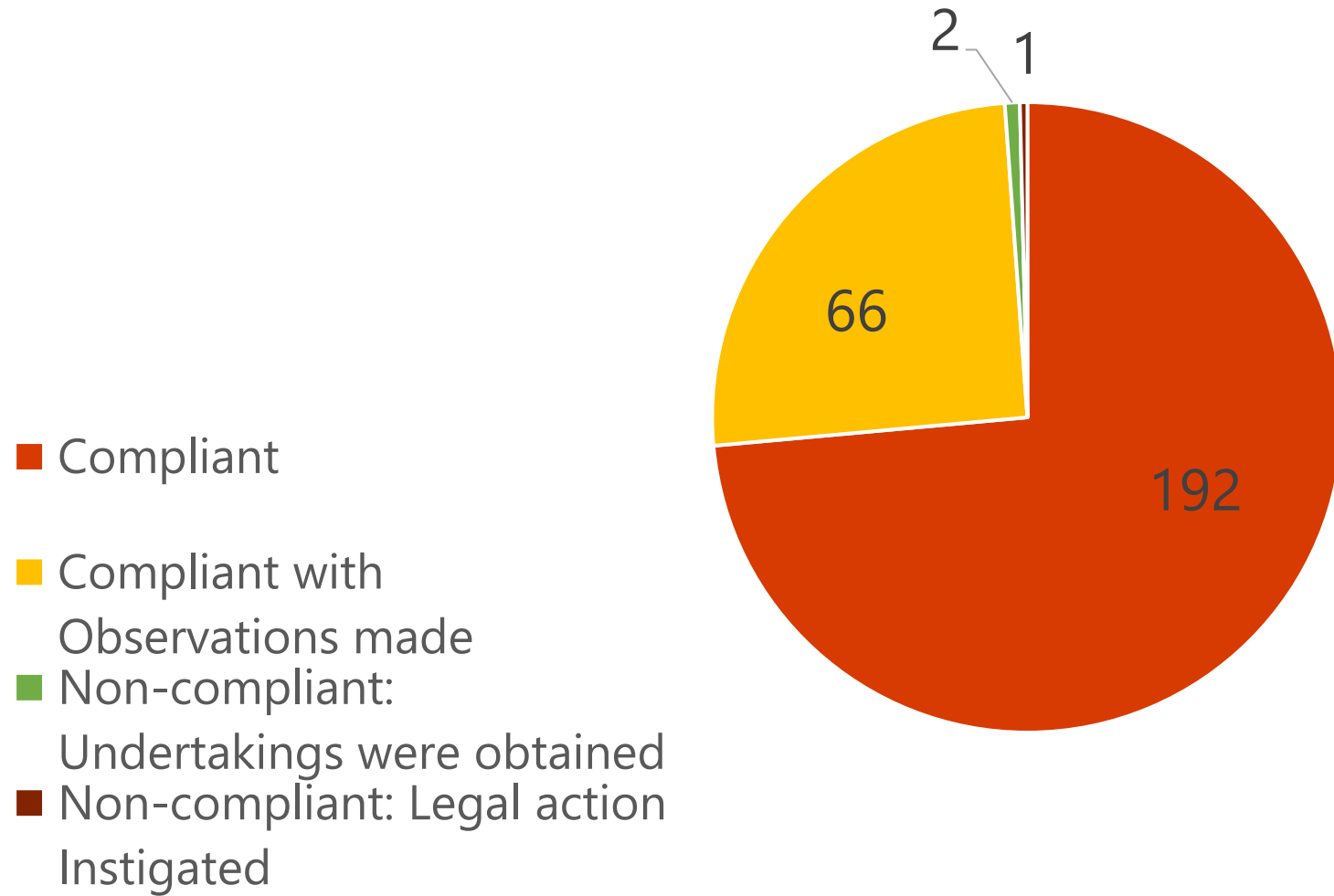
Theme focused for 2023

- ✓ Fair value measurement and related disclosures by companies in the real estate sector (SLFRS 13)
- ✓ Recognition, measurement and disclosures in relation to impairment of property, plant and equipment (LKAS 36)
- ✓ Presentation of cash flow statement and Liquidity disclosures (LKAS 7)
- ✓ Income Tax disclosures (LKAS 12)

