

Financial market in sri lanka

[Finance](#), [Market](#)



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The purpose of this chapter is to put the phase and reexamine the fiscal market in Sri Lanka and to discourse the audit market with particular accent on the Big 4 audit houses. The demand and supply of companies and the general audit patterns used by companies are discussed subsequently. The background to the research further explains the ordinances on external audits while foregrounding both professional and legislative guidelines. Some characteristics of the external audit fees are discussed later.

Fiscal market in Sri Lanka

Sri Lanka 's fiscal system continues to stay stable and resilient underpinned by strong domestic economic growing in the face of increased hazards from the planetary macro-financialenvironment. This stableness is instrumental in making a favorable environment for depositors and investors, while

promoting fiscal establishments and markets to work efficaciously and expeditiously, advancing investing and economic growing. Financial system stableness requires a stable fiscal and economic environment within an effectual regulative model and a safe and robust payment and colony system. The local fiscal landscape can be divided into the Money Market and the Capital Market severally. The Money Market where short-run interest-bearing assets with adulthoods of less than one twelvemonth, such as exchequer measures, commercial paper, and certifications of sedimentations are traded and ease the liquidness direction in the economic system. The Capital Market on the other manus is the market for trading in assets for adulthoods longer than one twelvemonth, such as exchequer bonds, private debt securities (bonds and unsecured bonds) and equities (portions) . Its intent is to ease the elevation of long-run financess.

The Financial Market can be besides be classified harmonizing to instruments, such as the debt market and the equity market. The debt market is besides known as the Fixed Income Securities Market and its sections are the Government Securities Market (exchequer measures and bonds) and the Private Debt Securities Market (commercial paper, private bonds and unsecured bonds) .

The fiscal system consists of the Central Bank, as the apex fiscal establishment, regulative authorization, fiscal establishment, a payment and colony system and a legal model. The fiscal system carries out the critical fiscal intermediation map of borrowing from excess units and loaning to shortage units. The Central Bank through its behavior of pecuniary policy

influences the different sections of the Financial Market in changing grades. The Central Bank 's policy involvement rates have the greatest impact on a section of the Money Market called the inter-bank call money market and a section of the Fixed Income Securities Market, i. e. the Government Securities Market. The Central Bank may besides step in in the inter-bank Foreign Exchange Market, which is closely connected to the Money Market.

One of the most of import maps of the fiscal system is to guarantee safety and efficiency in payments and security minutess. Fiscal substructure refers to the different systems that provide for the executing of both large-value and small-value payments. Payment and colony systems enable the transportation of money in the histories of fiscal establishments to settle fiscal duties between persons and establishments. (Fiscal System Stability Review - Central Bank 2011)

Audited Account Market in Sri Lanka

The Institute of Chartered Accountants of Sri Lanka (CA) plays a critical function as the state 's exclusive authorization in explicating Accounting and Auditing Standards while adhering to the International Financial Reporting Standards (IFRS) .

The Sri Lankan audit landscape is chiefly dominated by the Big 3 audit houses which are Pricewaterhouse Coopers, Ernst & A ; Young and KMPG. These audit giants account for the bulk of audit services across the listed companies. In add-on to these major participants BDO Partners, B. R. De Silva & A ; Company, Amerasekera & A ; Company, SMJS Associates, De Zoysa Associates, R N Associates, Nandimuttu & A ; Co, Ranwatta & A ; Co

are some of the other auditing houses that compete in the general audit industry of Sri Lanka. These participants largely are involved in scrutinizing companies that are non listed on the Colombo Stock Exchange.

The game of Big 4 & A ; Non Big 4 audit houses

The largest web for accounting professional services identifies the Big 4 audit houses as the 'Final four ' which is responsible for a bulk of audits for publically traded companies. This is largely due to the market portion of those four houses where other little houses could non vie with the top terminal work and besides that they are non dependable as hearers to big administrations. However in Sri Lanka it is noted that Deloitte Touche Tohmatsu is non a outstanding participant and merely the other three audit houses are important within the industry. The stableness, credibleness and planetary presence that these companies offer are in fact significant. In a Sri Lankan context these companies have an border and go a formidable rival for about all the listed companies.

Demand and Supply

In footings of geographics, the American part histories for a 40 % and worsening portion of planetary combined grosss. From 2010 to 2011 nevertheless, the American part had a strong public presentation growing of 9.9 % . Europe has 44 % of combined house grosss and increased 5.4 % from 2010 to 2011, turning the slowest due to regional uncertainty. Asiatic grosss have more than doubled from \$ 7 billion in 2004 to \$ 17 billion in 2011, and grew a dramatic 17.4 % from 2010 to 2011. (The 2011 Big Four Firm Performance Analysis)

Harmonizing to employee statistics, indicated in the Big 4 Performance analysis study for twelvemonth 2011 the four houses jointly employ staff of more than 65, 000 across the Earth with 35, 000 spouses. It besides indicates that the net employment increased by 36, 000 from 2010 to 2011. This gives an indicant of how important these companies are and to what extent they dominate the full audit landscape.

