

**APPLICATION OF SRI LANKA
ACCOUNTING STANDARDS AND OTHER
REGULATORY REQUIREMENTS BY THE
REGIONAL DEVELOPMENT BANKS**

by

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award of the Degree of Master of Science in Management in 2013

The work described in this thesis was carried out by me under the supervision of Prof. Samanthi Senarathne and a report on this has not been submitted in whole or in part to any university or any other institution for another Degree/Diploma.

..........

K H R Chandika

I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the University for the purpose of evaluation.

Senarathne

.....
Prof. Samanthi Senarathne

Supervisor

.....
Date

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LIST OF ACRONYMS

ADB	-	Asian Development Bank
AG	-	Auditor General
CBSL	-	Central Bank of Sri Lanka
CIGAS	-	Computerised Integrated Government Accounting System
CSE	-	Colombo Stock Exchange
DIR	-	Department of Inland Revenue
FASB	-	Financial Accounting Standards Board
GAAP	-	Generally Accepted Accounting Principles
GDP	-	Gross Domestic Production
IAS	-	International Accounting Standards
IASB	-	International Accounting Standards Board
IASC	-	International Accounting Standards Committee
IBSL	-	Insurance Board of Sri Lanka
ICAEW	-	Institute of Chartered Accountants of England and Wales
ICASL	-	Institute of Chartered Accountants of Sri Lanka
IFAC	-	International Federation of Accountants
IMF	-	International Monetary Fund
IPSAS	-	International Public Sector Accounting Standards
KDB	-	Kandurata Development Bank
LIFO	-	Last in First Out method
LKR	-	Sri Lanka Rupees
LSB	-	Licensed Specialised Bank

NPL	-	Non Performing Loans
PaR	-	Portfolio at Risk
PP & E-		Property, Plant and Equipment
PSC	-	Public Sector Committee
RDB	-	Regional Development Bank
RrDB	-	Rajarata Development Bank
RRDB	-	Regional Rural Development Banks
RUDB	-	Ruhuna Development Bank
SBE	-	Specified Business Enterprises
SDB	-	Sabaragamuwa Development Bank
SEC	-	Securities and Exchange Commission
SLAASMB		Sri Lanka Accounting and Auditing Standards Monitoring Board
SLAS	-	Sri Lanka Accounting Standards
SME	-	Small and Medium Scale Enterprises
UDB	-	Uva Development Bank
UK	-	United Kingdom
UNDP	-	United Nations Development Programme
VAT	-	Value Added Tax
WDB	-	Wayamba Development Bank

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ABSTRACT

This study examines the compliance of Regional Development Banks (RDB) with Sri Lanka Accounting Standards (SLAS) and the reasons for non-compliances with SLAS. Further, it investigates the compliance of RDBs with other regulatory requirements such as circulars and guidelines issued by the Central Bank of Sri Lanka (CBSL) and the Companies Act No. 07 of 2007. The study was designed to find out the difficulties and complications faced by the staff members of finance divisions of RDBs when applying SLAS and other regulatory requirements. The researcher has carried out a review of annual reports for a period of five years of all six RDBs. This review was supplemented by a questionnaire survey among 46 staff members of finance divisions of all six RDBs. Further, semi structured interviews were carried out with key officers of finance divisions of RDBs to obtain clarifications and explanations regarding the deviations noted, their views and suggestions for the purpose of the study.

The researcher has identified several instances of non-compliances including deviation from SLAS 16 – Employment Benefits, by not obtaining actuarial valuations of gratuity provisions, and failure to make necessary disclosures required by the Sections of SLAS 23.30, SLAS 18.79, SLAS 16.50, SLAS 30.16, 30.17, SLAS 9.42, SLAS 10.14 and SLAS 23.51. Further, the researcher has identified the difficulties faced by the staff of

RDBs such as lack of technical knowledge about SLAS and absence of proper guidelines and supervision in complying with these requirements. The study recommended a mechanism to overcome the issues recognized during the study. These recommendations include recruiting qualified accountants to the finance divisions, continuous training and development of staff and provision of proper guidelines and supervision of the work of junior officers by responsible officers.

Chapter 01

INTRODUCTION

1.1 Background of the Study

The banking sector provides an invaluable service to the economy of any country and directly contributes towards development activities of the society. The banks are playing a vital role in the business environment and customers are expecting the banking system to maintain the confidence by improving the quality and transparency of financial reporting. Financial reporting is one of the most important ways of providing information about the accountability of banks to the owners and the society. Application of SLAS when preparing financial statements will improve the quality of financial information reported by the banks.

Banks represent a significant and influential sector of business all over the world. Most individuals and organizations make use of banks either as borrowers or depositors. Banks play a major role in maintaining confidence in the monetary system through their close relationship with regulatory authorities and the regulations imposed on them by the government. Hence, there is a considerable and widespread interest in the well-being of banks, and in particular, their solvency and liquidity. The operations, and thus the accounting and reporting requirements, of banks are different from those of other commercial enterprises.

Various users of the bank's financial statements are referring to such information for purposes as listed below.

Users of Financial Statements and their information needs

- Investors - to make investment decisions such as buying and selling of shares and debt equipment of the entities
- Lenders - to ensure the security for their borrowings and entities ability to meet its future obligations
- Employees - to ensure that they are securing their benefits as a return for their efforts towards the growth of the entity and also job security
- Suppliers – to ensure the ability of recovering their dues on time
- Customers –to ensure that the entity’s ability to continue for a foreseeable future for them to develop long term relationships
- Government authorities – to ensure proper allocation of resources and to determine taxation policies
- Public – to ensure corporate social responsibilities of the entity towards the society

Therefore, it would be very important to improve the qualitative characteristics of the financial statements to fulfil the common needs of most of the users of such financial information. Further, these statements would be a good indicator to measure the stewardship and accountability of the management towards its ownership. The users of financial statements may compare the financial statements of various business entities with the enhanced qualitative characteristics, more transparent presentation of financial position and performance of the entities which had been prepared by following SLAS.