



"Pioneers in Professional Education"



## CL 02 – Financial Reporting and Governance

# Regulatory Framework

### Chandima Prabhath

B.Sc. Accounting (special) USJ (UG) | CA Passed Finalist | CMA Passed Finalist | AAT Passed Finalist | ICAEW Finalist | CA, CMA and AAT Merit and Subject Prize winner | Certification in Forensic Accounting (CASL) | ABR Prize winner CA Strategic Level

1

## Chapter Contents

1. Introduction
2. The regulatory framework
3. Companies legislation
4. CSE Listing Rules
5. Corporate governance
6. Accounting standards
7. The accountancy profession



2

# 01. Introduction

## Financial Reporting means?

The process by which **organizations record** the financial effect of transactions throughout the year before **summarizing** this and **presenting** it in accepted formats for use by **external parties**, in particular investors and lenders.

## Financial Statements in annual report

Financial statements (FSs) are included in an annual report (AR) but those are not the only.

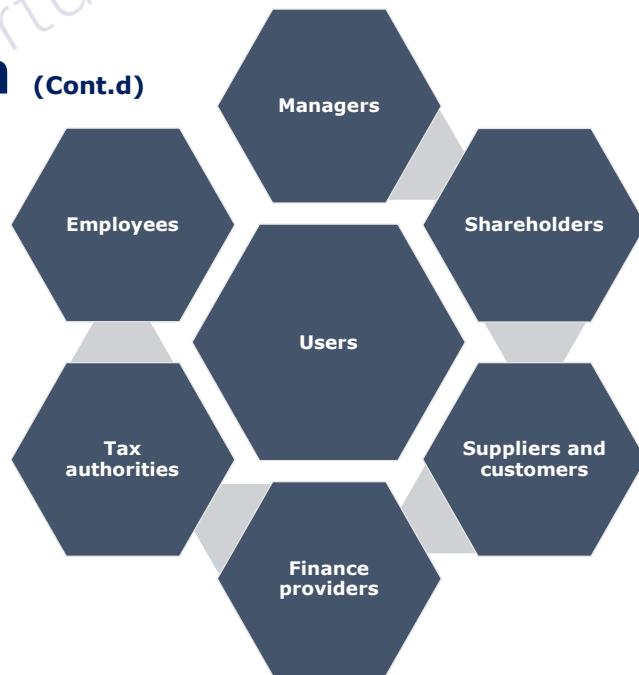
Apart from FS directors' reports, management commentary, reports on corporate governance and sustainability or integrated reports are also included.

3

# 01. Introduction (Cont.d)

## • Users of financial statements and annual reports.

- There can be many other users depending on the context.



4

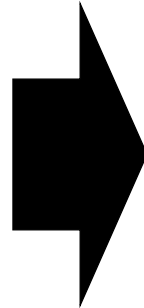
## 02. Regulatory Framework

The regulatory framework of financial reporting refers to the many sources of regulation, including accounting standards, company law and stock exchange rules.

### Generally Accepted Accounting Practice (GAAP)

- National companies legislation
- Local stock exchange requirements
- Accounting standards

***GAAP is usually supplemented by other non-mandatory sources of guidance***



### Sri Lankan GAAP

- Companies legislations
- SEC Regulations and listing rules
- Sri Lanka Accounting and Financial Reporting standards issued by ICASL

5

## 03. Companies Regulations

Several sources of legislation are relevant to the preparation and presentation of financial statements in Sri Lanka.

- Companies Act No 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995
- Finance Act No 38 of 1971
- Inland Revenue Act No 24 of 2017
- Employees' Provident Fund Act
- Securities and Exchange Commission Act

6

### 03. Companies Regulations (Cont.d)

#### Companies Act No 07 of 2007

Section	Content
56 – Distributions	<ul style="list-style-type: none"> <li>Distributions made by a company should be authorised by the board and (unless the company's articles provide otherwise) be <b>approved by the shareholders</b> by ordinary resolution.</li> <li>Distributions should only be made where the <b>directors are satisfied</b> that the company will, immediately afterwards, satisfy the <b>solvency test</b>.</li> </ul>
69 – Redeemable shares	<ul style="list-style-type: none"> <li>Where a share is redeemable on a specified date, the <b>company must redeem</b> the share on that date.</li> <li>At this date the share is deemed to be cancelled and the former shareholder ranks as an <b>unsecured creditor</b> for the amount payable on redemption.</li> </ul>
192 – Directors interest	<ul style="list-style-type: none"> <li>A director that is interested in a transaction (or a proposed transaction) should <b>disclose the nature</b> and extent of the interest to the board; the transaction should be <b>entered into the interests register</b>.</li> </ul>

7

Section	Content
148 – 171	<ul style="list-style-type: none"> <li>Each company should <b>keep accounting records</b> that correctly record and explain the company's transactions; the records should be <b>kept in Sri Lanka</b> unless the Registrar permits otherwise.</li> <li>Dated and <b>signed financial statements</b> should be <b>prepared</b> by a company <b>within 6 months</b> of the <b>reporting date</b>, unless the Registrar allows an extended period; consolidated financial statements are also required where a company has a subsidiary.</li> <li>The <b>separate</b> and <b>consolidated financial statements</b> should <b>give a true and fair view</b> and comply with the legally required form and content.</li> <li>A <b>subsidiary may be excluded</b> from consolidation where the board believes it is <b>impracticable to include</b> it, there would be no real value to shareholders in including it, the result would be harmful to the company, or the business of the company and its subsidiary are so different that they cannot reasonably be treated as a single undertaking.</li> <li>An <b>auditor should be appointed</b> by the company <b>at each</b> annual general meeting (<b>AGM</b>) or by the Registrar if there is no appointment at the AGM ; the <b>auditor's fees should be fixed</b> by the party that appoints them.</li> </ul>

