



**PARLIAMENT OF THE DEMOCRATIC
SOCIALIST REPUBLIC OF
SRI LANKA.**

**SRI LANKA ACCOUNTING AND
AUDITING STANDARDS
ACT, No. 15 OF 1995**

[Certified on 25th August, 1995]

Printed on the Order of Government

**Published as a Supplement to Part II of the Gazette of the Democratic
Socialist Republic of Sri Lanka of August 25, 1995**

PRINTED AT THE DEPARTMENT OF GOVERNMENT PRINTING, SRI LANKA

TO BE PURCHASED AT THE GOVERNMENT PUBLICATIONS BUREAU, COLOMBO

Price: Rs. 1.50 cents.

Postage: Rs. 2.55

Sri Lanka Accounting and Auditing Standards

Act, No. 15 of 1995

[Certified on 25th August, 1995]

L.D.—O. 35/93

AN ACT TO PROVIDE FOR THE ESTABLISHMENT OF SRI LANKA ACCOUNTING STANDARDS AND SRI LANKA AND AUDITING STANDARDS; TO ESTABLISH THE SRI LANKA ACCOUNTING STANDARDS MONITORING BOARD; AND TO PROVIDE FOR MATTERS CONNECTED THEREWITH OR INCIDENTAL THERETO

BE it enacted by the Parliament of the Democratic Socialist Republic of Sri Lanka as follows:—

1. This Act may be cited as the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.

Short title

2. (1) The Institute of Chartered Accountants of Sri Lanka (hereinafter referred to as the "Institute") shall, from time to time, adopt such accounting standards (hereinafter referred to as "Sri Lanka Accounting Standards") as may be necessary for the purpose of maintaining uniform and high standard in the preparation and presentation of accounts of business enterprises.

Adoption of Sri Lanka Accounting Standards

(2) The Sri Lanka Accounting Standards adopted under subsection (1) shall be published in the Gazette and shall become effective from and after the date of such publication or such later date as may be specified therein.

3. (1) The Institute shall, from time to time, adopt appropriate auditing standards (hereinafter referred to as "Sri Lanka Auditing Standards") as may be necessary to govern the conduct of the audit of accounts of business enterprises.

Adoption of Sri Lanka Auditing Standards

(2) The Sri Lanka Auditing Standards adopted under subsection (1) shall be published in the Gazette and shall become effective from and after the date of such publication or such later date as may be specified therein.

4. (1) The Institute shall, whenever necessary revise, alter and amend the Sri Lanka Accounting Standards and Sri Lanka Auditing Standards adopted by it under this Act and shall cause such revised, altered or amended standards to be published in the Gazette, and such revisions, alterations and amendments shall become effective from and after the date of such publication or such later date as may be specified therein.

Power to vary and amend standards

(2) The Institute shall notify the public of the Sri Lanka Accounting Standards and the Sri Lanka Auditing Standards and of the revisions, alterations and amendments made thereto, by notice published in the Gazette or in such other manner as is calculated to give publicity thereto.

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

**Application
of Standards.**

5. The standards adopted by the Institute under sections 2 and 3 of this Act shall be applicable to all business enterprises specified in the Schedule to this Act (hereinafter referred to as "specified business enterprises").

**Duty to
comply with
standards
adopted.**

6. (1) It shall be the duty of every specified business enterprise to prepare its accounts in compliance with the Sri Lanka Accounting Standards and take all necessary measures to ensure that its accounts are audited in accordance with the Sri Lanka Auditing Standards with the object of presenting a true and fair view of the financial performance and financial condition of such enterprise.

(2) Any specified business enterprise which acts in contravention of the provisions of subsection (1) shall be guilty of an offence under this Act.

**Auditing of
accounts of
specified
business
enterprises
to be
done by
qualified
Auditors.**

7. (1) The accounts of every specified business enterprise shall be audited by professionally qualified auditors who shall be members of the Institute holding a certificate to practise, issued by the Institute, and it shall be the duty of such auditors to certify in their audit report that the audit has been conducted in accordance with the Sri Lanka Auditing Standards and that accounts have been prepared and presented in accordance with the Sri Lanka Accounting Standards.

