

## Purpose and Terms of Reference

The Board Audit Committee is responsible to the Board of Directors in its general oversight of financial reporting, internal controls and functions relating to internal and external audit. The Board Audit Committee reports to the Board of Directors on its activities on a regular basis.

The Charter of the Board Audit Committee, which is periodically reviewed and revised with the concurrence of the Board of Directors, clearly defines the Terms of Reference of the Committee. The Board Audit Committee Charter was last reviewed by the Board Audit Committee in the last quarter of 2013 and approved by the Board of Directors.

The roles and functions of the Committee, are set out in the Banking Act Direction No. 11 of 2007 on 'Corporate Governance for Licensed Commercial Banks in Sri Lanka' (hereinafter referred to as the Direction), 'Rules on Corporate Governance under Listing Rules of the Colombo Stock Exchange' and 'Code of Best Practice on Corporate Governance' issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

## Composition of the Board Audit Committee

The Audit Committee comprised of five Non-Executive Directors for the year, in line with the composition requirements specified in the Direction. Two members of the Committee were Independent Directors. The Chairman of the Audit Committee is an Independent Director and a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, while the other members of the Committee are also from a specialist financial/auditing background.

The following Directors serve/served on the Audit Committee:

Mr T L F W Jayasekera	Chairman
Mr D S P Wikramanayake	Non-Executive Director
Mr S Rajapakse	Non-Executive Director
Ms G D C Ekanayake	Non-Executive Director
Ms K Fernando	Non-Executive Director

This report focuses on the activities of the Audit Committee for the year under review. A more general description of the Committee's functions is given under Corporate Governance on Page 89.

## Responsibilities of the Audit Committee

- Monitors the integrity of Financial Statements
- Oversees the internal control systems over financial reporting, including reviewing of their effectiveness
- Monitors and reviews the effectiveness of the internal audit function
- Review the Financial Statements and Accounting Policies and practices
- Advises the Board on appointment of the External Auditor and is responsible for oversight and remuneration of the External Auditor

## Meetings

The Audit Committee met nine times during the year. Four meetings were to approve the Bank's quarterly and annual Financial Statements. Attendance by the Committee members at each of these meetings is given in the table on page 90 of the Annual Report.

The Chief Executive Officer attended the meetings of the Committee by invitation. The Head of Internal Audit, the Chief Financial Officer, Head of Group Risk and the Chief Operating Officer also attended the meetings on invitation. Other officials were invited to attend the meetings on a need basis. On the invitation of the Committee, the Bank's External Auditors, Messrs Ernst & Young, attended eight meetings during the year. The Audit Committee met the External Auditors twice during the year, without the presence of CEO and the Corporate Management, to ensure that there was no limitation of scope in relation to the Audit and to allow for full disclosure of any incidents which could have had a negative impact on the effectiveness of the external audit, and concluded that there were no cause for concern.

## Financial Reporting

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that reflect a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the requirements of the Sri Lanka Accounting Standards. The Committee reviews -

- The adequacy and effectiveness of the Internal Control Systems and Procedures to provide reasonable assurance that all transactions are accurately and completely recorded in the books of account.
- The effectiveness of the Financial Reporting Systems in place to ensure reliability of the information provided to the stakeholders.
- The Bank's Financial Statements and Accounting Policies and practices.
- The processes by which compliance with Sri Lanka Accounting Standards including SLFRS/LKAS and other regulatory provisions relating to financial reporting and disclosures are ensured.
- The Annual Report and Accounts and the Interim Financial Statements prepared for publication together with the press releases prior to submission to the Board.

Having assessed the prevailing Internal Control Systems and Procedures, the Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well-monitored and accurately reported.

### **Risks and Internal Controls**

During the year, the Committee reviewed the effectiveness of the Bank's Internal Control System and the CEO's quarterly confirmation on the internal control environment. Additionally, the Committee also assessed the effectiveness of the Bank's internal controls over financial reporting as of 31 December 2013, as required by the Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka, Subsection 3 (8) (ii) (b), based on the 'Guidance for Directors of Banks on the Directors' Statement on Internal Control' issued by The Institute of Chartered Accountants of Sri Lanka. The result of the assessment is given on page 178 and 179, in the 'Directors' Statement on Internal Control' in the Annual Report. The External Auditors have also issued an Assurance Report on Directors' Statement on Internal Controls. The report is given on page 180 of the Annual Report.