8

Section	Content
148 – 171	<ul style="list-style-type: none"> <li>The <b>first auditor</b> may be <b>appointed before the first AGM</b>; subsequently the <b>incumbent auditor</b> is <b>deemed to be reappointed</b> at AGMs unless the company passes a resolution to appoint another auditor or the auditor resigns.</li> <li>If the <b>auditor resigns</b>, he should deliver to the company a <b>statement of circumstances</b> connected with his ceasing to hold office that he believes should be brought to shareholders' attention (or a statement that there are none).</li> <li>The <b>auditor must be a member of CASL</b> (or a registered auditor if the company is private or limited by guarantee). The auditor may not be (or have been in the last two years) a director or employee of the company, a partner of either a director or employee, a liquidator, administrator or receiver of the company or a body corporate. The auditor should ensure his judgement is not impaired by any relationship with the company or its subsidiaries.</li> <li>The <b>board</b> of a company <b>should provide the auditor</b> with <b>access</b> to the <b>accounting records</b> and documents of the company and permit him to attend and speak at shareholders meetings.</li> </ul>

9

Section	Content
148 – 171	<ul style="list-style-type: none"> <li>The <b>auditor</b> should <b>provide an audit report to the shareholders</b> of the company stating whether proper accounting records have been prepared and the financial statements give a true and fair view.</li> <li>The <b>board should prepare an annual report</b> within <b>six months of the reporting date</b> and send a copy to each shareholder at least 15 days before the AGM.</li> <li>The <b>annual report</b> should be in <b>writing</b> and dated and should identify any changes in the nature of the company's business and any changes in accounting policy in the period. It should include the financial statements and auditor's report as well as directors' names and details of directors' remuneration and donations.</li> <li><b>Companies</b> (other than private companies) should <b>deliver copies of the financial statements</b> to the <b>Registrar</b> within <b>twenty working days</b> of their being signed.</li> </ul>

10

Section	Content
148 – 171	<ul style="list-style-type: none"> <li>A company <b>should have a balance sheet date</b> in <b>each calendar year</b> (other than the year of incorporation). A change in balance sheet date requires the approval of the Registrar and the period between any two balance sheet dates may not exceed 15 months.</li> <li>Where the balance sheet <b>date</b> of a <b>subsidiary is not the same</b> as that of the company, the <b>subsidiary's preceding financial statements should be used</b> in a consolidation.</li> </ul>

**Sri Lanka Accounting and Auditing Standards Act No 15 of 1995**

- Empowers CASL to issue accounting and auditing standards.
- The Act requires "**specified business entities**" to prepare and present their financial statements in compliance with Sri Lanka Accounting Standards.
- Act created
  - SLAASMB** to monitor and enforce compliance with Sri Lanka Accounting standards in SBEs.
  - Accounting Standards Committee**
  - Auditing Standards Committee**

11

Questions
<p><b>What should Board of Directors ensure before authorising a distribution to the shareholders according to the Companies Act No. 7 of 2007?</b></p> <ol style="list-style-type: none"> <li>Whether the distribution has been approved by the shareholders of the company.</li> <li>Whether the Board is satisfied that the company will, immediately after the distribution is made, satisfy the solvency test.</li> <li>Whether all the directors have voted in favour of the distribution.</li> <li>Whether the timing of the distribution has been planned towards the financial year-end.</li> </ol>
<p><b>Which of the following is not a requirement of the Companies Act No. 07 of 2007?</b></p> <ol style="list-style-type: none"> <li>The solvency test should be met before making a distribution.</li> <li>A company should keep accounting records.</li> <li>The annual report should be prepared within 3 months of the balance sheet date.</li> <li>The resigned auditor should deliver to the company a statement of circumstances.</li> </ol>

12

## Questions

Which of the following statements correctly describes the conditions to be satisfied for a company to make distributions to its shareholders purely according to the Companies Act No. 07 of 2007?

- A. Board approval, shareholder approval, and current year profits
- B. Board approval, shareholder approval, and passing of the solvency test
- C. Board approval, passing of the solvency test and current year profits
- D. Shareholder approval, passing of the solvency test and current year profits

13

## 04. CSE Listing Rules

<https://www.cse.lk/pages/listing-rules/listing-rules.component.html>

Columbo Stock Exchange (CSE) Listing Rules govern the listing of securities on the Exchange and continuing listing requirements. It is the **duty of the board of directors** of an entity to **ensure that all the listing requirements are met** on a continuing basis so long as its securities remain listed on the Exchange.

**Summary of the content in the listing rules is as follows.**

Section	Content
01- General	<ul style="list-style-type: none"> <li>• An applicant for a listing of securities must comply with these rules. An applicant is required to <b>forward to the exchange a listing undertaking</b>. This shall constitute a binding contract between the applicant and the exchange.</li> <li>• An applicant entity <b>should in the first instance, list its shares</b>, prior to applying for a listing of other class of shares.</li> </ul>

14

Section	Content
02 – Listing of <b>shares</b>	<ul style="list-style-type: none"> <li>• Shares may be listed on the Exchange provided that the <b>listing is for all shares</b> issued and to be issued by the entity.</li> <li>• In the event of an <b>offer for subscription</b> or an <b>offer for sale</b>, shares shall be <b>issued for cash only</b>.</li> <li>• In the event shares are to be listed by <b>way of an introduction</b>, such shares should have been allotted at least six months prior to the date of application to the Exchange, unless such shares have been offered in terms of a prospectus, as required by the Companies Act.</li> </ul>
02 – Listing of <b>debentures</b>	<ul style="list-style-type: none"> <li>• For debt securities <b>to be eligible</b> to be listed on the Exchange they shall be: <ul style="list-style-type: none"> <li>• fully paid;</li> <li>• freely transferable; and</li> <li>• issued only for cash (in the event of offer for subscription or offer for sale).</li> </ul> </li> <li>• In the event a debt security is to be listed by way of an introduction, such debt security should have been allotted at least six months prior to the listing application, unless such debt security has been offered in terms of a prospectus as required by the Companies Act.</li> </ul>