(2) Where any qualified auditor fails to comply with the Sri Lanka Accounting standards and the Sri Lanka Auditing Standards as required by subsection (1), he shall specify clearly the deviations made and give reasons for such deviations.

**Accounting
Standards
Committee.**

8. (1) An Accounting Standards Committee consisting of such members as are specified in subsection (2) is hereby established and such Committee shall make recommendations and otherwise assist the Institute in the adoption of accounting standards under section 2 of this Act.

(2) The Accounting Standards Committee shall consist of—

(a) the President of the Institute and five other members of the Institute nominated by the Council of such Institute;

(b) one member nominated by the Sri Lanka Division of the Chartered Institute of Management Accountants of the United Kingdom;

- (c) the Registrar of Companies ;
- (d) the Director-General of the Securities and Exchange Commission of Sri Lanka ;
- (e) one member to represent the Central Bank nominated by the Governor of the Central Bank ;
- (f) one member who shall be a director of a company or person having extensive experience at senior managerial level in a specified business enterprise, nominated by the Ceylon Chamber of Commerce ; and
- (g) one member who shall be a director of a company or a person having extensive experience at a senior level in a specified business enterprise, nominated by the Federation of Chambers of Commerce and Industry of Sri Lanka.

(3) Notwithstanding the provisions of subsection (1), the Accounting Standards Committee shall, where it is called upon to make recommendations regarding accounting standards to be adopted in respect of licensed commercial banks or other financial institutions coming within the supervisory control of the Central Bank, consult the Central Bank and obtain its concurrence, before making such recommendations.

9. (1) An Auditing Standards Committee consisting of such members as are specified in subsection (2) is hereby established and such Committee shall make recommendations and otherwise assist the Institute in the adoption of Auditing Standards under section 3 of this Act.

**Auditing
Standards
Committee**

(2) The Auditing Standards Committee shall consist of eight members of the Institute nominated by the Council of such Institute, at least four of whom shall be members of the Accounting Standards Committee nominated under paragraph (a) of subsection (2) of section 8.

(3) Notwithstanding the provisions of subsection (2), the Institute may, as and when it considers necessary, co-opt any person with special experience in the field of auditing to serve in the Auditing Standards Committee.

10. (1) A member nominated to the Accounting Standards Committee or the Auditing Standards Committee (in this section referred to as "a nominated member") may resign from such Committee by a letter addressed to the person nominating him.

**Period of
service,
resignation
&c. of
committee
members**

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

(2) A nominated member of the Accounting Standards Committee or the Auditing Standards Committee shall serve on such Committee for a period of four years and shall be eligible for renomination.

(3) A person nominated to the Accounting Standards Committee or the Auditing Standards Committee in place of a nominated member, who dies or resigns from such Committee, shall serve on such Committee for the unexpired period of the term of the nominated member whom he succeeds.

**Estab-
lishment
of Accounting
and Auditing
Standards
Monitoring
Board.**

11. (1) There shall be established a board which shall be called and known as the "Sri Lanka Accounting and Auditing Standards Monitoring Board". (hereinafter referred to as "the Board".)

(2) The Board shall by the name assigned to it by sub-section (1) be a body corporate with perpetual succession and a common seal and may sue and be sued in its corporate name.

**Constitution
of the
Board.**

12. (1) The Board shall consist of the following members:—

(a) three members (hereinafter referred to as "ex-officio members") who shall be the persons holding office as—

- (i) the Registrar of Companies;
- (ii) the Commissioner-General of Inland Revenue; and
- (iii) the Director-General of the Securities and Exchange Commission of Sri Lanka;

(b) ten members appointed by the Minister (hereinafter referred to as "appointed members") and consisting of—

- (i) an officer of the Central Bank nominated by the Governor of the Central Bank;
- (ii) three members of the Institute selected from among persons nominated by the Institute;
- (iii) a member of the Chartered Institute of Management Accountants of the United Kingdom selected from among three members nominated by the Sri Lanka Division of the Institute;

- (iv) one senior lawyer selected from among three senior lawyers nominated by the Bar Association of Sri Lanka;
- (v) two company directors or other persons with extensive managerial experience at senior level in a specified business enterprise one of whom shall be selected from a panel of three names submitted by the Ceylon Chamber of Commerce, and the other from a panel of three names submitted by the Federation of Chambers of Commerce and Industry of Sri Lanka;
- (vi) one senior banker selected from a panel of three bankers nominated by the Sri Lanka Banks' Association; and
- (vii) one person selected from a panel of three persons nominated by the University Grants Commission established by the Universities Act, No. 16 of 1978, to represent the Departments Faculties and Postgraduate Institutes of Accounts or Business Management or Business Administration in Universities coming within its purview.