# Sectorial Representation of Financial Statements Reviews



## Results of Monitoring Compliance with Sri Lanka Accounting Standards (SLFRS/LKAS)



# Observations

Area of observation	Financial Reporting Deficiency	Act/ Standards Requirement
True and fair view of the FS Section 6(1) of the Act	Not preparing FS in compliance with SLFRSs/LKASs and take all necessary measures to get them audited in accordance with SLAuSs with the object of presenting a true and fair view  <i>Ex:</i> ➤ <i>Nor properly reconciling intercompany balances</i>	All SBEs should prepare FS in compliance with SLFRSs/LKASs and take all necessary measures to ensure that its accounts are audited in accordance with the Sri Lanka Auditing Standards with the object of presenting a true and fair view of the financial performance and financial condition of such enterprise

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
<p>Risks arising from financial instruments SLFRS 7, Paragraph 31 to 42</p>	<p>The nature and extent of risks arising from FI to which the entity is exposed, and</p> <p>Quantitative and qualitative information about the amounts arising from ECL, have not been adequately disclosed</p> <p><i>Ex:</i></p> <ul style="list-style-type: none"><li>➤ <i>Not disclosing credit risk exposure information, maturity analysis information</i></li></ul>	<p>The disclosures should focus on the risks that arise from FI and how they have been managed</p> <p>These risks typically include, but are not limited to, credit risk, liquidity risk and market risk</p>



# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
Recognition of ECL: SLFRS 9 Paragraph 5.5.1	<p>Loss allowance for ECL on financial assets that are measured at amortized cost has not been recognized, irrespective of existence of objective evidence</p> <p><i>EX:</i></p> <ul style="list-style-type: none"><li>➤ <i>Not recognizing any impairment for receivable balances referred to legal actions pending, decision taken by the Board of Directors and receivables from Government agencies due for more than one year</i></li></ul>	To recognize a loss allowance for ECL on a financial asset that is measured at amortised cost or at fair value, a lease receivable, a contract asset or a loan commitment and a financial guarantee contract to which the impairment requirements apply

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
<p>Disclosure relating to Fair value hierarchy and the fair value measurement: SLFRS 13, Paragraph 93</p>	<p>Disclosures relating to</p> <ul style="list-style-type: none"> <li>• The FV hierarchy for each class of assets and liabilities measured at FV</li> <li>• Valuation techniques and the, inputs used,</li> <li>• Quantitative information about significant unobservable inputs used,</li> <li>• Significant adjustments made to the inputs have not been adequately made</li> </ul> <p><i>EX:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Based on the copies of valuation reports submitted, it appears that the market approach has been used to measure the fair value of plant and machinery but relevant disclosures have not been made</i></li> </ul>	<p>At a minimum,</p> <ul style="list-style-type: none"> <li>• The FV hierarchy for each class of assets and liabilities measured at FV and</li> <li>• The valuation techniques and inputs used in fair value measurement (within level 2 and 3) and</li> <li>• The quantitative information about significant unobservable inputs used and significant adjustments made (For level 3)</li> </ul>

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
<p>Performance obligations in contracts with customers: SLFRS 15, Paragraph 119</p>	<ul style="list-style-type: none"> <li>• Details as to when performance obligations had been typically met</li> <li>• significant payment terms</li> <li>• nature of goods / services promised</li> <li>• return / refund obligations</li> <li>• types of warranties etc.</li> </ul> <p>have not been sufficiently disclosed</p> <p><i>EX:</i></p> <p>➤ <i>The Company derives revenue from different sources but the accounting policy does not adequately disclose</i></p>	<p>Disclosure on information of its performance obligations relating to the contracts with customers;</p> <ul style="list-style-type: none"> <li>a) when it satisfies its performance obligation,</li> <li>b) significant payment terms,</li> <li>c) nature of goods/services promised,</li> <li>d) return/refund obligations and</li> <li>e) types of warranties etc.</li> </ul>

