

Media Release

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SEC Chief discusses Auditor’s role, duties and responsibilities under the SEC Act

Continuing the series of engagements with key stakeholders in the capital market landscape, the newly appointed Chairman of the Securities and Exchange Commission of Sri Lanka (SEC), Faizal Salieh, and top officials of the SEC met with the Principal Partners of Audit firms recently at the SEC.

The purpose of the meeting was to discuss with the Audit firms their role, duties, responsibilities and expectations under the SEC Act when carrying out audits of Market Institutions, Market Intermediaries and Public Listed Companies. About 14 Audit firms attended the meeting, including the 4 big league Audit firms.

SEC Commission Member and President of the Institute of Chartered Accountants of Sri Lanka, Sanjaya Bandara, SEC Director General, Chinthaka Mendis, Colombo Stock Exchange (CSE) CEO, Rajeeva Bandaranaike, Director General of the Sri Lanka Accounting and Auditing Standards Monitoring Board (SLASSMB), Ms. Anusha Mohotti, as well as Senior officials of the SEC, CSE and SLASSMB were present at the meeting.

At the outset, Mr. Salieh said that the new SEC Act classifies Auditors as “*Supplementary Service Providers*” to the SEC and CSE, and that auditors are responsible for verifying and assuring the accuracy of financial reports and overall compliance of listed companies, market institutions and intermediaries through the audit process. He mentioned that this expanded scope of an Auditor’s role would help build the trust and confidence of investors in the capital market.

Drawing attention to the duties of Auditors of Market Institutions, the SEC Chairman explained that Auditors are required to promptly notify the Board Audit Committee and thereafter the Board of Directors through a written report on matters that adversely affect or may adversely

affect the financial position of the entity to a material extent; matters that constitute or may constitute a breach of the law, rules or regulatory directives; an offence which involves fraud or dishonesty that affects the financial stability of the entity to a material extent; or an irregularity that has or may have a material effect on the accounts of the entity or that of the funds or property of investors in securities. The Chairman explained that the auditors are also obligated to send a copy of such reports to the SEC as well.

In the same vein, Mr. Salieh emphasized the duties of Auditors of Market Intermediaries and their reporting obligation to the SEC. He further explained that the Auditors also have a reporting obligation to the CSE Board in instances where the auditor flags a breach or non-compliance of the Rules of the Market Institution where applicable. The SEC Chairman said that the Auditor should promptly inform the CSE if the auditor is aware of a situation that adversely affects the financial position of a Market Intermediary to a material extent.

Highlighting the duties of Auditors of Public Listed Companies, the SEC Chairman said that if an auditor becomes aware of a contravention or non-compliance with any law, rule, regulation or regulatory directive issued under the Act; an offence involving fraud or dishonesty; a matter which adversely affects or may affect the financial position of a listed company; an irregularity that has or may have a material effect on the accounts of the company; or an irregularity that jeopardizes or may jeopardize the funds or property of investors, then the auditor has a duty by law to promptly report it in writing to the Board Audit Committee of the listed company. He further elaborated that in the event the Board Audit Committee fails to rectify the matter or take action within a period of two weeks, the auditor is required under the Act to inform the Board of Directors. He also added that in the event no action is taken by the Director Board within two weeks, the auditor should promptly red flag it to the SEC.

In the ensuing discussion on the internal control environment of companies, Mr. Salieh said “In order to establish a fair, orderly and transparent capital market it is important that the whole gamut of a company’s governance and risk management structures and processes are rigorously audited.” Therefore, the scope of audit should be enhanced to assess the robustness of a company’s governance framework, policies, procedures and processes in place to mitigate risk

and non-compliance including insider dealing, market manipulation, price rigging, etc. by Directors, C-Suite, KMPs and staff. Auditors have a responsible role to play in providing assurances that the internal control environments of entities operating in the capital market meet the required standards of good governance. Companies must move from a compliance box-ticking mode to an active practising mode. “We as a regulator expect auditors to ask searching questions on these matters in the audit assurance process” he emphasized.

He explained that a director of a stock broking company cannot say that he or she was unaware of a market misconduct by its Investment Advisor or employee because the Board of Directors is responsible for institutionalizing a robust and efficient governance framework within the entity. Auditors, as the third line of defence, should look into the effectiveness of such frameworks, policies and procedures as part of the audit process. Nor should a director of any company claim unawareness of capital market regulations when engaging in share trading activities.

Commenting on the role of SLASSMB, the SEC Chairman stated that the SEC does not intend to duplicate the work of SLASSMB but to work in tandem with them in analyzing the financials of entities. He highlighted the need to red flag market sensitive issues and errors in the financial reports and promptly require companies to rectify the errors and re-publish the financial statements. He requested SLASSMB to share any significant findings from their monitoring activities with the SEC’s Supervision Division in a timely manner.

During the wide-ranging discussion of issues, key elements regarding the duty of auditors in verifying the effectiveness of mechanisms in place to facilitate and protect whistleblowers, the importance of doing business valuations (by the consulting arms of Audit firms) with greater rigor and fairness from an investor protection perspective, the need to develop a list of Approved Qualified Auditors based on specific and relevant criteria, and the need to build and strengthen capacity within Audit firms were extensively deliberated at the meeting.

Mr. Salieh thanked the participants for the engagement, constructive comments and the commitment of the Audit firms to uphold a high degree of professionalism and deliver the expectations of SEC in their role, duties and responsibilities in the audit process. “Corporate failure is not an event but a process. The audit process should verify whether companies have

the systems and processes in place to pick up the signs and flag them in a timely manner. Auditors must proactively blow the whistle if they don't.", he noted.

The SEC has held further stakeholder engagements with other market players such as Margin Providers, Investment Managers, Managing Companies (Unit Trusts), Trustees, and Custodians with regard to their specific business operations and what is required of them under the SEC Act and related market rules and regulations.



From left to right

SLASSMB Director General Ms. Anusha Mohotti, SEC Director General, Chinthaka Mendis, SEC Chairman Faizal Salieh, SEC Commission Member and President of the Institute of Chartered Accountants of Sri Lanka, Sanjaya Bandara and SEC Acting Director Corporate Affairs Ms Manuri Weerasinghe

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