

# **SRI LANKA STANDARD ON ASSURANCE ENGAGEMENTS 3051**

## **ASSURANCE REPORT FOR LICENSED FINANCE COMPANIES AND FINANCE LEASING COMPANIES ON DIRECTORS' STATEMENT ON INTERNAL CONTROL**

(This Standard is effective for assurance reports dated on or after 31 March 2018)

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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. Practitioner 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.

## **Practitioners' 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 practitioner's knowledge of the License Finance Company/ Finance Leasing Company 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 practitioners 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 practitioners 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 practitioners 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 practitioner 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 practitioners should discuss the position with the directors of the License Finance Company/ Finance Leasing Company.
- (j) The practitioner should consider whether the directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the License Finance Company/ Finance Leasing Company, whether it has been in place for the year under review, whether it is regularly reviewed by the Board. Further the practitioner should consider whether the explanation is consistent with the practitioner's understanding.

### **Contents of the Practitioner'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 practitioner is to issue a report to the Board on the Directors' Statement on Internal Control based on the work carried out by the practitioner.
  - (f) A statement that the firm of which the practitioner is a member applies Sri Lanka Standard on Quality Control 1 (SLSQC 1) or other professional requirements, or requirements in law or regulation, that are at least as demanding as SLSQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as SLSQC 1
- A statement that the practitioner complies with the independence and other ethical requirements of the Code of Ethics issued by the Institute of Chartered Accountants of Sri Lanka or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Parts A and B of the CA Sri Lanka code of ethics related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Parts A and B of the CA Sri Lanka Code of Ethics related to assurance engagements.

- (g) A statement that the engagement was performed in accordance with SLSAE 3051
- (h) A summary of the work performed.
  - The fact that the practitioners 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 practitioners 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.
- (i) The practitioner's conclusion: the report should contain a clear written expression of negative assurance.
- (j) The practitioner's signature.
- (k) The date of the assurance report.
- (l) The location in the jurisdiction where the practitioner practices.

### Other Reporting Responsibilities

- 6. The practitioners 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 practitioner'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 practitioners' 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 practitioners' understanding; or
  - (e) that no disclosure has been made by the directors that a material joint venture or associated License Finance Company/ Finance Leasing Company has not been dealt with as part of the Group.
- 7. If revisions sought are not accepted by the Board of Directors, the practitioners 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 practitioners are not expected to actively search for misstatements or inconsistencies. However, if the practitioners become aware of such a matter, the practitioners 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 practitioners and the directors cannot be persuaded to amend the disclosure to the practitioners' satisfaction, the practitioners should consider the implications on the practitioners' reporting responsibilities and may need to take legal advice.
- 9. If after reviewing the Statement on Internal Control, the practitioners identify a material inconsistency, the practitioners 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 practitioners 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 practitioners should consider taking further appropriate action, including disclosure in the practitioners' report to members. However, as this does not give rise to a qualified audit opinion on the financial statements it is recommended that the practitioners' comments are included under the heading "Other matters".

## **Effective Date**

- 1 This SLSAE is effective for assurance engagements where the assurance report is dated on or after 31 March 2018.

## Appendix 1

### Example

### **INDEPENDENT PRACTITIONER'S ASSURANCE REPORT ON THE DIRECTORS' STATEMENT ON INTERNAL CONTROL**

The Board of Directors of ABC License Finance Company/ Finance Leasing Company PLC

#### **Report on the Directors' Statement on Internal Control**

We were engaged by the Board of Directors of ABC License Finance Company/ Finance Leasing Company PLC ("License Finance Company/ Finance Leasing Company") 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 License Finance Company/ Finance Leasing Company on the Directors' Statement on Internal Control" issued in compliance with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, by the Institute of Chartered Accountants of Sri Lanka.

#### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the Institute of Chartered Accountants of Sri Lanka, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Sri Lanka Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements

#### **Practitioner's Responsibilities**

Our responsibility is to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process

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the directors have adopted in reviewing the design and effectiveness of the internal control of the License Finance Company/ Finance Leasing Company.

We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3051, Assurance Report for License Finance Company/ Finance Leasing Company on Directors' Statement on Internal Control, issued by the Institute of Chartered Accountants of Sri Lanka.

This standard requires that the practitioner plan and perform procedures to obtain limited assurance about whether Management has prepared, in all material respects, the Statement on Internal Control.

For purposes of this engagement, we are not responsible for updating or reissuing any reports, nor have we, in the course of this engagement, performed an audit or review of the financial information.

Summary of work performed

[Enumerate procedures as required]

SLSAE 3051 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the License Finance Company/ Finance Leasing Company's risk and control procedures. SLSAE 3051 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.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the License Finance Company/ Finance Leasing Company, the event or transaction in respect of which the Statement has been prepared

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

### **Practitioner's 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 License Finance Company/ Finance Leasing Company.

[Practitioner's signature]

[Date of the practitioner's report]

[Practitioner's address]



## 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 License Finance Company/ Finance Leasing Company 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 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009, the License Finance Company/ Finance Leasing Company must ensure that the external auditors issue the assurance report on the Directors' Statement on Internal Control to the Board of Directors of the License Finance Company/ Finance Leasing Company.

Accordingly, we will carry out the engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3051 – Assurance Report for License Finance Company/ Finance Leasing Company 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 or review of the financial information 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 License Finance Company/ Finance Leasing Company. The directors are responsible for ensuring that the License Finance Company/ Finance Leasing Company complies with the section 10 (2) (b) of the Finance Companies (Corporate Governance) Direction no. 3 of 2008/ section 10 (2) (b) of the Finance Leasing (Corporate Governance) Direction no. 4 of 2009 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, License Finance Company and Finance Leasing Company on the Directors' Statement on Internal Control" issued by the Institute of Chartered Accountants of Sri Lanka.

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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 License Finance Company/ Finance Leasing  
Company PLC

by (signed)

.....  
Name and Title

Date