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
Effects of leases: SLFRS 16, paragraph 51	<p>Information to assess the effect that leases may have on the FS of the lessee has not been sufficiently disclosed</p> <p><i>Ex:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Not disclosing a maturity analysis of lease liabilities by applying SLFRS 7</i></li> </ul>	<p>Lessees shall disclose the information to assess the effect that the leases have on the financial position, financial performance and cash flows of the lessee</p>
Basis of preparation of the FS and accounting policies: LKAS 1, paragraphs 112 and 117	<p>Adequate disclosures in relation to the basis of preparation of the FS and the significant accounting policies that comprise of the measurement bases and other accounting policies</p> <p><i>Ex:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Not providing details for material other receivable balances</i></li> </ul>	<p>Notes to the FS needs to present information</p> <ul style="list-style-type: none"> <li>• about the basis of preparation of FS,</li> <li>• Relevant to understand the said FS and</li> <li>• Relating to significant accounting policies</li> </ul>

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
Tax reconciliation: LKAS 12, paragraph 81	<p>Adequate disclosure of the relationship between tax expense and accounting profit has not been made</p> <p><i>Ex:</i></p> <ul style="list-style-type: none"> <li>➤ <i>When arriving at the taxable income, an amount referred to as “Non-taxable item” has been deducted without disclosing the basis and nature of such deduction.</i></li> <li>➤ <i>Not explaining significant increases in disallowable expenses compared with the last year</i></li> </ul>	Entity needs to provide an explanation of the relationship between tax expense and accounting profit
Tax losses: LKAS 12, paragraph 81	<p>Evidence to support the recognition of deferred tax assets arising due to tax losses has not been made</p> <p><i>EX:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Recognizing a deferred tax asset when the company is having carried forward tax losses and not disclosing nature of the evidence supporting the recognition.</i></li> </ul>	Entity needs to provide the nature of evidence to support the recognition of deferred tax assets arising due to tax losses

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
Recognizing deferred tax assets and liabilities: LKAS 12, paragraphs 15, 24, 34 and 48	Not considering all taxable temporary differences when recognizing deferred tax liabilities or recognizing deferred tax assets	A deferred tax liability shall be recognized for taxable temporary differences and a deferred tax asset shall be recognized for deductible temporary differences to the extent of its utilization

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
Disclosures for revalued PPE LKAS 16: paragraph 77	Disclosures relating to the revaluation of PPE has not been made	When PPE are stated at revalued amounts, the following disclosures need to made: a) effective date of the revaluation; b) whether an independent valuer was involved; c) carrying amount under the cost model for each revalued class of PPE; d) revaluation surplus, change for the period and restrictions on the distribution to shareholders

# Observations

Area of observation	Financial Reporting Deficiency	Standards Requirement
<p>Review the useful life of an asset: LKAS 16, paragraph 51</p>	<p>Useful life of an asset have not been reviewed at least at each financial year-end</p> <p><i>Ex.</i></p> <ul style="list-style-type: none"> <li>➤ <i>Fully depreciated assets still being in use</i></li> </ul>	<p>Useful life of an asset shall be reviewed at least at each financial year-end and if expectations differ, the changes shall be accounted for as per LKAS 8</p>
<p>Disclosures on Related Parties: LKAS 24, paragraph 18</p>	<p>Adequate disclosures relating to</p> <ul style="list-style-type: none"> <li>• the nature of the related party relationships</li> <li>• information about the transactions</li> </ul> <p>have not been made</p>	<p>Disclose the nature of the RP relationship, information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the FS</p>



# Undertakings Obtained

SLAS / Act Reference	Non-compliance	Standards Requirement	Undertaking
<p>Recognition and measurement of financial assets: SLFRS 9, Paragraph 7.1.1 and Disclosures on Financial Instruments: SLFRS 7, Paragraph 4</p>	<p>Failed to apply recognition and measurement requirements for financial assets as per SLFRS 9 (Applied LKAS 39)</p>	<p>Should recognize all the financial assets and measure them as per SLFRS 9</p>	<p>Undertook to apply the requirements of SLFRS 9, SLFRS 7 and to adjust the comparative information in relation to the application of SLFRS 9 as required by LKAS 8, in the next FS</p>

