

1.1 Opinion

The audit of the financial statements of the Sri Lanka Accounting and Auditing Standards Monitoring Board (“Board”) for the year ended 31 December 2019 comprising the statement of financial position as at 31 December 2019 and the statement of financial performance and other comprehensive income, statement of changes in net assets and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018 and Finance Act No. 38 of 1971. My comments and observations which I consider should be report to Parliament appear in this report.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Sri Lanka Accounting and Auditing Standards Monitoring Board as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Public Sector Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Public Sector Accounting Standards and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Board’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Board or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Board’s financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Board is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Board.

1.4 Auditor's Responsibilities for the Audit of the Financial Statements

My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Board's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Board to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The scope of the audit also extended to examine as far as possible and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Board, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Board has complied with applicable written law, or other general or special directions issued by the governing body of the Board;
- Whether the Board has performed according to its powers, functions and duties; and
- Whether the resources of the Board had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

2. Financial Review

2.1 Financial Result

The operating functions of the Board totally financed by the Ministry, Hence a surplus/ deficit was not generated from the functions of the Board. Sums of Rs. 82,511,881 and Rs.94,138,101 were received by the Board as Government Grants during the year under review and the preceding year respectively indicating decrease in expenditure by Rs.11,626,202. Decrease of training expenditure was mainly attributed for this situation.

3. Operational Review

3.1 Operational Inefficiencies

	Audit Issue	Management Comment	Recommendation
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(a)	According to the section 5 of the Sri Lanka Accounting and Auditing standards Act No.15 of 1995, the standards adopted by the Institute under the Act shall be applicable to all Business enterprises specified in the schedule in the Act. Thus, the main function of the Board is to monitor the compliances with the Sri Lanka Accounting and Auditing Standards by the Specified Business Enterprises (SBEs). However, a formal mechanism to identify the SBEs after being enacted the Companies Act No.7 of 2007, had not been introduced or implemented by the Board in order to efficiently perform it's main functions.	Act No 15 of 1995 specifies the criteria for entities to be considered as SBEs. However, the Act does not specify a time period during which such SBEs should submit financial statements to SLAASMB. Further, there is no comprehensive list of SBEs available with any authority in the country. In the absence of such information SLAASMB has adopted different processes to identify entities which become SBEs. SLAASMB is currently in the process of amending Act No 15 of 1995. The amendment includes a clause which specifies that a copy of the financial statements of any entity should be submitted to the SLAASMB if requested, to enable SLAASMB to determine whether such entity is a SBE or not. This will facilitate the identification process as such entities,	A formal mechanism to identify the SBEs should be introduced.

when called upon will need to prove they do not meet the threshold criteria, if they are to refrain from submitting auditing financial statements to SLAASMB.

(b) Out of the identified SBEs of 1,608 as at 31 December 2019, the Board had received 1,635 financial statements including 548 financial statements to the preceding years, from 1,521 SBEs during the year 2019. Nevertheless, no action had taken by the Board relating to call financial statements from remaining 87 SBEs.

Act No 15 of 1995 does not specify a time period during which the SBEs should submit financial statements to SLAASMB. Thereby SLAASMB follows the requirement in the Companies Act of 2007.

Prompt action should be taken to obtain the financial statements from the SBEs.

SLAASMB has been taking follow up action until the financial statements are submitted. As explained, SBEs submitting financial statements subsequently, i.e., during the next financial year due to the financial statements not being ready on time, is beyond the control of SLAASMB.

(c) Out of the received financial statements during the year 2019, the Board had reviewed only 720 financial statements received from 699 SBEs representing 44 percent. However, 26 financial statements which had been reviewed by the Board were not tallied with the list of SBEs identified by the Board. Therefore, it was observed in audit that the Board had failed to correctly identify the SBEs come under the purview of the Board.

Due to the following reasons the names entered in the Review status differs from the names entered in the SBE List.

The updated information of SBEs should be maintained with regard to the main function of the Board.

- Spelling errors in the reviews status
- Name change of the company subsequent to the financial statements of the year that has been reviewed
- Identified as Non SBEs subsequent to the review of financial statements
- Subsequently delisted/Liquidated Subsequent to reviewing the financial statements

Further, Audited financial statements are submitted to SLAASMB at the time they are sent to the shareholders. Thereby, at times they may not be received by SLAASMB during the same year as of the year end of such SBE.

