

SRI LANKA STANDARD ON ASSURANCE ENGAGEMENTS 3050

**ASSURANCE REPORT FOR BANKS ON DIRECTORS’
STATEMENT ON INTERNAL CONTROL**

(This Standard is effective for assurance reports dated
on or after 01 November 2010)

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Introduction

- 1 The purpose of this Sri Lanka Standard on Assurance Engagements (SLSAE) is to establish and provide guidance on assurance engagements to report on the Directors' Statement on Internal Control.
- 2 Auditor is required to report on the Directors' Statement on Internal Control relating to effectiveness of internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.

Auditors' Responsibilities with respect to Directors' Statement on Internal Control

- 3 The objective of the engagement is to assess whether the Statement on Internal Control appropriately reflects the process the directors have adopted in reviewing the design and effectiveness of the system of internal control.
- 4 To achieve this objective, appropriate evidence will have to be obtained by performing the following procedures:
 - (a) Enquire of the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compare their understanding to the Statement intended to be made by the directors in the annual report.
 - (b) Review the documentation prepared by or for the directors to support their Statement intended to be made.
 - (c) Relate the Statement intended to be made by the directors to the auditor's knowledge of the bank obtained during the audit of the financial statements.
 - (d) Review the minutes of the meetings of the Board of Directors and of relevant Board Committees.
 - (e) Attend meetings of the audit committee at which the annual report, including the Statement on Internal Control is considered and approved for submission to the Board of Directors.
 - (f) Consider whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising. Where any such matter has been

identified, the auditors should consider the matter and the implications on the Directors' Statement on Internal Control to the date of the approval of the annual report.

- (g) Obtain written representations from directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.
- (h) Directors' Statement on Internal Control should disclose the process it has applied to deal with material internal control aspects of any significant problems disclosed in the annual report. To address the above, the auditors should;
 - discuss with the directors the steps that have been taken by them to determine what significant problems are disclosed in the annual report; and
 - assess whether disclosures made by the directors of the processes they have applied to deal with material internal control aspects of any significant problems disclosed in the annual report appropriately reflect those processes.

The auditors are not required to assess whether the processes described by the directors will, in fact, remedy the problem described in the annual report. This also has to be communicated through the assurance report.

- (i) If the auditor is aware of a significant problem that is disclosed in the annual report for which the directors have not disclosed the material internal control aspects, the auditors should discuss the position with the directors of the bank.
- (j) The auditor should consider whether the directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the bank, whether it has been in place for the year under review, whether it is regularly reviewed by the Board. Further the auditor should consider whether the explanation is consistent with the auditor's understanding.

Contents of the Auditor's Assurance Report to Board of Directors

5 The assurance report should include the following basic elements:

- (a) A title that clearly indicates the report is an independent assurance report.

- (b) An addressee: an addressee identifies the party or parties to whom the assurance report is directed.
- (c) An identification and description of the assurance engagement:
 - The nature of the engagement;
 - The point in time or period of time to which the engagement relates;
 - The name of the entity or component of the entity to which the engagement relates; and
- (d) The responsibility of the management: this informs management's responsibility for the preparation and presentation of the Directors' Statement on Internal Control and the respective guidelines in preparation.
- (e) The responsibility of the auditor to issue a report to the Board on the Directors' Statement on Internal Control based on the work carried out by the auditor.
- (f) A statement that the engagement was performed in accordance with SLSAE 3050.
- (g) A summary of the work performed.
 - The fact that the engagement is conducted to assess whether the Statement on Internal Control appropriately reflects that process the directors have adopted in reviewing the design and effectiveness of the system of internal control
 - The fact that the auditors are not expected to assess whether all risks and controls have been addressed by the directors or that risks are satisfactorily addressed by internal control, has to be clearly stated in the report.
 - The fact that the auditors are not required to assess whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report by the directors will, in fact, remedy the problems.
- (h) The auditor's conclusion: the report should contain a clear written expression of negative assurance.
- (i) The date of the assurance report