### **Internal Audit**

During the year, the Audit Committee reviewed the independence, objectivity & performance of the internal audit function and the adequacy of its resources. The Internal Audit Plan for the Bank/Group was reviewed and approved by the Committee and the findings of the internal audits completed and their evaluation of the Bank's internal control systems were reviewed. The Committee also reviewed updates on audit activities and the adequacy of coverage of the approved audit plan, the results of any unsatisfactory audits, the action plan to address these areas and the implementation status. Audit findings presented in the reports are prioritized based on the level of risk.

In addition to the Bank's Audit Department carrying out branch operational audits, with the concurrence of Board of Directors, the Bank engaged the services of a firm of Chartered Accountants from the list of firms approved by Central Bank of Sri Lanka in order to carry out branch operational audits for wider coverage. The Committee regularly reviews and monitors the activities of the firm in relation to activities carried out for the Branch Operational Audits.

Also as a special assignment, with the concurrence of Board of Directors, the annual internal audit of Treasury and related areas for the year 2013 and the information security audit of the core banking system were assigned to an audit firm from the list of firms approved by Central Bank of Sri Lanka.

The Committee also invited representatives of audit firms engaged in outsourcing assignments to make presentations on their findings. These outsourcing assignments were awarded in compliance with the Central Bank of Sri Lanka Outsourcing Direction No. 02 of 2012.

### **Compliance with the Revised Sri Lanka Accounting Standards**

The adoption of the revised Sri Lanka Accounting Standards (SLFRS/LKAS) and the impact of the same on Bank's Financial Statements have been independently validated by the External Auditors during their year-end audit and the process was continuously reviewed by the Committee.

### **Regulatory Compliance**

The Internal Audit performs verifications covering applicable regulatory requirements during their process audits ensuring that systems and procedures are in place to ensure compliance with such requirements.

### **Group Audit Policy**

The Group Audit Policy was last approved by the Audit Committee/the Board during the 4th Quarter of 2013, with the formation of a separate Audit Committee for the NDB Capital Holdings Group.

### **Internal Audit Charter and Manual**

The internal audit function is governed by the Internal Audit Charter which defines the scope, functions, authority, responsibility, reporting, external relationship management and ethics that assist and direct/guide the Internal Audit Department to discharge its function independently. The Internal Audit Charter and Internal Audit Manual were last reviewed by the Board Audit Committee, in the last quarter of 2013.

### **External Audit**

The Audit Committee undertook the annual evaluation of the independence and objectivity of the External Auditor and the effectiveness of the audit process.

During the audit, the External Auditor presented to the Committee their audit approach and procedures, including matters relating to the scope of the audit and Auditor's independence. The Lead Audit Partner was rotated during the year as per the five-year rotation requirement, in order to ensure the independence of the Auditor and to comply with the requirements of the Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka.

The Committee reviewed the audited Financial Statements with the External Auditor who is responsible for expressing an opinion on its conformity with the Sri Lanka Accounting Standards.

The Committee reviewed the Management Letter issued by the External Auditor with the management responses thereto.

The Audit Committee was of the view that the Non-Audit Services provided by the External Auditor were not within the category of services identified as prohibited under:

1. The guidelines issued by the Central Bank of Sri Lanka for External Auditors, relating to their statutory duties in terms of Section 39 of the Banking Act No. 30 of 1988 and amendments thereto.
2. The guidelines for Listed Companies on Audit and Audit Committees issued by the Securities and Exchange Commission of Sri Lanka.

### **Re-appointment of External Auditor**

The Audit Committee recommends the reappointment of Messrs Ernst & Young, Chartered Accountants as their External Auditor to the Board of Directors for the financial year ending 31 December 2014, subject to the approval of the shareholders at the next Annual General Meeting.

### **Good Governance and Whistle-Blowing**

The Bank's Whistle-Blowing Policy is intended to serve as a channel of corporate fraud risk management which was revised in the first quarter of 2013. The policy will encourage any team member who has a legitimate concern on an existing or potential 'wrong doing', done by any person within the Bank, to come forward voluntarily, and bring such concern to the notice of an independent designated authority. Concerns raised are investigated and the identity of the person raising the concern is kept confidential, as even anonymous complaints are looked into.

### **Evaluation of the Board Audit Committee**

As authorized by the Board, the Board Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee. Report with the results of the self-assessment was submitted to the other members of the Board for their review and the Board concurred that the Committee had carried out its responsibilities in a satisfactory manner.



**Trevine Jayasekara**  
Chairman - Board Audit Committee

12 February 2014