15

Section	Content
03 - <b>Content of prospectus/ introductory documents</b>	<ul style="list-style-type: none"> <li>• The Rules set out the basic <b>requirements for the contents of a prospectus</b>, which should be complied with in addition to the requirements of the Companies Act and any other applicable law.</li> <li>• Additional information that is not required by the Rules may be included at the discretion of the entity according to the particular nature of the business of the issuer and of the securities for which listing is sought.</li> <li>• The Exchange reserves the absolute right to require disclosure of any additional information as it considers appropriate in any particular case. If the Exchange requires such information, it shall inform the applicant in writing of the additional information required.</li> </ul>
05 – <b>Further issue of securities of a listed entity</b>	<ul style="list-style-type: none"> <li>• Where shares of a particular class have been listed on the Exchange, <b>further shares of that class may not be issued by a listed entity until the issue and listing of such shares is approved</b> by the Exchange.</li> <li>• Listing for a class of shares not already listed on the Exchange shall be in terms of this section.</li> <li>• Where the application is for another class of shares, the total value of all the other classes of shares issued at any given time (as set out in the latest balance sheet of the entity), whether listed or unlisted (including the other class of shares for which the application is made), shall not exceed 15% of the entity's shareholders' funds (stated capital plus reserves).</li> </ul>

16



Section	Content
05 – <b>Further issue</b> of securities of a listed entity (Cont.d)	<ul style="list-style-type: none"> <li>In the event of a <b>rights issue or issue of shares through public subscription</b>, shares shall be <b>issued for cash only</b>.</li> <li>The Exchange retains the discretion to accept or reject applications for additional listings and to determine the requirements to be fulfilled in connection with such listings. The requirements set out in this Section are not exhaustive. The Exchange reserves the right to impose further requirements as it may think relevant in the particular circumstances in which the additional listing is sought.</li> </ul>
06 – <b>AoA</b> or other corresponding documents	<p><b>1. TRANSFER AND REGISTRATION OF SHARES:</b></p> <ul style="list-style-type: none"> <li>Notwithstanding any provision in these articles suggesting the contrary, <b>shares listed</b> on the Colombo Stock Exchange <b>shall be freely transferable</b> and registration of the transfer of such listed shares shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.</li> </ul>

17

Section	Content
06 – <b>AoA</b> or other corresponding documents	<p><b>2. NOTICES:</b></p> <ul style="list-style-type: none"> <li>Where notice is given by an <b>advertisement</b>, such advertisement <b>shall be published</b> in Sinhala, Tamil and English national daily newspapers.</li> <li>Any member whose registered address is not within Sri Lanka may name an address within Sri Lanka which, for the purpose of notice, shall be considered as his registered address.</li> </ul> <p><b>3. JOINT SHAREHOLDING:</b></p> <ul style="list-style-type: none"> <li>The Company shall not register more than three persons as Joint holders (including the principal holder) of any shares (except in the case of executors, administrators or heirs of a deceased member).</li> </ul> <p><b>4. COMPLIANCE WITH RULES:</b></p> <ul style="list-style-type: none"> <li>Notwithstanding anything to the contrary contained in the Articles of Association of the Company, so long as the Company is listed on the Colombo Stock Exchange, the Company shall comply with the Rules of the Colombo Stock Exchange and the Central Depository System, which shall be in force from time to time.</li> </ul> <p>The <b>Trust Deed pertaining to a Fund</b>, the units of which are listed / sought to be listed on the Exchange shall contain the following provision:</p>

18

Section	Content
06 – <b>AoA</b> or other corresponding documents	<p><b>TRANSFER AND REGISTRATION OF UNITS:</b></p> <ul style="list-style-type: none"> <li>Notwithstanding any provision in this trust deed suggesting the contrary, units of a fund listed on the Colombo Stock Exchange shall be freely transferable and registration of the transfer of such units shall not be subject to any restriction, save and except to the extent required for compliance with statutory requirements.</li> </ul>
07 – Continuing listing requirements	<ul style="list-style-type: none"> <li>All entities whose securities are listed on the exchange shall comply with these Rules and such additional rules as may be introduced from time to time at the discretion of the Exchange.</li> <li>All entities whose securities are listed on the Exchange, whether or not such listing has taken place prior to these Rules shall, where applicable, be bound by these Rules and such additions, variations etc. made from time to time.</li> <li>It is the duty of the board of directors of every entity whose securities are listed to ensure that all the Rules of the Exchange are <b>met on a continuing basis so long as the securities</b> of such entity remain on the Exchange.</li> </ul>

19

Section	Content
08 – Corporate Disclosure	<p>A listed entity <b>shall make immediate disclosure</b> of price sensitive information to the Exchange in order to ensure the maintenance of a fair and orderly securities market. 'Price sensitive information' in relation to any listed securities of an entity, is a reference to information which:</p> <ul style="list-style-type: none"> <li>(i) relates to specific matters relating to, or of concern (directly or indirectly) to, the entity; and</li> <li>(ii) is not generally known to those persons who are accustomed or would be likely to deal in those listed securities, but which would, if it were generally known to them, be likely to affect materially the price of the listed security.</li> </ul>
09 – Related Party Transactions	<ul style="list-style-type: none"> <li>The <b>objective of these Rules</b> pertaining to related party transactions is to ensure that the interests of shareholders as a whole are taken into account by a listed entity when entering into related party transactions.</li> <li>The Rules set out in this section further provide certain measures to prevent directors, Chief Executive Officers or substantial shareholders taking advantage of their positions. The Rules contained in this section do not apply to a listed entity which proposes to enter into a transaction with a related party, where the shares of such listed entity have not been listed on the Exchange.</li> </ul>