# Undertakings Obtained

<b>SLAS / Act Reference</b>	<b>Non-compliance</b>	<b>Act/ Standards Requirement</b>	<b>Undertaking</b>
Maintain accounting records and provide information to the auditors: Section 6(1) of the Act.	Failed to maintain proper accounting records and to provide information for the auditor to conduct the audit.	<ul style="list-style-type: none"><li>• Prepare accounts in compliance with SLASs</li><li>• With the object of presenting a true and fair view of the financial performance and financial condition.</li></ul>	Undertook to rectify all matters referred to in the basis for the disclaimer of opinion in the auditor's report, and to incorporate all necessary resulting adjustments together with relevant disclosures in the next FS

## Matters Referred to Attorney General

- Listed Company engaged in providing financial services had failed to maintain proper books of accounts for the year ended 31 March 2021 as required by section 6 (1) of the Act and their auditor had expressed a disclaimer of opinion on the said FS
- SLAASMB observed that the Company had published incomplete and erroneous information in the said FS failing to present a true and fair view of the financial performance and financial position of the company for the year ended 31 March 2021
- Referred this matter to the Attorney General for the next course of action to be taken against the Company and/or the directors of the Company



# Audits Inspections

## Regular Audit Inspections

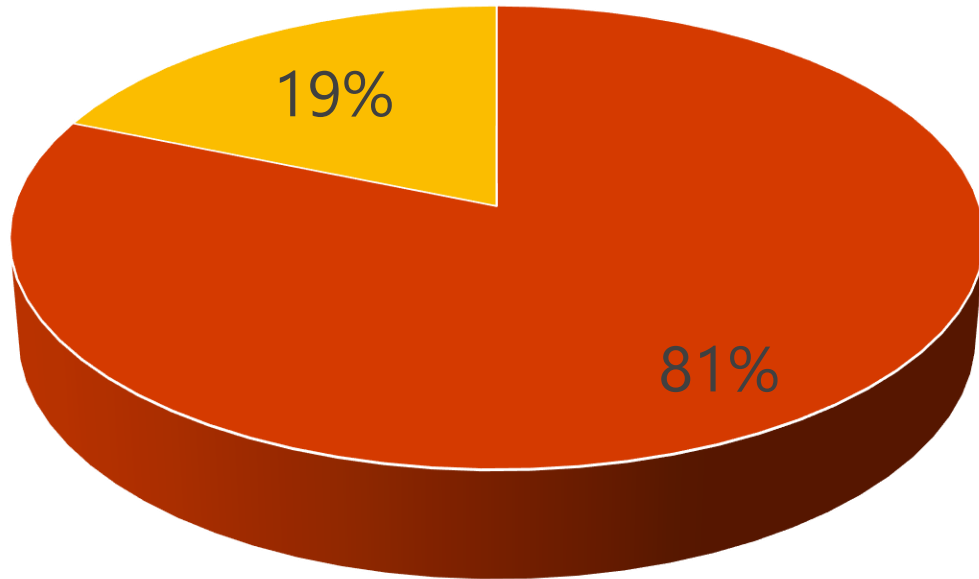
## Regular Audit Inspections with Special Focus Areas

Special focus areas for 2023

- ✓ Accounting estimates in relation to individual assessment of impairment of loans and advances of banks
- ✓ Identification and assessment of the risk of material misstatements through understanding the entity and its environment and responses to assessed risks
- ✓ Accounting estimates in relation to valuation of investment properties of listed companies
- ✓ Premium income and use of experts in relation to insurance contract liabilities of insurance companies

