



# **Regulatory Activity Report for the year 2024**



This report aims to enhance the awareness of the preparers of financial statements as well as of their auditors on the nature and type of deviations observed by SLAASMB in ascertaining compliance with Sri Lanka Accounting Standards and Sri Lanka Auditing Standards as SLAASMB's contribution towards enhancing the reliability and quality of the financial reporting in the country.

# 1. Introduction of SLAASMB

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

The Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB), established under the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 is the sole independent accounting and auditing regulator in the country. In discharging the functions under the statute, SLAASMB's regulatory activities include reviewing financial statements of economically significant entities termed as Specified Business Enterprises (SBEs) for compliance with Sri Lanka Accounting Standards (SLASs) and inspecting their audits for compliance with Sri Lanka Auditing Standards (SLAuSs) and taking enforcement actions based on the severity of the findings. As at 31 December 2024, 1,708 entities have been identified as SBEs by SLAASMB. The management of these SBEs are responsible for timely submission of their annual audited financial statements to SLAASMB.

Being in active operations for over two decades, SLAASMB has induced SBEs and auditors to perform their roles maintaining a high level of compliance with SLASs and SLAuSs. This results in enhancing the reliability of the financial reporting in the country and increasing investor confidence while contributing towards the development of the capital market.

The Act requires the SBEs to submit their annual audited financial statements as well as any information requested, to SLAASMB to enable SLAASMB to monitor compliance with Sri Lanka Accounting Standards.

Based on the severity of the findings, SLAASMB takes different enforcement mechanisms in line with Act No. 15 of 1995 and takes all possible measures to contribute towards the financial reporting environment in Sri Lanka with the ultimate aim of enhancing the reliability of the financial reporting in the country.

## **2. Regulatory activities performed by SLAASMB during the year**

### **2.1 Review of financial statements**

#### **2.1.1 How we selected financial statements for review**

When selecting financial statements for review to ensure effective coverage is made in regulating financial statements for compliance with SLASs during the year, SLAASMB adopted a mixed model as in the previous year, combining a risk-based approach with random and rotation approaches. It also considered public accountability of the entities to select high-risk entities.

Reviews under the risk-based approach were conducted on pre-determined themes based on industry-focused risk criteria. This theme focus review approach enabled SLAASMB to focus in to greater-depth on specific aspects of SLASs that paved way to identify aspects that are important for high quality corporate reporting.

Key themes focussed during the year were;

- Disclosures in relation to impairment of non-financial assets of listed companies
- Recognition, measurement and disclosure relating to impairment of financial assets of banks and finance companies
- Presentation of cash flow statements
- Presentation and disclosure relating to property, plant and equipment and investment property.

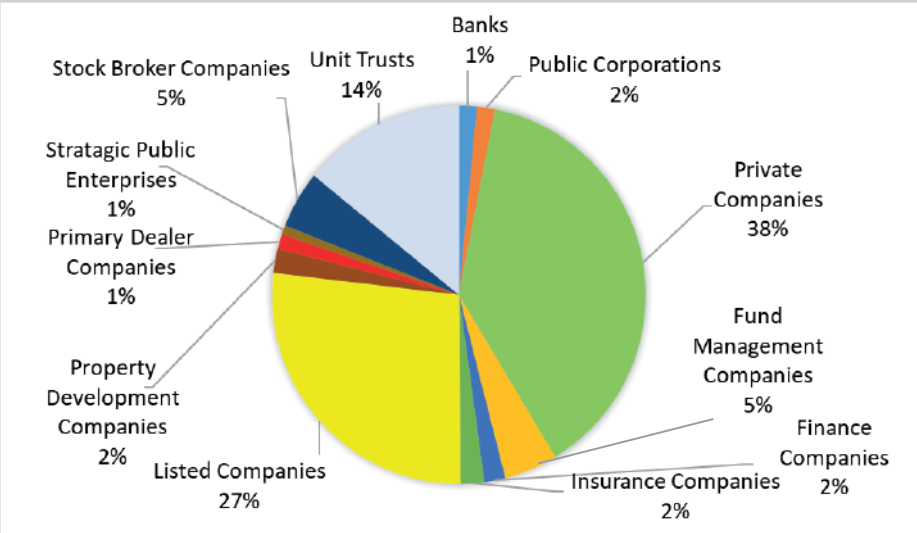
#### **2.1.2 Coverage of Financial Statement Reviews during 2024**

