

## Composition of the Audit Committee

The Audit Committee comprised of six Non-Executive Directors as at the end of the year 2014 and is in line with the composition requirements specified in the Direction. The Chairman of the Audit Committee Mr Trevine Jayasekera is an Independent Non-Executive 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 structure and composition of the Board Audit Committee for the year 2014 and the attendance of each Director is set out in the table below:

Name of the Director	Independent/Non-Independent under CBSL Directions	Independent/Non-Independent under ICASL/SEC Directions	No. of Meetings Attended/Scheduled
Mr Trevine Jayasekera	Independent	Independent	9/9
Mr Sarath Wikramanayake	Non-Independent	Non-Independent	8/9
Mr Sujeewa Rajapakse	Non-Independent	Non-Independent	6/9
Ms G D Chandra Ekanayake	Non-Independent	Independent	8/9
Mrs Kimarli Fernando	Independent	Independent	9/9
Mrs Indrani Sugathadasa	Independent	Independent	8/9

Brief profiles of the members are given on pages 102 and 103.

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 pages 128 to 134.

The Audit Committee Charter clearly defines the Terms of Reference of the Committee and is periodically reviewed and revised with the concurrence of the Board of Directors. This process ensures that new developments and concerns are adequately addressed. The Audit Committee Charter was last reviewed and approved by the Board of Directors in the last quarter of 2014.

## Purpose and Terms of Reference

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

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' and its subsequent amendments (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.

## Responsibilities of the Audit Committee

- Review the Interim Financial Statements and the Bank's annual Financial Statements in order to monitor the integrity of such statements prepared for disclosure, prior to submission to the Board of Directors.
- Ensure that efficient and sound financial reporting systems are in place and are well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Regulatory Authorities, the Management and Other Stakeholders.

- Ensure the Bank has adopted and adhere to policies which firmly commits the Bank to achieve the highest standards of good corporate governance practice.
- Review the quality and the appropriateness of Accounting policies and their adherence to statutory and regulatory compliance requirements and applicable Accounting Standards.
- Review internal audit reports and liaising with Management in taking precautionary measures to minimise control weaknesses, procedure violations, frauds and errors.
- Review External Audit and Statutory inspection reports and follow up on their findings and recommendations.

## Audit Committee Meetings

The Audit Committee met nine times during the year of which four meetings were to approve the Bank's quarterly and annual financial statements. Attendance of the Committee members for each of these meetings is given in the table under 'Audit Committee Composition' in this Report.

The Chief Executive Officer, the Head of Internal Audit, the Group Chief Financial Officer, Head of Group Risk and the Chief Operating Officer are permanent invitees. 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 all 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 the Auditors had the independence to discuss and express their opinions on any matter and also for the committee to have the assurance that the management has fully provided all information and explanations requested by the Auditors.

## Summary of Activities

### Financial Reporting

The Committee assists the Board to discharge their responsibility in the preparation of Financial Statements that evidence a true and fair view on the financial position and performance in accordance with the Bank's accounting records and as per the stipulated 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 (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.

### System of 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 2014, 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 263 and 264, 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 265 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.

With the concurrence of Board of Directors, the annual internal audit of Treasury and related areas for the year 2014 was outsourced to an audit firm from the list of firms approved by Central Bank of Sri Lanka. 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 the 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.

## Internal Audit Charter and Audit 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.

## 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 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 and 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 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.

In carrying out the overseeing responsibilities, the Committee adopted the overview principles of the External Audits of Banks, as recommended by the Basel Committee on Banking Supervision, issued in March 2014.

## Re-appointment of External Auditor

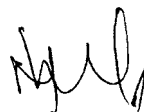
The Audit Committee performed an evaluation of the External Auditor based on certain defined criteria and recommends the reappointment of Messrs Ernst & Young, Chartered Accountants as their External Auditor to the Board of Directors for the financial year ending 31 December 2015, subject to the approval of the shareholders at the next Annual General Meeting.

## Good Governance and Whistle Blowing Policy

The Bank's Whistle Blowing Policy is intended to serve as a channel of corporate fraud risk management. 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.

## Evaluation of the Audit Committee

The Audit Committee carried out a formal self-evaluation/appraisal on the effectiveness of the Committee and reported the results of same to the other members of the Board. The Board concurred that the Committee had carried out its responsibilities in an effective and satisfactory manner.



**Trevine Jayasekara**  
Chairman of the Audit Committee

13 February 2015