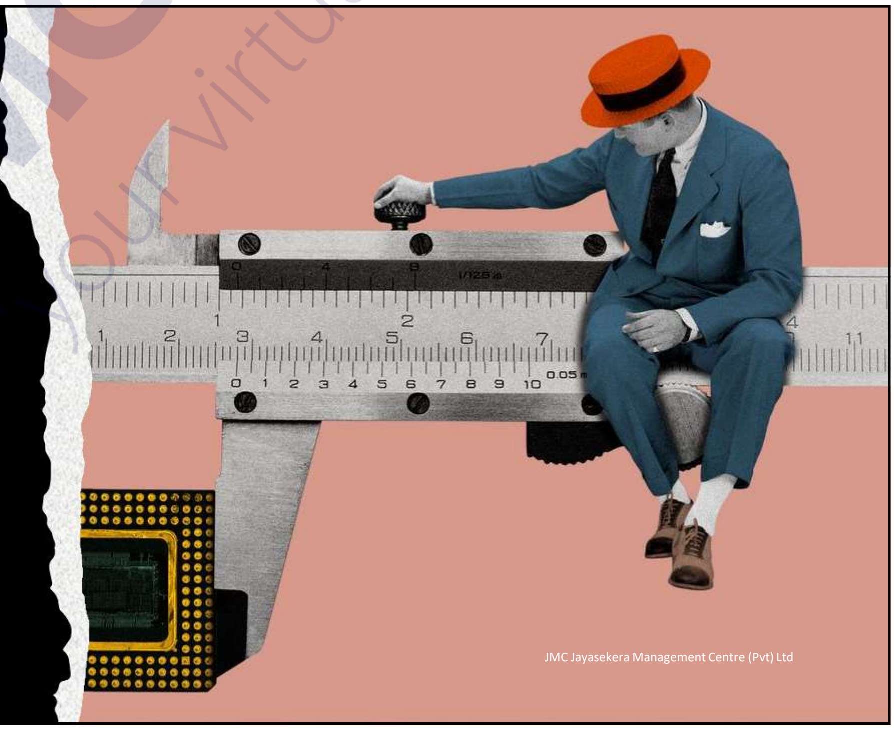
2.1 Sri Lanka Regulatory System Structure and Purpose

Financial Reporting is regulated to ensure financials are

- Useful
- Reliable
- Trustworthy



Sri Lanka Financial Reporting Regulatory System

Laws

- Companies Act No. 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995

Players

- Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka)
- Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASBM)

Global Connections

- International Accounting Standards Board (IASB)
- International Sustainability Standards Board (ISSB)

Adoption of Global Standards

IFRS Foundation (Global Standard Setter) → CA Sri Lanka (National Standard Setter)

CA Sri Lanka (National Standard Setter) → Review and Adaptation Process

Review and Adaptation Process → Issuance of SLFRS/LKAS

Issuance of SLFRS/LKAS → Sri Lankan Entities

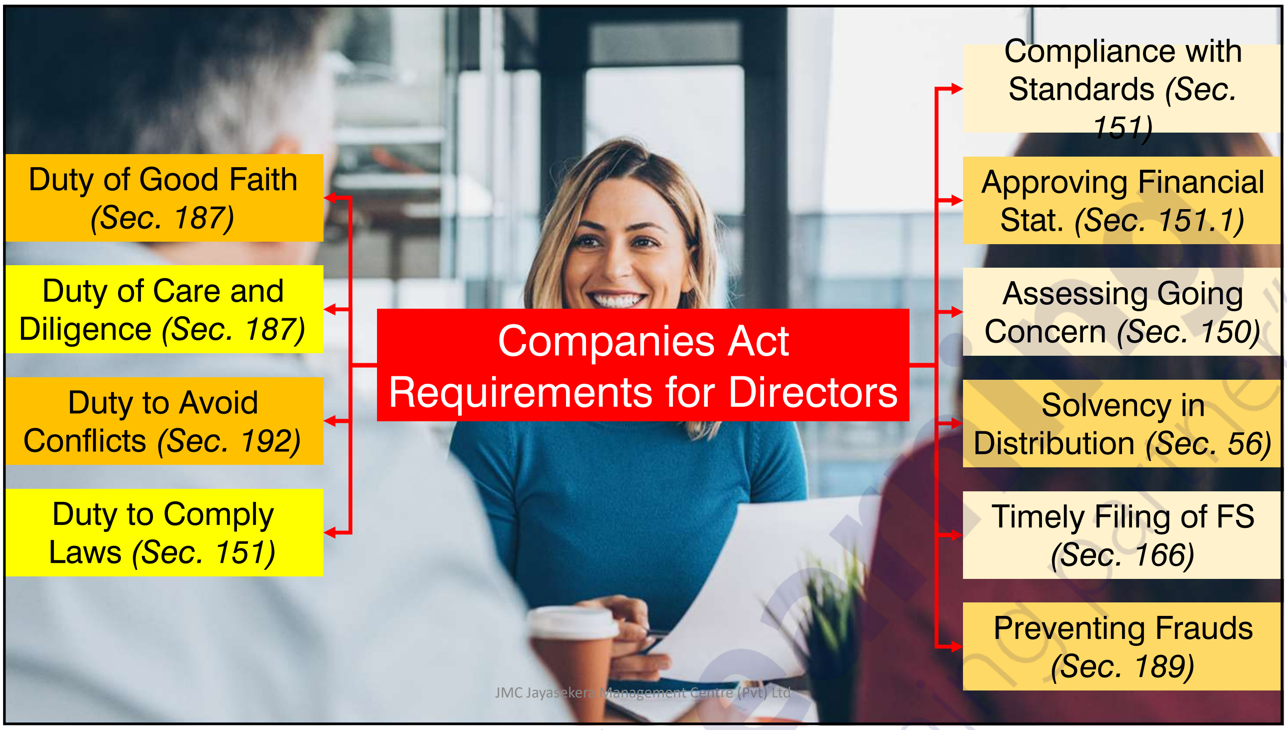
Benefits and Challenges in Adopting International Standards

Benefits	Challenges
• Aligns Sri Lanka with Global best practices	• Increased complexity
• Easy for foreign investors, multinational companies and auditors	• Difficult to implement
• Access to global capital	• High investment in training and development
• Quality and robust framework	• Global requirements vs local

2.2 Governance in Financial Statement Preparation

Comparison of Governance and Management Roles in Financial Reporting

Aspect	Governance Role (BOD and Audit Committee)	Management Role (Executive Team/CFO)
Financial Statements	Approval	Preparation
Accountability	To shareholders	To Board of Directors
Compliance	Ensure complies with standards, Listing rules and Corporate Governance requirements	Ensure preparation compliance of standards
Audit	Appoints auditors and reviews audit reports	Co-ordinates with auditors and implement audit recommendations.
Disclosures	Ensure disclosures are adequate and clear	Provides necessary disclosures


Compliance with Standards (Sec. 151)
Duty of Good Faith (Sec. 187)
Approving Financial Stat. (Sec. 151.1)
Duty of Care and Diligence (Sec. 187)
Assessing Going Concern (Sec. 150)
Companies Act Requirements for Directors
Duty to Avoid Conflicts (Sec. 192)
Solvency in Distribution (Sec. 56)
Duty to Comply Laws (Sec. 151)
Timely Filing of FS (Sec. 166)
Preventing Frauds (Sec. 189)
JMC Jayasekera Management Centre (Pvt) Ltd