20

Section	Content
10 – Listing of shares of Foreign entities on the Multi-Currency Board	<ul style="list-style-type: none"> <li>• An entity that seeks a listing of shares on the Multi-Currency Board should be incorporated outside Sri Lanka and have its shares listed on a stock exchange in the country of its incorporation.</li> <li>• It should maintain its principal share register in the market in which it is primarily listed. The foreign entity should establish a place of business in Sri Lanka and open an account in the offshore banking unit of a licensed commercial bank in Sri Lanka.</li> <li>• All filings and financial reporting of the entity should be in English and the accounting standards of the country of incorporation should be International Financial Reporting Standards in principle. The reporting accountants and auditors of the entity should be a firm of professionally qualified auditors that are members of CASL.</li> </ul>
12 – Fees	<ul style="list-style-type: none"> <li>• The fees set out in this section do not include the Value Added Tax (VAT) or any other taxes that are imposed by the relevant authorities.</li> </ul>

21

Section	Content
11 – Listing of shares of Foreign entities on the Multi-Currency Board	<ul style="list-style-type: none"> <li>• <b>NON-COMPLIANCE WITH LISTING RULES</b> <ul style="list-style-type: none"> <li>• In the event of any violation and/or non-compliance with any of the Rules of the Exchange by any entity whose securities are listed on the Exchange, the <b>Exchange shall have the right to transfer the securities of such entity to the Watch List.</b></li> </ul> </li> <li>• <b>TRANSFER TO THE WATCH LIST</b> <ul style="list-style-type: none"> <li>• Prior to transferring the securities of the entity to the Watch List the Exchange <b>shall inform the entity, in writing</b>, of the non-compliance and that the securities of the entity would be transferred to the Watch List. The Securities shall be transferred out of the Watch List upon the entity complying with the relevant listing rules. In the event the security continues to be on the Watch List for a period in excess of one month the Exchange shall have the right to issue a press notice informing the public of the nature of the violation.</li> <li>• If the securities continue to be on the Watch List for a period in excess of one year from the date of transferring the securities of the entity to the Watch List, such matters shall be referred to the Board of Directors of the Exchange for a determination.</li> </ul> </li> </ul>

22

## Questions

Which of the following is not a requirement for debt securities to be eligible to be listed on the Colombo Stock Exchange (CSE)?

- A. Being fully paid
- B. Being freely transferable
- C. Issued only for cash
- D. Being allotted at least one year prior to the listing application

23

## 05. Corporate Governance

Corporate governance is the system by which companies and other entities are directed and controlled. (Cadbury Committee, 1992)

### Importance of Good Governance

- Better access to capital
- Aids economic growth
- Positive impact on stock prices
- Positive impact on performance
- Ensures that business is fair and transparent
- Ensures that companies can be held accountable
- Leads to sustainability

### Governance Mechanisms

Internal	External
<ul style="list-style-type: none"> <li>• Independent directors</li> <li>• Audit committee</li> <li>• Internal controls</li> <li>• Internal audit</li> </ul>	<ul style="list-style-type: none"> <li>• Financial markets</li> <li>• State and federal laws and regulations</li> <li>• Court decisions</li> <li>• Shareholder proposals</li> </ul>

24



## Corporate Governance In Sri Lanka

In 2023 CASL published its updated *Code of Best Practice on Corporate Governance*, formulated with the support of the Securities Exchange Commission (SEC).

[https://www.casrilanka.com/casl/index.php?option=com\\_content&view=article&id=250&Itemid=209&lang=en](https://www.casrilanka.com/casl/index.php?option=com_content&view=article&id=250&Itemid=209&lang=en)

*Refer the book for more information*



**CODE OF  
BEST PRACTICE ON  
CORPORATE GOVERNANCE 2023**

### Contents

The Company

➤

Shareholders

➤

Other Matters

25

### The Board (BOD)

- Every public company shall be led by a BOD.
- Meetings at least once in a quarter
- Relevant information shall be provided to BOD
  - Financial performance
  - Compliance and Internal Controls

### Chairman and CEO

- Clear division of responsibilities required to ensure balance of power and authority

### Chairman's role

- Preserve, order and facilitate the effective discharge of board functions

**The  
company -  
Directors**

- Bod's role is to provide entrepreneurial leadership (risk management)
- Directors can require the company to obtain independent professional advice
- Directors should bring independent judgement to when discharging their responsibilities by giving sufficient time and effort
- Directors should receive appropriate training

### Board Balance

- Shall have both EDs and NEDs

### Supply of information

- Shall be provided with timely information

### Appointment

- Via a formal and transparent procedure

### Appraisal of Board performance

- Periodically

### Financial Acumen

- Ensure the availability of people with sufficient financial acumen and knowledge to guide financial matters

26

### Board Balance

- The board should include **at least three non-executive directors** or such number of non-executive directors, equivalent to **one third of total number of directors**, whichever is **higher**.
- In the event the chairman and CEO is the same person, or if the chairman is not an independent director, **non-executive directors should comprise majority of the board**.

A.5.1 The board should include non-executive directors of sufficient calibre and number for their views to carry significant weight in the board's decisions. The board should include at least three non-executive directors or such number of non-executive directors, equivalent to one third of total number of directors, whichever is higher. In the event the chairman and CEO is the same person, or if the chairman is not an independent director, non-executive directors should comprise majority of the board.

27

### The Company – Directors' Remuneration

#### Remuneration procedure

- A formal transparent procedure is required.
- No Director should be involved in deciding their own remuneration
- A remuneration committee should be set up

#### The level and make-up of remuneration

- Levels shall be sufficient to attract and retain the Directors
- A proportion of Executive Directors' remuneration should be structured to link rewards to corporate and individual performance.