(2) The Minister shall appoint one of the appointed members of the Board to be the Chairman of the Board.

13. (1) Every appointed member of the Board shall, unless he vacates office earlier by death, resignation or removal, hold office for a period of four years.

Term of office of appointed members.

14. (1) The Minister may, by Order published in the Gazette remove any appointed member of the Board from office without assigning any reason therefor.

Removal of appointed members.

(2) A member in respect of whom an Order under subsection (1) is made, shall be deemed to have vacated office on the date of publication of such Order in the Gazette.

15. An appointed member may at any time resign his office by letter to that effect addressed to the Minister and such resignation shall take effect upon it being accepted by the Minister.

Resignation of appointed members.

16. An appointed members who vacates office, otherwise than by removal, shall be eligible for reappointment.

Eligibility for reappointment.

**Filling of
vacancies.**

17. In the event of vacation of office by death, resignation or removal of any appointed member of the Board, the Minister may having regard to the provisions of paragraph (b) of subsection (1) of section 12, appoint any other person to succeed such member. Any member so appointed in place of such member, shall hold office for the unexpired period of the term of office of the member whom he succeeds.

**Meetings
of the
Board.**

18. (1) The Chairman of the Board shall preside at every meeting of the Board. In the absence of the Chairman from any such meeting, the members present shall elect one of the members to preside at such meeting.

(2) The quorum for any meeting of the Board shall be not less than six members of the Board.

(3) Subject to the provisions of this section the Board may regulate the procedure in regard to the meetings and the transaction of business at such meetings.

(4) No act, decision or proceeding of the Board shall be deemed to be invalid by reason only of the existence of any vacancy among its members or any defect in the appointment of any member thereof.

(5) The Chairman of any meeting of the Board shall, in addition to his own vote, have a casting vote.

**Remuneration
of members.**

19. The members of the Board shall be remunerated in such manner and at such rates as may be determined by the Minister with the concurrence of the Minister in charge of the subject of Finance.

**Chairman
of the
Board.**

20. (1) If the Chairman of the Board becomes by reason of illness or other infirmity or absence from Sri Lanka, temporarily unable to perform the duties of his office, the Minister may appoint another member of the Board to act in his place.

(2) The Minister may, without assigning any reason therefor, remove the Chairman from the office of Chairman.

(3) The Chairman may at any time resign from the office of Chairman by letter addressed to the Minister.

(4) Subject to the provisions of subsections (2) and (3), the term of office of the Chairman shall be his period of membership of the Board.

21. (1) The seal of the Board shall be in the custody of the Chairman of the Board.

Seal of the Board.

(2) The seal of the Board may be altered in such manner as may be determined by the Board.

(3) The seal of the Board shall not be affixed to any instrument or document except in the presence of three members of the Board all of whom shall sign the instrument in token of their presence.

22. The Board shall, subject to the provisions of this Act—

Staff of the Board.

(a) appoint such officers and servants as it may consider necessary for the performance or discharge of its duties and functions and may exercise disciplinary control over them;

(b) fix the amounts to be paid as remuneration to the officers and servants so appointed;

(c) determine the terms and conditions of service of such officers and servants;

(d) establish and regulate provident funds or schemes for the benefit of such officers and servants and make contributions to any such fund or scheme.

23. The function of the Board shall be to monitor the compliance with the Sri Lanka Accounting Standards and the Sri Lanka Auditing Standards, by specified business enterprises.

Function of the Board.

24. The Board shall have power—

Powers of the Board.