SLAASMB completed reviews of 388 sets of financial statements relating to 381 SBEs during the year, compared to the 261 sets of financial statements relating to 261 SBEs completed during 2023. The increase in the number of reviews was due to the higher number of staff engaged in the performance of the review activities during the year resulting from the recruitment of four supervision staff. 62% of the financial statements reviewed during the year comprised of regulated entities and the balance represented economically significant private entities.

Sectoral representation of the financial statement reviews completed is depicted in the below graph;

**2.1.3 Results of monitoring compliance with Sri Lanka Accounting Standards (SLFRS/LKAS)**

**FS REVIEWS COMPLETED**



Summary of Findings from Reviews	Financial Statements	
	2024	
	No.	%
Compliant with applicable Accounting Standards	198	51%
Improvements communicated to enhance compliance with applicable Accounting Standards	190	49%
Significant Non - compliance with applicable Accounting Standards	-	0%
	388	100%

### 2.1.3.1 Improvements communicated to comply with applicable Accounting Standards

When the impact of the material departures from SLFRSs/LKASs observed do not result in requiring enforcement action under the statute, such findings are communicated to SBEs as observations, by letters of assistance, so that the SBEs could, where necessary, improve on the compliance, on their own in the future.

The findings on the review of financial statements communicated as Observations are as follows;

Area of Observation	Financial Reporting Deficiency	Standards Requirement
<b>Risks arising from financial instruments</b> SLFRS 7: Paragraph 31 to 42	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, at the end of the reporting period are not adequately disclosed.	An entity shall disclose information that enables users of financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed at the end of the reporting period.  The disclosures required by paragraphs 33-42 of SLFRS 7 focus on the risks that arise from financial instruments and how they have been managed. These risks typically include, but are not limited to, credit risk, liquidity risk and market risk.
<b>Disclosure of undiscounted cash flows of financial liabilities in the maturity analysis</b> SLFRS 7: Paragraph 39 (a)	The undiscounted cash flows of financial liabilities have not been disclosed in the maturity analysis, and the financial liabilities have not been appropriately classified within the relevant maturity periods.	An entity shall disclose a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities.

Area of Observation	Financial Reporting Deficiency	Standards Requirement
<b>Recognition of expected credit losses</b> SLFRS 9: Paragraph 5.5.1	Despite the presence of objective evidence of impairment, the entity has not recognized a loss allowance for expected credit losses, on financial assets measured at amortized cost.	Entity needs to recognize a loss allowance for expected credit losses 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.
<b>Fair value hierarchy and the fair value measurement disclosures</b> SLFRS 13: Paragraph 93	Disclosures regarding the valuation techniques used, the inputs to those techniques, quantitative information about significant unobservable inputs, any significant adjustments made to those inputs, and the fair value hierarchy for each class of assets and liabilities measured at fair value have not been adequately provided.	Entity recognizing assets and liabilities at fair values need to disclose, at a minimum, the fair value hierarchy for each class of assets and liabilities measured at fair value and where fair value measurements are categorised within levels 2 and level 3, the valuation techniques and inputs used in fair value measurement and for fair value measurements categorised within level 3, the quantitative information about significant unobservable inputs used and significant adjustments made to those inputs.
<b>Recognition of revenue</b> SLFRS 15: Paragraph 2	Revenue has not been recognized in a manner that reflects the transfer of promised goods or services to customers at the amount to which the entity is expected to be entitled.	The core principle of this standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Area of Observation	Financial Reporting Deficiency	Standards Requirement
<p><b>Performance obligations to customers</b></p> <p>SLFRS 15: Paragraph 119</p>	<p>Comprehensive disclosure regarding performance obligations under contracts with customers has not been provided. In particular, the financial statements have not included sufficient details on the following key aspects:</p> <ul style="list-style-type: none"> <li>• The typical timing of when performance obligations are satisfied ;</li> <li>• Significant payment terms ;</li> <li>• The nature of the goods or services promised ;</li> <li>• Obligations relating to returns or refunds;</li> <li>• Types of warranties provided .</li> </ul>	<p>Entity needs to disclose following information of its performance obligations relating to the contracts with customers;</p> <p>a) when it satisfies its performance obligation,</p> <p>b) significant payment terms,</p> <p>c) nature of goods/services promised,</p> <p>d) return/refund obligations and</p> <p>e) types of warranties etc.</p>
<p><b>Classification of lease payment in the statement of cash flows</b></p> <p>SLFRS 16: Paragraph 50</p>	<p>Lease cash out flows paid by lessee has not been separately disclosed as cash payments for principal portion of the lease liability classifying as financing activity and the interest portion of the lease liability classifying as either operating, investing or financing activities in the statement of cash flows in a consistent manner as required by LKAS 7, Statement of Cash Flows.</p>	<p>In the cash flow statement, the lessee needs to disclose the cash payments for the principal portion of the lease liability within financing activity and cash payments for the interest portion of the lease liability separately classifying in a consistent manner from period to period as either operating, investing or financing activities in the statement of cash flows.</p>