#### Disclosure

- Statement of Remuneration Policy and details of remuneration of the Board as a whole in Annual Report.

### The Company – Relations with Shareholders

#### Constructive use of the AGM and conduct of general meetings

- Use AGM to communicate with shareholders

#### Communication with shareholders

- Effective channel of communication is needed.
- BOD shall be aware of concerns of shareholders

#### Major and material transactions

- Disclose to shareholders all proposed material transactions

28

## Accountability and Audit

### Financial and business reporting (the annual report)

- BOD is responsible for publishing the annual report using a suitable framework such as IR.

### Risk management and internal control

- Risk management and implementation of a sound IC system is a responsibility
- Further, having an internal audit function is also seen.

### Audit committee (AC)

- Shall establish an AC exclusively with NEDs where majority been independent.

### Related party transactions review committee (RPTRC)

- Shall establish a procedure to ensure that the company does not engage in transactions with related parties in a manner that would grant such parties more favourable treatment than that accorded to third parties in the normal course of business.

### Code of business conduct and ethics

- Must adopt a code of business conduct and ethics for directors, key management personnel, and all other employees.

### Corporate governance disclosures

- Disclose the extent to which the company adheres to established principles and practices of good corporate governance.

29

## Audit committee -(AC)

### Assist board oversight of the:

- Preparation, presentation and adequacy of disclosures in the financial statements, in accordance with the Sri Lanka accounting standards;
- Compliance with financial reporting requirements, information requirements of the companies act and other relevant financial reporting related regulations and requirements;
- Processes to ensure that the company's internal controls and risk management procedures are adequate to meet the requirements of the Sri Lanka Auditing Standards
- Process to ensure compliance with non-financial (ESG/sustainability) laws and regulations which can have a bearing on the reported results of the company.

### Assessing the:

- Company's ability to continue as a going concern in the foreseeable future
- Performance of the company's internal audit function
- Process to identify, monitor, and manage significant business/financial risks
- Independence and performance of the company's external audit

30

### Audit committee -(AC) --- (Cont.d)

#### Duties and Responsibilities

- Make recommendations to the board, pertaining to appointment, re-appointment and removal of external auditors and to approve the remuneration and terms of engagement of the external auditors.
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant Sri Lankan professional and regulatory requirements.
- Discuss the audit plan, key audit issues, their resolution and management responses.
- Review the company's annual audited financial statements and quarterly financial statements with management and the auditor to ensure compliance with the Sri Lanka accounting standards and other relevant laws and regulations.

31

### Audit committee -(AC) --- (Cont.d)

#### Duties and Responsibilities

- Ensure that the company **adopts accounting policies** and practices that are in compliance with Sri Lanka accounting standards and that any changes are reviewed.
- Review significant financial reporting judgements.
- Assess the company's ability to continue as a **going concern** in the foreseeable future.
- Ensure that regulatory **compliance reports** are obtained from management and reviewed.
- Review the company's **earnings press releases** and financial information and earnings guidance provided to analysts and rating agencies.
- Discuss policies and practices with respect to **risk assessment and risk management**.
- Review the company's **internal financial controls** and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems.
- Ensure that a process of **sound system of internal control** is in place.
- Ensure that a periodic review of the board's risk management, internal controls, business continuity planning and **information security systems** are carried out and appropriate remedial action recommended to the board.
- Ensure that an **effective internal audit function** is in place and monitor and review the internal audit activities.

32



### **Institutional Investors - Shareholder voting**

- Listed companies should conduct a regular and structured dialogue with institutional investors based on a mutual understanding of objectives.
- The Chairman should ensure that the shareholders' views are communicated to the Board as a whole.

### **Internet Of Things And Cybersecurity - Cybersecurity**

- Should have a process to identify how outside IT devices can connect to the company's internal network and the consequential cybersecurity risks.
- Appoint a **Chief Information Security Officer**

### **Environment, Society And Governance (ESG)- ESG Reporting**

- Shall provide sufficient information on ESG risks and opportunities in the Annual Report.
- Shall use globally accepted principles such as GRI and IR.

**Shareholders**

33

### **Questions**

**Jay PLC's board of directors consists of 7 directors. The chairman of the company is not an independent director. Which of the following composition of directors will achieve board balance at Jay PLC, as per the code of best practice on corporate governance 2017 issued by CA Sri Lanka?**

- 4 independent non-executive directors, 1 non-executive non-independent director and 2 executive directors
- 3 independent non-executive directors, 2 non-executive non-independent directors and 2 executive directors
- 3 independent non-executive directors and 4 executive directors
- 2 independent non-executive directors, 1 non-executive non-independent director and 4 executive directors

**Which of the following covers sustainability reporting?**

- SLFRS 16
- SLFRS 15
- LKAS 36
- No accounting standard specifically covers it

34

### Questions

Given below are certain duties and responsibilities discussed in the Code of Best Practice on Corporate Governance.

- (i) Approving the remuneration of the external auditor
- (ii) Developing policies on obtaining non-audit services from the external auditor
- (iii) Assuring the confidentiality of whistleblowing employees
- (iv) Evaluating the performance of the chief executive officer (CEO) and key management personnel
- (v) Reviewing the company's quarterly financial statements

Which of the above are duties and responsibilities of the audit committee per the Code of Best Practice on Corporate Governance?

- A. (i), (iii), (iv) and (v) only
- B. (i), (ii), (iv) and (v) only
- C. (i), (ii), (iii) and (v) only
- D. (ii), (iii), (iv) and (v) only

35

### Questions

Which of the following consists of duties and responsibilities of the Audit Committee per the Code of Best Practice on Corporate Governance 2017?