- (j) The address of the auditor or the firm

Other Reporting Responsibilities

- 6 The auditors should report the following circumstances to the Board of Directors with a view to seek revision of their draft statement, if they conclude:
 - (a) that the directors' summary of the process they have applied in reviewing the design and effectiveness of internal control is either not supported by or does not appropriately reflect the auditor's understanding of the process undertaken;
 - (b) that the processes disclosed to deal with material internal control aspects of significant problems disclosed in the annual report do not appropriately reflect the auditors' understanding of the process undertaken;
 - (c) that no disclosure has been made by the directors that they have failed to conduct a review of the design and effectiveness of the system of internal control;
 - (d) where the directors disclosed that they have not reviewed the design and effectiveness of the system of internal control, that their explanations are not consistent with the auditors' understanding; or
 - (e) that no disclosure has been made by the directors that a material joint venture or associated bank has not been dealt with as part of the Group.
- 7 If revisions sought are not accepted by the Board of Directors, the auditors should consider the implications on their reporting responsibilities including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.
- 8 The auditors are not expected to actively search for misstatements or inconsistencies. However, if the auditors become aware of such a matter, the auditors should discuss it with the directors to seek to establish the significance of the lack of proper disclosure. If such lack of proper disclosure is considered significant by the auditors and the directors cannot be persuaded to amend the disclosure to the auditors' satisfaction, the auditors should consider the implications on the auditors' reporting responsibilities and may need to take legal advice.
- 9 If after reviewing the Statement on Internal Control, the auditors identify a material inconsistency, the auditors should determine whether the financial statements or Statement on Internal Control need to be amended.

- 10 If an amendment is necessary in the financial statements and the directors refuse to make the amendment, the auditors should express qualified or adverse opinion.
- 11 If an amendment is necessary in the Statement on Internal Control but not the financial statements, and the directors refuse to make the necessary amendments, the auditors should consider taking further appropriate action, including disclosure in the auditors' report to members. However, as this does not give rise to a qualified audit opinion on the financial statements it is recommended that the auditors' comments are included under the heading "Other matters".

Effective Date

- 12 This SLSAE is effective for assurance engagements where the assurance report is dated on or after 01 November 2010. Earlier application is permissible.

Appendix 1

Example of Independent Assurance Report

To the Board of Directors of ABC Bank PLC

Introduction

We were engaged by the Board of Directors of ABC Bank PLC ("Bank") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31st December 20XX.

Management's responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal control for the Bank.

[Enumerate procedures as required]

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control of the Bank.

(Audit firm)

Colombo

(Date)

Appendix 2

Example of an Engagement Letter for an Assurance Engagement

The following is an illustrative example of paragraphs that may be included in the auditor's engagement letter dealing with their responsibility with respect to the Directors' Statement on Internal Control as required by the Banking Act Directions.

To the Board of Directors:

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services we will provide.

We will perform the following services:

As per section 3(8)(ii)(c) of the Banking Act Direction No. 11 of 2007, the bank must ensure that the external auditors issue the assurance report on the Directors' Statement on Internal Control to the Board of Directors of the bank.

Accordingly, we will carry out the engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

[Scope may be explained as required]

Under this engagement, we will not perform an audit and, accordingly, we will not express an audit opinion on them.

Responsibility for the Statement on Internal Control is that of the directors of the bank. The directors are responsible for ensuring that the bank complies with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007 – Corporate Governance for Licensed Commercial Banks in Sri Lanka in relation to the Directors' Statement on Internal Control. In preparing the Statement on Internal Control, the directors should be guided by the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka.

This letter will be effective for future years unless it is terminated, amended or superseded (if applicable). Our engagement cannot be relied upon to disclose whether fraud or errors, or illegal acts exist. However, we will inform you of any material matters that come to our attention.

[Additional terms and conditions may be added by the auditors]

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for the assurance engagement.

XYZ & Co

Acknowledged on behalf of ABC Bank PLC by

(signed)

.....

Name and Title

Date