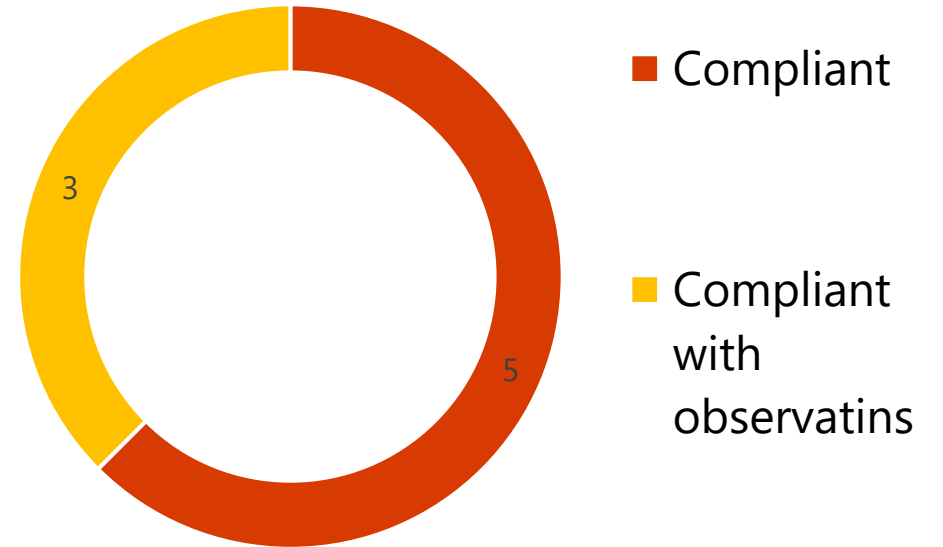
# Results Of Monitoring Compliance with Sri Lanka Auditing Standards (SLAuSs)

**Audit Inspection Findings  
Analysis in terms of No of  
Inspections**



- Compliant
- Compliant with Observations

**Audit inspections Findings  
Analysis in terms of No of Audit Firms**



Findings	No. of Inspection	No. of audit firms
Compliant	13	5
Compliant with observations	3	3

# Observations

Audit area	Audit Deficiency	Standards Requirement
Risk assessment (RA)	<ul style="list-style-type: none"><li>• A comprehensive RA had not been performed</li><li>• Adequate understanding of the entity and its environment had not been obtained to perform a comprehensive identification and an assessment of the risks of MM</li><li>• Adequate audit procedures had not been performed to identify the risks of MM due to fraud</li></ul> <p><i>Ex:</i></p> <ul style="list-style-type: none"><li>➤ <i>Not carrying out RA procedures focusing on identifying significant risks</i></li><li>➤ <i>Not adequately identifying the processes relating to different revenue sources like local and international sale, different destinations, terms and conditions of sales and different performance obligations are satisfied etc.</i></li></ul>	To perform RA procedures to identify and assess the risks of MM through an understanding of the entity, and its environment including the entity's IC, enabling the auditor to provide a basis for designing and implementing responses to the assessed risks of MM

# Observations

Audit area	Audit Deficiency	Standards Requirement
Auditor's response to assessed risks	<p>When deviations from the controls have been detected during the testing of the operating effectiveness of controls,</p> <ul style="list-style-type: none"> <li>• not made sufficient inquiries to understand the deviations and their potential consequences before relying on such controls</li> <li>• not ascertained the necessity to revise the risk assessment and modify the planned procedures</li> </ul> <p>Ex:            ➤ <i>TOCs- Revenue</i>  <i>Based on the nature of the business, it was necessary to obtain a higher level of assurance about the operating effectiveness of controls. Inconsistencies were noted by SLAASMB in the sample tested with the revenue process identified by the auditor. However, the auditor has not observed these inconsistencies.</i></p>	<p>The auditor is required to design and implement appropriate responses to address the assessed risk of material misstatements in order to obtain sufficient appropriate audit evidence</p>



# Observations

Audit area	Audit Deficiency	Standards Requirement
Auditor's response to assessed risks	<ul style="list-style-type: none"> <li>• An appropriate cut-off testing on revenue had not been performed</li> </ul> <p><i>Ex:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Not performing cut-off testing on revenue by focusing on different invoice series generated for different types of revenue of an online retailer who generate revenue locally and internationally</i></li> </ul> <ul style="list-style-type: none"> <li>• Adequate audit procedures had not been performed to obtain SA audit evidence regarding the existence and condition of the inventory</li> </ul> <p><i>Ex:</i></p> <ul style="list-style-type: none"> <li>➤ <i>The auditor has not attended the physical inventory count nor adequately performed alternative audit procedures</i></li> </ul>	<p>The auditor is required to design and implement appropriate responses to address the assessed risk of material misstatements in order to obtain sufficient appropriate audit evidence</p>

# Observations

Audit area	Audit Deficiency	Standards Requirement
Audit Evidence	<ul style="list-style-type: none"><li data-bbox="494 634 1595 808">• SA audit evidence not obtained relating to trade receivables, purchases, related party balances and interest-bearing loans and borrowings</li></ul>	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