(d) Even though, the non compliances with the standards had been reported to the respective SBEs, the management of certain SBEs had not taken corrective actions on that regards, mainly due to the lack of statutory powers to the Board to give such directions. Hence, effectiveness of the monitoring function of the Board is questionable.

The required action on non-compliances is determined based on the materiality of the non-compliances. SLAASMB mainly focuses on non-compliances relating to recognition and measurement issues and significant disclosure and presentation issues.

Statutory directions are not required for all non-compliances.

Generally, the management of SBEs respond positively for most non compliances communicated

The communication process should be formalized.

However in certain instances when the financial statement reviews take a considerable time to conclude the non-compliances, due to the complex nature of the identified non compliances or due to the requirement of receiving extensive information from SBE to finalize, at the time of seeking an agreement to make the required corrections, if the very next set of financial statements have already been issued or finalized to be issued, if the matter is not significant as to take further action under the statute, the required correction is sought to be made in the next set of financial statements (annual or quarterly) to be issued.

(e) Out of the 1,608 of total number of identified SBEs, only 45 audit inspections were conducted during the year under review representing 3 per cent of the SBEs identified. It was a gradual decrease when compared with the 50 and 100 audits carried out during previous year and the year 2017 respectively.

The number of audit inspections conducted during the year were lower than in 2018 due to the lower number of technical staff being available to perform the inspections, as a direct consequence of three positions relating to technical staff engaged in inspections being vacant due to internal promotion and resignations during the year.

Further in 2017, SLAASMB was able to conduct 100 audits but was compelled to reduce the number of financial statements to 518, since the

The number of audit inspections should be increased.

new approach of audit review takes considerable time. However considering the requirement to cover a higher percentage of financial statements reviews in the subsequent years, the audit reviews were decreased to 50.

(f) No action had been taken by the Board to monitor compliance requirements with the quality controls for Audit firms engaged in the audits of the SBEs.

The Act No.15 of 1995 that governs SLAASMB does not empower SLAASMB to monitor non compliances with SLSQC 1. Accordingly the current act does mandate for firm wide inspections of Auditors of SBEs. SLAASMB is currently in the process of amending the Act. The amendment sought includes monitoring compliance with SLSQC 1 by SLAASMB in the future.

The further action should be taken to monitor the non compliances with SLSQC 1.

3.2 Management Inefficiencies

Audit Issue	Management Comment	Recommendation
<p>Even though, planning of Management Information System (MIS) had been started since 2015, a suitable system had not been implemented by the Board for improving the review functions up to the end of 2020.</p>	<p>SLAASMB has been in urgent need of implementing a Management Information System (MIS) to effectively perform its regulatory functions since 2015.</p> <p>In 2016, the Information and Communication Technology Agency (ICTA) approached SLAASMB and offered to be the consultants for the MIS development activity and the financier of the MIS development through the budgetary allocation of the ICTA.</p> <p>When the development activity was to be awarded to a developer selected by their Procurement Committee, ICTA withdrew from being the consultants as well as the financier of the development activity.</p> <p>Subsequent to the withdrawal by ICTA, in 2019 SLAASMB approached University of Moratuwa and vendors for packages available which did not</p>	<p>A formal Management Information System should be implemented.</p>

materialize fruitfully.

Since, Circular PS/GPA/Circular/01/2020 issued by the Presidential Secretariat, directed all CTA solutions to be directed through the ICTA, SLAASMB requested the Defense Ministry who is the Ministry in charge for ICTA, to permit SLAASMB to proceed with the MIS development activity without channeling through the ICTA.

However, with the Chairman and CEO of ICTA, giving an assurance on continuity of work, on 30 November 2020a MOU was signed with ICTA where ICTA will function as the consultants.

3.3 Human Resources Management

Audit Issue	Management Comment	Recommendation
There were 20 vacancies (including 03 posts on contract basis) of the approved cadre in the Board as at 31 December 2019 and out of which 04 vacancies were in senior level. Recruitments had been made on contract basis for 03 senior and tertiary level positions which were in the approved permanent cadre of the Board without obtaining the approval from the Department of Management Services.	As at 31 December 2019, 17 vacancies out of which 2 senior level vacancies existed. DG-Consequent to the interviews for the selection of a DG being held in 2019, due to the salary offered by SLAASMB being far below the market for a Chartered Accountant with more than 20 years of experience, the Board was unable to recruit a DG in 2019. SLAASMB expects favorable response to the Salary Proposal submitted to the MOF on 8 October 202 based on which technically competent staff could be recruited to the vacant positions.	The vacancies should be filled or cadre should be revised.