- A. Approving remuneration of the external auditor, reviewing annual audited financial statements with management and auditors, and reviewing the company's internal controls
- B. Approving remuneration of the external auditor, reviewing annual audited financial statements with management and auditors, and ensuring that there is a succession plan for all key management personnel
- C. Reviewing the company's internal controls, assessing the performance of the CEO, and ensuring a proper risk management policy is in place
- D. Reviewing the company's internal controls, reviewing the effectiveness of the internal audit function, and appraisal of the performance of the Board

36

### Questions

**Which of the following is a correct recommendation provided by the Code of Best Practice on Corporate Governance issued by CA Sri Lanka?**

- A. 1/3 of the board of directors should be independent non-executive directors.
- B. There should be formal and transparent procedures for developing an executive remuneration policy.
- C. The annual report should include detailed remuneration information for each and every key management personnel.
- D. The company should establish an audit committee exclusively of independent directors.

**Which of the following Global Reporting Initiative (GRI) standards provide guidance for reporters in the use of GRI standards?**

- A. Universal Standards
- B. Economic Standards
- C. Environmental Standards
- D. Social Standards

37

### Questions

**Which of the following statements is correct in relation to integrated reporting?**

- A. Business model, materiality, reliability and completeness are some of the key content elements of an integrated report.
- B. Purpose, audience and scope of an integrated report are similar to those of a sustainability report.
- C. Materiality, connectivity of information, strategic focus and future orientation are some of the guiding principles of an integrated report.
- D. Business model, performance, governance and capital are some of the key content elements of an integrated report.

**The Global Reporting Initiative (GRI) standards are split under 4 groupings. Which of the following correctly describes those 4 groupings?**

- A. Universal standards, Economic standards, Climate Change standards, and Social standards
- B. Global standards, Economic standards, Climate Change standards, and Socio-political standards
- C. Universal standards, Economic standards, Environmental standards, and Social standards
- D. Global standards, Financial standards, Environmental standards, and Socio-political standards

38

## 06. Accounting Standards <http://www.slaasc.lk/accounting/ACS.php>

The International Accounting Standards Board (the Board) develops and publishes new international Financial Reporting Standards (IFRS Standards) according to its six-step due process. CASL can input to this process and, subsequent to issue, adopts IFRS Standards as SLFRS.

### The global body responsible for financial reporting? = IFRS Foundation

#### Objectives

- To **develop**, in the public interest, a single set of high-quality, understandable, enforceable and globally accepted financial reporting **standards** based on clearly articulated principles.
- To **promote the use** and rigorous application of those standards.
- To take account of, as appropriate, the **needs** of a range of sizes and types of entities in diverse economic settings.
- To **promote and facilitate adoption** of IFRS Standards, being the standards and interpretations issued by the Board, through the **convergence** of national accounting standards and IFRS Standards.

39

### There are many bodies supporting IFRS Foundation

Body	Contribution
The International Accounting Standards Board (IASB)	<ul style="list-style-type: none"> <li>• Responsible for the development of new IFRS standards</li> </ul>
The IFRS Interpretations Committee	<ul style="list-style-type: none"> <li>• Is a sub-body of the board and is responsible for the development of new IFRIC interpretations</li> </ul>
The IFRS Advisory Council	<ul style="list-style-type: none"> <li>• Provides a forum for the board to consult interested parties affected by their work</li> </ul>

### Adoption of accounting standards (IFRSs)

IFRSs are not a part of international law. Therefore, it is not mandatory in general but local authorities in the relevant country decides the adoption whether mandatory or not.

In Sri Lanka, Sri Lanka Accounting and Auditing Standards Act No 15 of 1995 require following to mandatorily adopt IFRSs/SLFRSs.

- **Specified Business Entities (SBEs)**
- **Listed Entities in CSE**

40

### Due process for the development of IFRS Standards



S1 – Agenda Consultation	S2 – Research Programme
<ul style="list-style-type: none"> <li>• Every <b>five years</b> the Board conducts a review and consultation to identify standard-setting priorities and develop its project work plan.</li> <li>• The Board can add projects to its work plan, as necessary, between agenda consultations.</li> <li>• These projects may be the <b>result of post-implementation reviews</b> of standards or a request from the IFRIC Interpretations Committee to review an issue.</li> </ul>	<ul style="list-style-type: none"> <li>• The Board's ideas may be set out in a discussion paper and public comment sought.</li> <li>• The standard setting programme follows if:             <ul style="list-style-type: none"> <li>• there is sufficient evidence that a problem exists</li> <li>• it is sufficiently important to warrant amending or issuing a standard, and</li> <li>• a practical solution can be found.</li> </ul> </li> </ul>

41

### Due process for the development of IFRS Standards (Cont.d)



S3 – Standard-setting Programme	S4 – Maintenance Programme
<ul style="list-style-type: none"> <li>• If the Board decides to amend a standard or issue a new one, it reviews the research, reviews comments on the discussion paper and proposes amendments or standards to resolve issues.</li> <li>• The proposals are published in an exposure draft for public consultation.</li> <li>• Feedback is analysed and proposals refined before an amendment or new standard is issued.</li> </ul>	<ul style="list-style-type: none"> <li>• This process includes consulting with preparers to identify implementation problems that may need to be addressed.</li> <li>• If problems are identified the IFRS Interpretations Committee may create an IFRIC Interpretation of the standard or recommend a narrow-scope amendment; such amendments follow the Board's normal due process.</li> </ul>

42

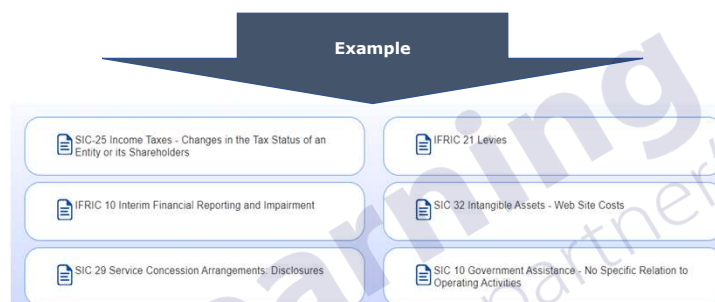
### Due process for the adoption of IFRSs as SLFRSs

1. CASL Exposing the all exposure drafts for comments.
2. Conducting a CFOs' round table discussion to identify potential impact.
3. Forwarding the comments to the board.
4. Once standard is issued CASL reviews the standard and related technical matters.
5. Thereafter, the standard is translated into Sinhala and Tamil and published in the Extra Ordinary Gazette as required by the Accounting and Auditing Standards Act No 15 of 1995 in Sri Lanka. Once gazetted, the standard becomes legally authoritative.

