

# Report of the Audit Committee

The purpose of the Audit Committee is to assist the Board in its general oversight of financial reporting, internal controls and audit functions. The composition requirements and the terms of reference of the Audit Committee are set out in Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks in Sri Lanka issued by the Central Bank of Sri Lanka. This is complementary to the Charter formulated by the Audit Committee.

This Report provides information on the compliance with regulatory requirements and where appropriate the process adopted by the Audit Committee to discharge their responsibilities.

## Composition

All members of this Committee are Independent Non-Executive Directors. The Chairman is a Chartered Accountant with considerable experience in the field of Finance and Audit. The profiles of the Members are given elsewhere in the Annual Report.

The composition of the Committee during the nine months period ended 31 December 2015 is as follows:

- P M B Fernando – Chairman
- L N de S Wijeyeratne (from October 2015)
- T Dharmarajah
- K D N R Asoka (from June 2015)
- Ms S R Thambiayah (Up to May 2015)

L N de S Wijeyeratne was appointed a member with effect from October 2015, after the merger of DFCC Bank and DFCC Vardhana Bank. Mr Wijeyeratne served as the Chairman of the Audit Committee of DFCC Vardhana Bank before his appointment to the DFCC Bank Audit Committee. K D N R Asoka was appointed a member with effect from June 2015 in place of Ms S R Thambiayah who served the Audit Committee for an interim period. Senior Vice President – Group Internal Audit serves as the Secretary of the Committee. He has direct access to the members of the Audit Committee.

## Meetings

During the nine months period ended 31 December 2015, twelve Audit Committee Meetings were held. Proceedings of the Audit Committee Meetings are reported regularly to the Board.

Attendance by the Committee members at the meetings is given in the table on page 90 of the Annual Report.

The Chief Executive and Chief Financial Officer attend the meetings by invitation. The Committee met with the External Auditor, KPMG on five occasions which included two meetings without management presence so as to provide the External Auditor an opportunity to have a frank dialogue with the Committee.

## Mandate and Role

The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities for DFCC Bank's accounting and financial reporting process and audit of the financial statements of DFCC by monitoring the Bank's (1) integrity of financial statements, (2) independence and qualifications of its External Auditor, (3) the system of internal controls, (4) performance of Internal Audit process and (5) compliance with laws, regulations and codes of conduct with a view to safeguarding the interests of all stakeholders of DFCC Bank.

The Committee has discharged the responsibilities assigned by Rule No. 3 (6) (ii) of the Corporate Governance Direction No. 11 of 2007, issued by the Central Bank of Sri Lanka. Where appropriate more details are provided under separate headings in this Report.

## Financial Reporting

The Committee assists the Board of Directors to discharge their responsibility for the preparation of true and fair financial statements in accordance with the books of accounts and Sri Lanka Accounting Standards by: (1) reviewing the adequacy and effectiveness of the internal control system and procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of accounts; (2) reviewing the integrity of the process by which financial statements are derived from the books of accounts; (3) reviewing the choice of appropriate accounting policies and the judgments made in the application of such accounting policies; (4) reviewing compliance with Sri Lanka Accounting Standards and other regulatory provisions relating to financial statements.

The Committee reviewed all quarterly non-audited interim financial statements and financial statements for the nine months period ended 31 December 2015, together with supporting information that included significant assumptions and judgments made in the preparation of financial statements. The Committee also took into consideration the internal audit reports, management letter issued by the External Auditor and the responsibility statements in relation to the financial statements issued by the Chief Financial Officer and Chief Executive in making an overall assessment on the integrity of the Financial Reporting System.

The Annual Report of the Directors for the period ended 31 December 2015, includes a separate report on internal controls on page 110. This report is issued pursuant to Rule 3 (8) (ii) (b) of the Direction No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks and includes inter alia an affirmative assurance on the integrity of Financial Reporting System to produce reliable financial statements that are true and fair.

The Committee confirms that to the best of its knowledge and belief the financial statements issued for external purposes by DFCC Bank complied with generally accepted principles of accounting as enunciated in Sri Lanka Accounting Standards and complies with the statutory provisions of Companies Act No. 07 of 2007 and Banking Act No. 30 of 1988 and subsequent amendments thereto.