(a) to acquire and hold, any property, movable or immovable, which may become vested in it by virtue of any purchase, grant, gift, testamentary disposition or otherwise and to sell, mortgage, assign, exchange or otherwise dispose of the same;

(b) to enter into such contracts and agreements as may be necessary for the discharge of its functions;

(c) to do all such acts or things as may be necessary in the opinion of the Board for the proper discharge of its functions.

Copy of
annual
accounts
furnished
to the
Board.

25. (1) It shall be duty of every specified business enterprise to submit to the Board a copy of the annual accounts of such enterprise to enable the Board to determine whether the accounts have been prepared in compliance with the Sri Lanka Accounting Standards.

(2) For the purpose of enabling the Board to perform its duty under subsection (1), the Board or any person authorized in that behalf by the Board may by notice in writing issued not later than one year after a specified business enterprise has submitted its relevant accounts to the Board, require such specified business enterprise or its auditors to furnish to the Board or to the person authorized by the Board, within such time, as shall be specified in the notice, any information pertaining to its accounts and it shall be the duty of such specified business enterprise or its auditors, as the case may be, to comply with such requirement within the time specified in the notice.

(3) The Board shall have the power for the purpose of performing its duties under subsection (1) to summon and question any director, officer or auditor of any specified business enterprise on any matter pertaining to the preparation or presentation of its accounts.

Board to
carry out
investigation.

26. The Board or any person duly authorized in that behalf may carry out such investigations or hold such inquiries as it may by notice in writing consider necessary or expedient for the performance of its duties under this Act, and for such purpose may summon and call upon any director, officer or auditor of any specified business enterprise to appear before it at any such investigation or inquiry or to produce any such books or documents in the possession or control of such director, officer or auditor as are required for the purpose of such investigation or inquiry.

Offences.

27. (1) Every—

(a) person who fails to comply with, or contravene, the provisions of section 6 or section 7 or subsection (1) of section 25;

(b) person who fails to comply with any requirement imposed on him under subsection (2) of section 25 or knowingly furnishes any false information in compliance with any such requirement;

- (c) director, officer or auditor of a specified business enterprise who fails to appear before the Board when required to do so under subsection (3) of section 25 or section 26, or who refuses to answer any question put to him by the Board or a person duly authorised by the Board or who refuses to produce any book or document in his possession or control when required to do so by the Board or a person duly authorised by the Board or knowingly gives any false answer to any question put to him by the Board or a person duly authorised by the Board,

shall be guilty of an offence under this Act, and shall on conviction after summary trial before a Magistrate be liable to a fine not exceeding five hundred thousand rupees.

(2) Where a person is convicted of an offence under this Act and the court holds that the act constituting such offence was done with the intention of misleading the shareholders of a specified business enterprise or any financial institution dealing with such specified business enterprise or the Inland Revenue Department or where a licensed commercial bank is convicted of an offence under this Act and the court holds that the act constituting the offence was done with the intention of misleading the depositors of such bank, the court may sentence the offender to imprisonment of either description for a term not exceeding five years.

(3) Where an offence under this Act, is committed by a body corporate, any person who is at the time of the commission of the offence, a director, manager, secretary or other similar officer of that body corporate shall be deemed to be guilty of that offence unless he proves that the offence was committed without his knowledge or connivance and that he exercised all such diligence to prevent the commission of that offence as he ought to have exercised having regard to the nature of his functions and all the circumstances of the case.

28. (1) the Board may, having regard to the circumstances in which offence under this Act is committed compound such offence for a sum of money not exceeding one-third of the fine imposable for such offence and all sums

Compound-
ing of
offences.

of money received by the Board in the compounding of an offence under this section shall be credited to the Fund of the Board.

(2) Where the Board is satisfied that a specified business enterprise or an auditor has contravened any provision of this Act and that such contravention is not of a serious nature it may—

(a) direct such specified business enterprise to have its accounts reaudited or where such accounts have been published, to republish them or to include suitable correction in its accounts for the following year; or

(b) where such specified business enterprise is a public company, direct such public company to send a notification in writing to all its shareholders explaining the reason for such non-compliance and the financial effect of such non-compliance on the accounts of such public company and where such specified business enterprise is a public company listed in a stock exchange licensed by the Securities and Exchange Commission of Sri Lanka, to send in addition, a copy of such notification to such Commission and such stock exchange.