Area of Observation	Financial Reporting Deficiency	Standards Requirement
<b>Basis of preparation of the financial statements and accounting policies</b> LKAS 1: Paragraphs 112 and 117	Disclosure in relation to the basis of preparation of the financial statements and the specific accounting policies and/or significant accounting policies that comprise of the measurement bases and other accounting policies relevant for an understanding of the financial statements have not been adequately made.	Notes to the financial statements need to present information about the basis of preparation of financial statements, information relevant to understand the said financial statements and information relating to significant accounting policies.
<b>Tax reconciliation</b> LKAS 12: Paragraphs 81 and 82	Disclosure relating to the relationship between tax expense and accounting profit and evidence to support the recovery of deferred tax asset arising due to tax losses have not been adequately made.	The entity needs to provide an explanation of the relationship between tax expense and accounting profit. In addition, when a deferred tax asset has been recognized in respect of tax losses, the entity must disclose the amount of the deferred tax asset recognized and the nature of the evidence supporting its recognition, particularly when the utilization of the asset depends on the availability of future taxable profits.
<b>Review the useful life of an asset</b> LKAS 16: Paragraph 51	The entity continues to use fully depreciated assets without reassessing their useful lives at least at each financial year end.	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 a change in an accounting estimate.
<b>Disclosures on Related Parties</b> LKAS 24: Paragraph 18	Disclosure relating to the nature of related party relationships, as well as details of transactions and outstanding balances with related parties, have not been adequately provided.	For related party transactions, the entity shall disclose the nature of the related party relationship, information about those transactions and outstanding balances, including commitments, necessary for users to understand the potential effect of the relationship on the financial statements.

Area of Observation	Financial Reporting Deficiency	Standards Requirement
<b>Estimates used to measure the recoverable amounts of cash generating units containing goodwill or intangible assets with indefinite useful lives</b> LKAS 36: Paragraph 134	Inadequate disclosure where the carrying amount of goodwill or intangible assets with indefinite useful lives have been allocated to cash-generating units that are significant in comparison to the entity's total carrying amount of such assets.	An entity shall disclose the information required by (a) – (f) of paragraph 134 of LKAS 36 relating to each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives.
<b>Statement of cash flows</b> LKAS 7: Paragraph 20	Deficiencies have been noted in the adjustments made to profit or loss in arriving at the net cash flows from operating activities in the statement of cash flows.	The net cash flow from operating activities is determined by adjusting profit or loss for the effect of : a) changes during the period in inventories and operating receivables and payables ; b) non-cash items such as depreciation, provisions, deferred taxes, unrealized foreign currency gains and losses, and undistributed profits of associates; and c) all other items for which the cash effects are investing or financing cash flows.
<b>Disclosures for revalued Property Plant and Equipment (PPE)</b> LKAS 16: Paragraph 77	All relevant information relating to revaluation of PPE have not been disclosed .	When PPE are stated at revalued amounts, the following disclosures need to be made: a) effective date of revaluation; b) whether an independent valuer was involved; c) carrying amount under the cost model for each revalued class of PPE; d) revaluation surplus, indicating change for the period and any restrictions on the distribution of the balance to shareholders.