Regulations on External Auditing

All listed companies should set up formal and crystalline agreements with regard to the concern monitoring patterns, typically overseen by the audit commission, and involves the application of accounting policies, fiscal coverage patterns, supervising guidelines, build relationships with the company hearers. Once this is finalised a listed company should obtain the services of a professional audit house. To this consequence the company must make out to the model on Sri Lankan Auditing criterions. The Companies Act of 2007 besides has a series of ordinances that need to be adhered to when choosing and commissioning the services or an external hearer. This is besides applicable in the event of altering the bing audit house. It is obligatory for listed companies to follow with the Sri Lankan Accounting Standards every bit good as the Listing Rules of the Colombo Stock Exchange when fixing audited fiscal statements which are included in their Annual Report. Consequently, one-year studies normally include audited fiscal statements of the Company, Director 's study and the revelations required by regulation 7. 6 of the Listing Rules and must be circulated to stockholders before the termination of five (5) months from the terminal of the fiscal twelvemonth. This is one of the chief considerations

that the listed companies must run into in order to follow with the demands mandated by the Securities and Exchange Commission and the Colombo Stock Exchange.

Professional Guidelines

The Sri Lankan Auditing Standards are created on the International Standards on Auditing (ISA) published by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC), with little alterations to run into local conditions and demands. It sets out the basic rules and related patterns and processes that apply to audits of fiscal statements. Hence this confirms conformity in all stuffs respect to the International Standards on Auditing.

Under the Sri Lanka Accounting & A ; Auditing Standards Act No. 15 of 1995, conformity with these Standards is ineluctable when transporting out the audits of entities specified in the said Act. This Act non merely places the duty of following with these Standards on the Auditors entirely, but besides places a corresponding duty on the entity 's direction to take all sensible stairss to guarantee that these Standards are complied with in the behavior of the audits of their histories.

Legislative Guidelines

When analyzing the legislative model for the listed companies, it is the duty of the audit commissions of listed companies to find the audit procedure both internal and external. Audit commission duties in companies are to be enriched harmonizing to the Sri Lanka subdivision of the Association of Chartered Certified Accountants which will make an extra bed of

administration and answerability. This will guarantee that naming audit houses to carry on external audits will now rest in the custodies of these audit commissions which will supervise and supply transparency to the audit procedure. Stairss are taken to guarantee that all listed companies provide information publically on hearer independency. This corporate revelation has enabled more transparency into the audit procedure. Therefore hearers are bound to present comprehensive information on their independent study and hazard and internal control reappraisals. In the aftermath of important disagreements in corporate revelations in listed companies it is of import to observe that hearers merely give an sentiment of the true and just position of the fiscal statements taken as a whole, in footings of materiality, which is termed as a sensible confidence and non an absolute confidence, in conformity with the international accounting criterions.

Features of External Audit Services

An external audit is a reappraisal of the fiscal statements or studies of an entity, normally a authorities or concern, by person non affiliated with the company or an bureau. External audits play a cardinal function in placing fiscal mistakes of concerns and authorityess because they are conducted by outside persons and hence supply an impartial judgement. External audits are normally performed at regular intervals by concerns, and are typically required annually by jurisprudence for authorityess. External audits are performed to confirm that the fiscal statements of an entity are right presented with a true and just position. They do non affect an existent accounting of a concern ' fiscal histories, but instead external audits are an independent rating of fiscal paperss provided to the party, that carries out

the audit. For a private-sector concern, an external audit will typically include a reappraisal of the company 's quarterly or monthly fiscal studies every bit good as statements on grosss and expenditures to guarantee they are right presented. For authorities, an external audit will include a reappraisal of the budget, the distribution of finacess and the disbursals to guarantee the budgeted grosss and disbursals were right compiled and used.

An external audit will have a study sketching the hearer 's findings. This will by and large be a sum-up of the overall cogency of the fiscal statements and paperss as presented by the company or authorities which is normally presented as the Statement of Auditors in the Annual Reports. Should the external hearer uncover disagreements between the statements presented by the company and his findings, these will be noted in the study as good. The audit will frequently include fiscal suggestions for the entity as ways to better its overall fiscal standing and accounting patterns. The more of import characteristic of an external audit is the decision of the hearer. A favorable decision is indifferent grounds that the entity is describing fiscal informations right while a negative decision is a ruddy flag for hapless accounting patterns.

Drumhead

The stableness of the fiscal market in Sri Lanka is a cardinal driver of economic growing and nutriment. Similarly the capital markets provide a gateway for foreign investing and excite growing flights. The Sri Lankan Auditing Standards board and the Institute of Chartered Accountants are the top government organic structures that guarantee good patterns and

transparency in the industry. In drumhead it was revealed that in Sri Lanka a bulk of the listed companies prefer to seek the services of three of the Big4 audit houses, viz. , Ernst & A ; Young, KMPG and Pricewaterhouse Coopers. There are some smaller audit houses that are non so important in supplying services to the listed companies. This chapter discusses the ordinances on external audits while emphasizing the importance of both professional and legislative guidelines. Appraisal of the external audit fees, its composing and services offered have been discussed from a Sri Lankan position.