Board to
inform pro-
fessional
institute of
any viola-
tion.

29. Where any accountant of any specified business enterprise violates any provision of this Act, it shall be duty of the Board to bring such violation to the notice of any professional body of which such accountant is a member for the purpose of enabling such body to take appropriate action against such accountant.

Board to
inform
regulatory
authority
and Inland
Revenue
Department.

30. Where any specified business enterprise has failed to act in compliance with provisions of this Act, it shall be the duty of the Board to bring such fact to the notice—

(a) of any authority which is empowered by law to regulate or supervise the activities of such specified business enterprise; and

(b) of the Inland Revenue Department, if the Board considers that such non-compliance has resulted in a substantial reduction of the tax liabilities of such specified business enterprise.

31. (1) There shall be charged, levied and paid, by every specified business enterprise, a cess of such amount as may be determined by the Minister from time to time, by Order published in the Gazette; and which shall consist of a percentage of the shareholders equity as shown in the balance sheet of such enterprise for the previous year or a percentage of its after tax profits as shown in the profit and loss account of such enterprise for the previous year, whichever is higher.

Accounting
and
Auditing
Standards
cess.

(2) Every Order made under this section shall come into force on the date of its publication in the Gazette or such later date as may be specified therein and shall be brought before Parliament for its approval within two months of its publication. Any Order which is not so approved shall be deemed to be revoked from the date of disapproval but without prejudice to the validity of any thing previously done thereunder. Notification of the date on which an Order is so disapproved shall be published in the Gazette.

32. (1) The Board shall have its own Fund. There shall be credited to the Fund of the Board—

Fund of
the Board.

- (a) all such sums of money as may be voted from time to time by Parliament for the use of the Board;
- (b) all such sums of money recieved by the Board as proceeds of the cess imposed under section 31; and
- (c) all such sums of money as may be received by the Board in the exercise and performance of its powers and duties under the Act.

(2) There shall be paid out of the Fund of the Board all sums of money as are required to defray the expenditure incurred by the Board in the exercise, discharge and performance of its powers, duties and functions under this Act or any other written law.

33. (1) The financial year of the Board shall be the calendar year.

Financial
year and
audit of
accounts.

(2) The provisions of Article 154 of the Constitution relating to the audit of the accounts of public corporations shall apply to the audit of the accounts of the Board.

34. The Board shall, at the end of each financial year publish a report of its activities during the year and it shall be submitted to the Minister for approval. On being approved by the Minister, the Minister shall cause such report to be laid before Parliament.

Annual
Report.

Protection
for action
taken
under
this Act or
on the
direction
of the
Board.

25. (1) No suit or prosecution shall lie—

- (a) against the Board for any act which in good faith is done, or purported to be done, by the Board under this Act: or
- (b) against any member, officer or servant of the Board for any act which is done, or purported to be done by him in good faith under this Act or on the direction of the Board.

(2) Any expense incurred by the Board in any suit or prosecution brought by or against the Board before any court shall be paid out of the Fund of the Board, and any costs paid to or recovered by, the Board in any such suit or prosecution shall be credited to the Fund of the Board.

(3) Any expense incurred by any such person as is referred to in paragraph (b) of subsection (1) in any suit or prosecution brought against him before any court in respect of any act which is done or is purported to be done by him under this Act or on the direction of the Board shall, if the court holds that such act was done in good faith, be paid out of the Fund of the Board, unless such expense is recovered by him in such suit or prosecution.

Members,
officers
and servants
of the
Board
deemed to
be public
servants.

36. All members, officers and servants of the Board shall be deemed to be public servants within the meaning and for the purpose of the Penal Code.

Board
to be a
scheduled
institution.

37. The Board shall be deemed to be a scheduled institution within the meaning of the Bribery Act and the provisions of that Act shall be construed accordingly.

Regulations.

38. (1) The Minister may make regulations in respect of any matter required by this Act to be prescribed or in respect of which regulations are authorized by this Act to be made.

(2) Every regulation made by this Act shall be published in the Gazette and shall come into operation on the date of its publication or on such later date as may be specified in the regulation.