## 2.2 Inspection of audits of SBEs

### 2.2.1 How we selected audits to inspect

The inspections of the audits of SBEs are carried out with the overall objective of enhancing the audit quality in the country. In doing so, SLAASMB based the selection of audits for inspection during the year on a mixed model where the risk-based approach was combined with a random sampling approach.

As the sole audit regulator in the country, SLAASMB acknowledged the effect of the uncertainties surrounding businesses and the difficulties they pose in making precise judgments and estimates. These uncertainties increase the risk involved in auditing accounting estimates while requiring the auditors to be more skeptical in their approaches and require a significant amount of professional judgment to be exercised and to be focused on ethical responsibilities when carrying out the audits.

### 2.2.2 Coverage of Audit Inspections during 2024

During the year, 22 audits carried out by 6 firms of practicing Chartered Accountants were inspected, compared with the 16 audits carried out by 6 firms that were inspected during the preceding year. 15 of the audits inspected during the year were carried out by 5 firms that are members of international networks.

### 2.2.3 Results of monitoring compliance with Sri Lanka Auditing Standards (SLAuSs)

Summary of Findings from Audit Inspections	2024	
	No. of Inspections	No. of audit firms
Compliant with applicable Auditing Standards	19	4
Improvements communicated to enhance compliance with applicable Auditing Standards	3	3
Significant Non-compliance with applicable Auditing Standards	-	-

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

Based on the findings from the inspections, 19 audits were compliant with SLAuSs in respect of the areas focused on the inspections. The findings of the balance 3 inspections did not require enforcement action and the said findings were communicated to the respective auditors by letters of observation as means of improving audit quality. In comparison observations were communicated during 2023 to 3 audit firms in respect of deficiencies identified in 3 audits.

## 2.2.4 Improvements communicated to comply with applicable Auditing Standards

When departures from SLAuSs are identified during regular audit inspections, and their impact does not warrant enforcement action under the statute, such deficiencies are communicated to audit firms as observations through letters of assistance. This approach is intended to enable auditors to improve compliance where necessary, in future audits. The findings from audit inspections communicated as Observations are given below.

Audit area	Audit deficiency	Standards Requirement
<b>Planning an audit of financial statements</b>	An overall audit strategy and a detailed audit plan had not been developed for the engagement.	The auditor is required to develop an overall audit strategy and an audit plan in accordance with SLAuS 300 to perform the audit in an effective manner.
<b>Risk assessment</b>	<p>Deficiencies were noted in the performance of risk assessment procedures, including the following:</p> <ul style="list-style-type: none"><li>• *A comprehensive risk assessment had not been performed.</li><li>• An understanding of the entity's journal entry recording process and the related controls had not been obtained.</li></ul>	The auditor is required to perform risk assessment procedures to identify and assess the risks of material misstatements through an understanding of the entity, and its environment including the entity's internal controls, enabling the auditor to provide a basis for designing and implementing responses to the assessed risks of material misstatement.

Audit area	Audit deficiency	Standards Requirement
<b>Auditor's responses to assessed risks</b>	<p>Deficiencies were noted in the auditor's responses to the assessed risks, including the following:</p> <ul style="list-style-type: none"> <li>• *Appropriate cut-off testing on revenue, specifically focusing on the different series of invoices generated for various revenue streams, had not been performed.</li> <li>• Adequate testing of journal entries had not been carried out particularly for those recorded at year-end.</li> <li>• The audit procedure designed to obtain external confirmations for the purpose of identifying unrecorded transactions or material misstatements had not been performed.</li> <li>• *Audit evidence obtained in relation to missing invoice numbers had not been appropriately evaluated to assess the risk of material misstatement due to fraud, nor to determine whether additional or alternative audit procedures are required.</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>
<b>Audit evidence</b>	<p>*Sufficient appropriate audit evidence had not been obtained in relation to voluntary retirement scheme costs, the net realizable value of inventories and bank savings account balances.</p>	<p>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.</p>