### IFRIC Interpretations

IFRIC Interpretations are issued by the IFRS Interpretations Committee as necessary to:

- Interpret the application of IFRS Standards
- Provide timely guidance on financial reporting issued not specifically addressed in IFRS Standards



43

### The Conceptual Framework

As well as issuing accounting standards, the Board and CASL have issued the Conceptual Framework for Financial Reporting. This contains the fundamental principles and concepts that underlie financial reporting and accounting standards. It provides the framework within which new standards are developed.

### Guidelines issued by CASL

CASL issues guidelines from time to time relevant to the preparation of financial statements of organisations. For example, it has issued a statement of recommended practice (SORP) on the preparation of financial statements of not-for-profit organizations / non-government organizations (NGOs). These guidelines issued by CASL play a vital role in accountancy profession in Sri Lanka



**STATEMENT OF RECOMMENDED  
PRACTICE**

Merger Accounting for Common Control Combinations

44

### Questions

**International Financial Reporting Standards (IFRSs) and the United States Generally Accepted Accounting Principles (US GAAP) are currently being developed by ..... respectively.**

- A. The Financial Accounting Standards Board and the IFRS Foundation
- B. The IFRS Foundation and the International Financial Reporting Standards Board
- C. The International Accounting Standards Board and the Financial Accounting Standards Board
- D. The International Financial Reporting Standards Board and the International Accounting Standards Board

**In the due process for the development of IFRS standards, IFRS standard development body publishes proposals in exposure drafts and consult global stakeholders to gather additional evidence.**

**In which stage of the due process, is the aforesaid task carried out?**

- A. Standard-setting programme
- B. Agenda consultation
- C. Research programme
- D. Maintenance programme

45

### Questions

**At which stage of the 'Due process for development of IFRS standards' does the IASB assess whether the standard is achieving its objective and whether any amendments should be considered?**

- A. Agenda consultation
- B. Research programme
- C. Standard-setting programme
- D. Maintenance programme

**Who is responsible for setting standards for financial reporting?**

- A. The IFRS Interpretations Committee
- B. The IFRS Advisory Council
- C. The IFRS Foundation
- D. The International Accounting Standards Board (IASB)

46

### Questions

CA Sri Lanka conducts Chief Financial Officers' (CFOs') round table discussion to identify the impacts of the proposed standards, which is equivalent to the ..... of the due process for the development of IFRSs. Which of the following is the correct answer to fill the above blank?

- A. Agenda consultation
- B. Research programme
- C. Standard-setting programme
- D. Maintenance programme

In order for the Sri Lanka Accounting Standards to become legally authoritative, they should be ..... What is the correct answer to fill the above blank?

- A. translated into Sinhala
- B. approved by the Council of CA Sri Lanka
- C. published in the Extraordinary Gazette
- D. issued by the International Accounting Standards Board

47

### Questions

Which of the following is incorrect when describing the due process for the adoption of IFRSs issued by the IASB as SLFRSs by CA Sri Lanka?

- A. CA Sri Lanka forwards its views on all exposure drafts issued by the IASB.
- B. A round table discussion of chief financial officers (CFOs) will be held when the IASB issues a final IFRS standard.
- C. CA Sri Lanka reviews the final IFRS standard and the related technical material before its adoption as an SLFRS standard.
- D. A standard is translated into Sinhala and Tamil and published in the Extraordinary Gazette.

Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 is applicable to:

- A. all specified businesses
- B. all private companies
- C. all listed companies only
- D. all listed and private companies

48



## Questions

Which of the following is correct with regard to the application of IFRIC Interpretations in Sri Lanka (which were originally issued by the IFRS Interpretations Committee)?

- A. They are to be adopted by CA Sri Lanka, but are not considered a part of Sri Lanka Accounting Standards.
- B. They are not to be adopted by CA Sri Lanka, hence they are not considered a part of Sri Lanka Accounting Standards.
- C. They are to be adopted by CA Sri Lanka and are considered a part of Sri Lanka Accounting Standards.
- D. They are to be adopted by CA Sri Lanka for voluntarily application.

49

## 07. Accounting Profession

CASL is the only organization in Sri Lanka with the right to award the **Chartered Accountant** designation.



Chartered Accountant in **Practice**



Chartered Accountant in **Business**

**Five professional accounting bodies offer their qualifications in Sri Lanka. They are,**



01



02



03



04



05

50

### The Institute of Chartered Accountants of Sri Lanka (CASL)



- Established by act of parliament, no. 23 of 1959
- Provides leadership and insight to the accountancy and finance profession