(3) Every regulation made by the Minister shall as soon as convenient after its publication be laid before Parliament for approval. Any regulation which is not approved

shall be deemed to be rescinded from the date of such disapproval but without prejudice to anything previously done thereunder.

(4) Notification of the date on which any regulation made by the Minister is deemed to be rescinded shall be published in the Gazette.

39. In the event of any inconsistency between the Sinhala and Tamil texts of this Act, the Sinhala text shall prevail.

Sinhala
text to
prevail
in case of
inconsistency.

40. In this Act, unless the context otherwise requires—

Interpretation.

"Central Bank" means the Central Bank of Sri Lanka established under the Monetary Law Act;

"company" shall have the same meaning as in the Companies Act, No. 17 of 1982;

"Ceylon Chamber of Commerce" means the Ceylon Chamber of Commerce incorporated by the Chamber of Commerce Ordinance;

"Factoring Company" means a company which—

(a) assumes responsibility for the trade debts of a client company;

(b) assumes responsibility for the trade debts due to the client company, thereby relieving the client of the risk of loss;

(c) takes over client's trade debts and in certain circumstances, advances a portion of their value immediately, and the balance on maturity of debts;

(d) purchases a debt or a number of debts from a client, usually in order to improve the client's cash flow; or

(e) underwrites a client's trade debt with or without recourse;

"Fund Management Company" means a company which manages portfolios of their clients in investing in range of assets to suit the clients preferences and needs;

"Institute of Chartered Accountants" means the Institute of Chartered Accountants established by the Institute of Chartered Accountants Act, No. 23 of 1959 ;

"licensed commercial bank" means a public company licensed to carry on banking business under the Banking Act, No. 30 of 1988 ;

"prescribed" means prescribed by regulation made by the Minister ;

"public corporation" means any corporation, board or other body which was or is established by or under any written law other than the Companies Act, with funds or capital wholly or partly provided by the Government by way of grant, loan or otherwise ;

"Securities and Exchange Commission" means the Securities and Exchange Commission established by the Securities and Exchange Commission Act, No. 36 of 1987 ;

"share-holders' equity" when used in relation to a public company, means the issued capital of that company and its reserves.

SCHEDULE

.. [Section 5]

Companies licensed under the Banking Act, No. 30 of 1988.

Companies authorized, under the Control of Insurance Act, No. 25 of 1962, to carry on insurance business.

Companies carrying on leasing business.

Factoring companies.

Companies registered under the Finance Companies Act, No. 78 of 1988.

Companies licensed, under the Securities and Exchange Commission Act, No. 36 of 1987, to operate unit trust.

Fund Management Companies.

Companies licensed under the Securities and Exchange Commission Act, No. 36 of 1987, to carry on business as stock brokers or stock dealers.

Companies licensed under the Securities and Exchange Commission Act, No. 36 of 1987, to operate a Stock Exchange.

Companies listed in a stock Exchange licensed under the Securities and Exchange Commission Act, No. 36 of 1987.

Companies, not listed in a stock exchange licensed under the Securities and Exchange Commission Act, No. 36 of 1987—

- (a) which have a turnover in excess of the prescribed limit ;
- (b) which at the end of the previous financial year, had shareholders equity in excess of the prescribed limit ;
- (c) which at the end of the previous financial year, had gross assets in excess of the prescribed limit ;
- (d) which at the end of the previous year, had liabilities to banks and other financial institutions, in excess of the prescribed limit ;
- (e) which have a staff in excess of the prescribed limit.

Public Corporation engaged in the sale of goods or the provision of services,

A group of companies, any one of which fall within any of the above categories. For the purposes of this Schedule, "a group of companies" means a holding company and its subsidiaries, the accounts of which have to be consolidated under section 147 of the Companies Act, No. 17 of 1982.

Annual subscription of English Bills and Acts of the Parliament Rs. 885 (Local),
Rs. 1,180 (Foreign), payable to the SUPERINTENDENT, GOVERNMENT PUBLICATIONS
BUREAU, No. 82, Transworks House, Lotus Road, Colombo 01, before 15th
December each Year in respect of the year following.