Audit area	Audit deficiency	Standards Requirement
<b>Sample selection</b>	<ul style="list-style-type: none"> <li>• The basis for selecting samples for tests of details were not evident in the audit working papers.</li> <li>• There was no documented evidence supporting the basis for selecting a single journal entry as a sample and whether the selected sample was representative of the population.</li> </ul>	The auditor is required to design and select a representative sample from the population by using statistical and non-statistical sampling to provide a reasonable basis for the auditor to draw conclusions about the population from which the sample has been selected.
<b>Auditor's report</b>	<ul style="list-style-type: none"> <li>• A proper description of the matter giving rise to the modification of the audit opinion was not provided.</li> <li>• *The key audit matters were not described using appropriate sub-headings, as required by the relevant auditing standards.</li> </ul>	The auditor is required to form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained and to clearly express that opinion through a written report.
<b>Going concern</b>	*The adequacy of disclosures in the financial statements relating to the entity's ability to continue as a going concern had not been evaluated when events or conditions that may cast doubt on the entity's ability to continue as a going concern had been identified and the auditor had concluded that no material uncertainties exist.	The auditor needs to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about events or conditions that have been identified which may cast significant doubt on the entity's ability to continue as a going concern where, based on the audit evidence obtained the auditor has concluded that no material uncertainty exist.

*Specific findings relating to auditors who are not included as approved auditors by the Securities and Exchange Commission of Sri Lanka to conduct audits of Listed Entities are marked as \**

## **2.2.5 Measures taken to enhance the audit quality**

SLAASMB considers audit quality as a key factor in building public confidence in financial reporting environment and has taken the following measures to enhance the audit quality of the country.

### **2.2.5.1 Communicating findings of audit inspections to Audit Committees**

Audit Committee forms a part of Those Charged with Governance (TCWG) and are vested with the responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. Accordingly, the Audit Committee plays a significant role in ensuring the quality of the financial reporting process of a company and in maintaining appropriate relationships with the auditor.

SLAASMB continues to recognize the contribution of the Audit Committees as TCWG towards enhancing the quality of the financial reporting and the audit environment. Accordingly, SLAASMB continued to communicate the outcome of the audit inspections to the Chairs of the Audit Committees of companies listed on the Colombo Stock Exchange to foster effective oversight of financial reporting.

### **2.2.5.2 Communicating findings of audit inspections to stakeholders of SLAASMB**

SLAASMB identifies the preparers of financial statements, auditors, peer regulators, government of Sri Lanka and the general public as its stakeholders. By enhancing the knowledge of the stakeholders SLAASMB leads the pathway in achieving its objective of enhancing reliability of the financial reporting in Sri Lanka.

Accordingly, SLAASMB with the collaboration of the CA Sri Lanka, the Accounting and Auditing Standards setter and the licensing authority of the auditors, conducted a session for its stakeholders to share the common findings, SLAASMB has encountered during the audit inspections carried out during the recent years. SLAASMB expects to continue sharing of findings with its stakeholders to educate the auditors who conduct audits of SBEs as well as members of the Audit Committees who are expected to have effective communication with the auditor.

### **2.2.5.3 International Affiliations to support audit quality**

SLAASMB being a member of the International Forum of Independent Audit Regulators (IFIAR) since its first plenary meeting held in 2007, participated in the sessions of IFIAR that were conducted as virtual sessions during the year, and contributed towards the information gathering activities of the IFIAR and participated in its routine surveys.

### **2.2.5.4 Participation at IFIAR's 25% reduction initiative**

IFIAR being committed towards improving audit quality on a global basis, has implemented a 25% reduction target initiative to monitor changes in the rate of audits inspected with findings over four years, considering the findings of the survey in 2023 as the base year, for comparison.

Accordingly, the Global Public Policy Committee (GPPC) firms which include BDO, Deloitte, Ernst & Young, Grant Thornton, KPMG and PWC have agreed to IFIAR measuring results of findings, relating to the listed public interest entity (PIE) engagements, with one or more findings. 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.