# Observations

Audit area	Audit Deficiency	Standards Requirement
<p>Audit of accounting estimates</p>	<ul style="list-style-type: none"> <li>• Competence, capabilities and objectivity of the management's expert and the appropriateness of the management's expert's work had not been evaluated</li> <li>• Reasonableness of the assumptions used in arriving at the fair values of the assets had not been evaluated</li> </ul> <p><i>Ex:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Revaluation of PPE</i></li> </ul> <p><i>The auditor has not evaluated</i></p> <ol style="list-style-type: none"> <li>1. <i>the competence, capabilities and objectivity of the valuer and the appropriateness of the valuer's work</i></li> <li>2. <i>how the management has incorporated market-specific inputs in to the assumptions and whether the assumptions are consistent with observable market conditions and characteristics of the assets measured at fair value.</i></li> </ol>	<p>The auditor is required to obtain sufficient appropriate audit evidence about whether accounting estimates and related disclosures in the financial statements are reasonable in the context of the applicable financial reporting framework</p>

# Observations

Audit area	Audit Deficiency	Standards Requirement
<p>Communication with Those Charged with Governance (TCWG)</p>	<ul style="list-style-type: none"> <li>• Adequate communication had not been made with TCWG regarding the going concern of the entity when events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern had been identified</li> <li>• The auditor having effective two-way communication with TCWG was not evident in the audit documentation</li> </ul> <p><i>EX:</i></p> <ul style="list-style-type: none"> <li>➤ <i>Limited or No evidence in AWP for the Communications the auditor had with TCWG. Meetings the auditor had with AC is not evident from the AWP</i></li> </ul>	<p>The auditor is required;</p> <ul style="list-style-type: none"> <li>• To communicate the responsibilities of the auditor in relation to the FS and audit</li> <li>• To provide an overview of the planned scope and timing of audits</li> <li>• To provide timely observations significant and relevant to their responsibility to oversee the financial reporting process and</li> <li>• To promote an effective two-way communication between the auditor and TCWG</li> </ul>

# Observations

Audit area	Audit Deficiency	Standards Requirement
Going concern	<ul style="list-style-type: none"> <li>Failure to <i>evaluate the adequacy of disclosures made</i> in the financial statements relating to going concern ability of the entity when events or conditions have been identified</li> </ul> <p><i>EX:</i></p> <ul style="list-style-type: none"> <li>➤ <i>The auditor had considered a confirmation given by a related company in providing financial assistance as the main audit evidence to conclude the ability to going concern but this has not been reflected in the disclosure in the FS on mitigating steps taken by the management.</i></li> </ul>	<ul style="list-style-type: none"> <li>The auditor is required to obtain SA audit evidence regarding the appropriateness of management's use of the going concern basis in the preparation of the FS, and</li> <li>To conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern and</li> <li>To determine the implications for the auditor's report</li> </ul>

## Suggestions for Improvements

- ❑ Improve the audit documentation to understand the nature, timing and extent of the audit procedures performed
- ❑ Focus on the characteristics of fraudulent journal entries or other adjustments processed outside the normal course of business during the testing of journal entries
- ❑ Obtain SA audit evidence in relation to the related company's ability to provide continuous financial support by evaluating the financial position and performance of such related company through reliable information sources
- ❑ Evaluate the reliability of underlying data used in the preparation of forecasts by the management and determine whether the assumptions underlying the forecasts are adequately supported by comparing the forecasted data with the latest results
- ❑ Evaluate the appropriateness of accounting policies adopted by the Company in the context of its business activities

## Matters Referred to the Attorney General

SLAASMB has taken measures to instigate legal action against the Auditor and the Company due to;

- Continuous violation of the SLAuSs by the auditor and
- Failure by the said auditor to address the matters communicated by SLAASMB in the audit of the subsequent year's financial statements

# Q & A



**SLAASMB**

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



# Thank You

Any suggestions



SLAASMB

3rd Floor, Bible House Building, 293, Galle Road, Colombo 3



[dg@slaasmb.gov.lk](mailto:dg@slaasmb.gov.lk)



[www.slaasmb.gov.lk](http://www.slaasmb.gov.lk)



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