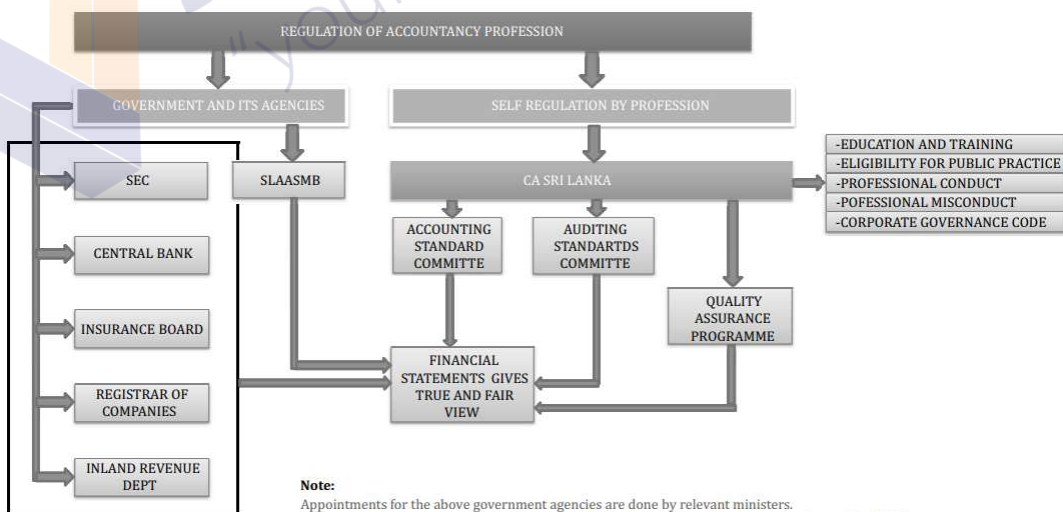
### Regulations applicable to the accounting profession

- Companies Act No 07 of 2007
- Sri Lanka Accounting and Auditing Standards Act No 15 of 1995
- Sri Lanka Financial Reporting Standards and Auditing standards
- The provisions of the Act No. 23 of 1959



51

### Other Regulatory Bodies



**Note:**  
 Appointments for the above government agencies are done by relevant ministers.  
 Power to appoint accounting and auditing standard committee have been given by Act no 15 of 1995.  
 Some members of CA Sri Lanka, ROC, and SEC are also members of SLAASMB.

52

Organization	Responsible for
Auditor General	The annual audit of <b>public institutions</b>
Central Bank of Sri Lanka (CBSL)	Specifying compliance requirements for banks' financial statements (these being in addition to the Companies Act requirements), and issuing guidelines on auditors' statutory duties for <b>bank audits</b>
Inland Revenue Department (IRD)	Overseeing the submission of audited financial statements with companies' annual <b>tax returns</b> .
Insurance Regulatory Commission	Specifying the regulatory and supervisory framework for the insurance industry, including regulating the financial reporting practices of <b>insurance companies</b> .
Ministry of Finance and Planning	<b>Appointing members to the Monitoring Board</b> from nominations received from identified institutions including the Central Bank and CASL
Registrar of Companies	Overseeing the <b>filing of annual financial statements</b> for SBEs.

53

Disciplinary Procedures
<ul style="list-style-type: none"> <li>• Disciplinary committee - 03 members.</li> <li>• A statement is prepared setting out the charges.</li> <li>• If the inquiry is due to a petition or a complaint, the secretary of the council will provide copy of such to all members of the committee.</li> <li>• Secretary will give notice to the person who is subject to inquiry.</li> <li>• If the person fails to appear or not represented by counsel, yet the committee can continue the inquiry.</li> <li>• If any evidence is required from the subject person, it is required for that person to submit such.</li> <li>• Disciplinary committee has power to administer oaths or affirmations to all persons who are required to give evidence</li> <li>• The subject person can be represented by one or more advocates at the inquiry.</li> <li>• Council may authorize any advocate or proctor to assist the disciplinary committee as to the leading and taking the evidence.</li> <li>• Opinion of the majority of the committee will be taken for the decision.</li> <li>• Upon the conclusion of an inquiry, the disciplinary committee prepares and sends to council a report detailing the findings of the inquiry.</li> </ul>

54

### Questions

**Which of the following institutions does not usually carry out reviews or investigations of published financial statements?**

- A. Securities and Exchange Commission of Sri Lanka
- B. Accounting Standards Committee of Sri Lanka
- C. Colombo Stock Exchange
- D. Sri Lanka Accounting and Auditing Standards Monitoring Board

**Which of the following statements is accurate in relation to the disciplinary procedures laid down in the act of incorporation of the Institute of Chartered Accountants of Sri Lanka?**

- A. The disciplinary committee may disenroll any member, if satisfied that he/she is unfit to practice as a result of professional misconduct.
- B. A disciplinary committee has no power to administer oaths or affirmations to all persons who are required to give evidence before such committee.
- C. Any question before a disciplinary committee is determined by the decision of the majority of the members of the committee.
- D. The council appoints five persons from its members to constitute a disciplinary committee.

55

### Questions

**The following details relate to three companies registered under the Companies Act No. 7 of 2007.**

	Company A	Company B	Company C
Annual turnover (Rs. million)	254	528	376
Total no. of employees	155	453	252
Type of company	Public limited company (PLC)	Limited	Private limited
Major shareholders	Amarasena holds 65% of the voting shares	The Samaranayaka brothers cumulatively hold 52% of the voting shares	Company A holds 55% of the voting shares

**Based on the information given above, which of the companies are required to submit annual audited financial statements to the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)?**

- A. Company A and Company C only
- B. Company A and Company B only
- C. Company A, Company B and Company C
- D. Company A only

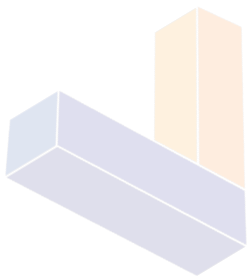
56

**Questions**

**Which of the following is a duty of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB)?**

- A. Promulgation of Sri Lanka Accounting Standards
- B. Provision of technical clarifications to specified business enterprises and the general public
- C. Regulating compliance with Public Sector Accounting Standards
- D. Monitoring compliance with Sri Lanka Accounting Standards

57



**JMC vLearning**  
"your virtual learning partner"