### **Internal Audit**

With the concurrence of the Board of Directors, Audit Committee engaged the services of two firms of Chartered Accountants to supplement the Bank's Internal Audit Function in carrying out periodic audits at some of the business units of for the period ended 31 December 2015. Representatives from the Audit Firm were invited to the Audit Committee meetings convened to discuss their reports.

A Risk and Significance Based Internal Audit Plan for the period covering all significant operational areas was approved during the year and Audit Committee periodically evaluated the status of the audits carried out during the period.

The Audit Committee also provides a forum for the review of Internal Audit Reports and consideration of findings, recommendations and corrective action taken by management to overcome the deficiencies identified, with a view to managing significant business risks and improving controls. Department/Unit heads attend meetings when their reports are discussed.

### **Risks and Controls**

The risk profile of the Bank with appropriate risk mitigation strategies has been developed and documented by the Integrated Risk Management Committee. Audit Committee has adopted a Risk Assessment Framework to identify and assess risks encountered during the internal audit work which is reviewed periodically.

All key controls of the Bank have been documented by the relevant process owners and the internal audit has introduced required audit procedures to relevant audit programmes to test the adequacy and effectiveness of internal controls. The Committee seeks and obtains the required assurance from the head of the business unit on the remedial action taken in order to maintain the effectiveness of internal controls. Any significant non-compliances are followed up by the Audit Committee and where necessary instructions were given to the management to enhance and strengthen the internal controls.

### **External Audit**

The Audit Committee assists the Board of Directors to implement a transparent process; (1) in the engagement and remuneration of the External Auditor for audit services with the approval of the shareholders; (2) in reviewing the non-audit services to ensure that they do not lead to impairment of the independence of the Auditor; (3) in assisting the Auditor to complete the audit programme within an agreed time frame in compliance with relevant guidelines issued by the Central Bank of Sri Lanka.

In order to discharge its responsibilities the Audit Committee meets with the Auditor as and when it is necessary. During these meetings with the Auditor the Audit Committee; (1) reviews the non-audit services provided by the External Auditor to ensure that provision of such services are not in conflict with the guidelines issued by the Central Bank of Sri Lanka and that the remuneration for such services are not of such value so as to impair their independence; (2) request for information relating to the total remuneration of the External Auditor for audit and non-audit services provided to the Bank and Group; (3) discusses and finalises the scope of the audit to ensure that it is in compliance with the guidelines issued by the Central Bank of Sri Lanka.

In the context of determining the independence of the Auditor, the Committee reviewed the statements issued by the External Auditor pursuant to Section 163 (3) of the Companies Act No. 07 of 2007. As per this declaratory statement the Auditor has confirmed that they do not have any relationship that would impair their independence and has disclosed the total remuneration for the period ended 31 December 2015, for both audit and permitted non-audit services.

The Audit Committee has also recommended the adoption of a Policy on the engagement of the External Auditor to provide non-audit services. This policy document approved by the Board of Directors, in addition to complying with the regulatory requirements, has included guidelines to ensure that the independence of the External Auditor is not impaired by the scale and scope of non-audit services.

The Audit Committee also meets with the Auditor at the conclusion of the audit to review the Management Letter issued by the Auditor before it is transmitted to the Board of Directors and the Central Bank of Sri Lanka.

### **Regulatory Compliance**

DFCC Bank's procedures in place to ensure compliance with mandatory banking and other statutory requirements were monitored on an ongoing basis. The compliance reporting is subject to internal audit verification on a sample basis. The Committee is satisfied that the Bank substantially complies with these requirements.

### **Evaluation**

An evaluation of the effectiveness of the Committee was carried out by the other members of the Board and the Committee has been found to be effective.

### **Reappointment of the External Auditor**

The Audit Committee having evaluated the quality of audit service provided by the current Auditor has recommended to the Board of Directors that KPMG be reappointed as Auditors for the year ending 31 December 2016, subject to the approval of shareholders at the Annual General Meeting at a fee to be determined by the Board.



**P M B Fernando**  
Chairman – Audit Committee

24 February 2016