

BOARD AUDIT COMMITTEE REPORT



Mrs. Yogadinusha Bhaskaran

Chairperson - Audit Committee

Provided a steady hand and a guiding voice to the management team, ensuring that financial reporting processes remain effective and reliable even in times of uncertainty and instability and the committee's oversight and guidance helped to safeguard the interests of all stakeholders, promoting transparency, accountability, and good corporate governance within the LB Finance PLC.

COMPOSITION OF THE COMMITTEE

During the year, the Board Audit Committee was composed of three Non-Executive Directors, a majority of whom are independent, in compliance with regulatory composition requirements. The Board is confident that the current members of the Committee poses the necessary competence in financial and technology related matters and have recent and relevant experience.

Board member	Board status
Mrs. Yogadinusha Bhaskaran	Non-Executive Director
Mr. Ashane Jayasekara	Independent Non-Executive Director
Mrs. Ashwini Natesan	Independent Non-Executive Director

The Managing Director, Deputy Managing Director, Executive Directors and the senior management of LBF including Chief Internal Auditor and Chief Financial Officer attended the meetings by invitation. The members of the management team and the Company's External Auditor, Messrs. Ernst & Young were invited to participate at the meetings as and when required. P W Corporate Secretarial (Pvt) Ltd acted as Secretary to the Committee, the proceedings of which were periodically reported to the Board. The profiles of the Audit Committee members are given on pages 58 to 61.

MEETING ATTENDANCE

Board member	Attendance
Mrs. Yogadinusha Bhaskaran	13/13
Mr. Ashane Jayasekara	13/13
Mrs. Ashwini Natesan	13/13

AUDIT COMMITTEE CHARTER

The Board approved charter of the Audit Committee is in place and it clearly defines the terms of reference of the committee. The Audit Committee Charter is reviewed annually to ensure that all new developments related to audit committee are duly incorporated. The audit committee charter was last reviewed and approved by the Board of Directors in June 2022.

The fundamental role of the Audit Committee is to assist the board in discharging its oversight responsibilities in the areas of internal and external audits, internal financial controls and financial reporting process, other internal controls and regulatory compliances.

The audit committee functions are regulated in conformity with the finance business act direction no. 5 of 2021 on corporate governance, continuing listing rules on

corporate governance issued by CSE and code of best practice on corporate governance issued by CA Sri Lanka.

COMMITTEE RESPONSIBILITIES

- ▶ The primary objective of the Audit Committee is to assist the Board in its independent oversight of the accuracy and integrity of the financial statements, internal control systems and compliance with company policies, legal and regulatory requirements. This is essential in safeguarding the interests of all stakeholders, including shareholders and depositors.
- ▶ The Committee is responsible for supervising the effectiveness of the internal control system, financial reporting, internal audit function, risk management, and compliance with applicable laws, regulations and directives from the CBSL and other regulatory bodies. Additionally, committee ensures the adequacy and effectiveness of the organization's governance process.
- ▶ The Committee shall exercise its independent oversight over the internal and external assurance processes to ensure that both auditors maintain their independence, objectivity and the effectiveness of the audit process. The committee considers relevant local and global professional and regulatory requirements to ensure compliance.
- ▶ The Audit Committee shall ensure that the company adopts and adheres to highest level of standards in corporate governance practices, prime ethical standards and industry best practices in the best interest of all stakeholders.
- ▶ The committee is responsible for reviewing internal audit reports and working with senior management to identify and address control weaknesses, procedure violations,

frauds and errors. The committee takes necessary precautionary measures to mitigate any risks may arise.

- ▶ The Committee is provided with adequate resources to fulfill its duties, including support from the Internal Audit Department, the external auditor, legal counsel and management. The committee examines all matters relating to the Company's accounting principles and practices, as well as reviews all material financial, operational and compliance controls.
- ▶ Examining statutory examination reports and ensure necessary corrective action are timely taken and monitor the implementation of action plan.

COMMITTEE ACTIVITIES DURING THE FINANCIAL YEAR

Financial reporting system

The Committee assisted the Board of Directors in the discharge of its duties by reviewing the company's financial reporting system. The Committee ensured that accounting policies, practices and internal controls are adequate to provide reasonable assurance that the financial reporting system is effective and efficient in providing reliable and timely information. The Committee discharged its duties with particular reference to the following:

- ▶ The preparation, presentation and adequacy of the disclosures in the Company's annual and interim financial statements in conformity with Sri Lanka accounting standards, regulatory and statutory requirements applicable to LBF;
- ▶ The rationale and basis for the 'significant estimates and judgments' underlying the financial statements;
- ▶ The systems and procedures in place to ensure the accuracy of recording all transactions in the books of accounts; and
- ▶ The effectiveness of the financial reporting system/s including the management accounts to ensure reliability of the information provided to the Board and other stakeholders of the Company.
- ▶ The annual and the quarterly financial statements have been reviewed and recommended for the approval of the Board.
- ▶ The Committee focused special attention on the assessment of adequacy of provision

for Expected Credit Loss (ECL) recognized in the financial statements by factoring the potential implications on prevailing economic condition of the country.

Compliance monitoring mechanism

Statutory and regulatory compliances are on priority. Mechanisms to ensure timely and effective implementation of regulatory requirements are necessary to safeguard the interests of all stakeholders. Process owners are responsible for complying with all regulations as part of their standard operating procedure.

The Compliance Officer reviews and reports on any gaps or areas of non-compliance to the Audit Committee. It is also the mandate of the Compliance Officer to disseminate new regulatory requirements and update policies and procedure manuals to incorporate such requirements. The reports of the Compliance Officer are also periodically submitted to the Board through the audit committee.

A process has been set up to obtain periodic confirmations from the senior management regarding compliance with the statutory and regulatory requirements through the compliance function. The Committee also obtains assurance from internal auditors on several key regulatory compliance of the Company, in line with their respective internal audit programs.

A process is in place to establish new procedures / processes, or amending the existing, to facilitate new statutory / or regulatory requirements come in to effect. The compliance officer agrees on internal timelines with the respective process owners when a significant change in people, processes or systems are effected as a result of new regulations.

Significant directions introduced by CBSL namely; direction no. 01 of 2020 on Classification and Measurement of Credit Facilities, direction no. 05 of 2021 on Corporate Governance, direction no. 01 of 2022 on Technology Risk Management and Resilience have been incorporated to operations of the Company during the year under review. The direction no. 03 of 2022 in relation to mobile phone based e-money services have been followed up by the Compliance Officer and the implementation status is regularly reviewed by the Committee at the monthly meetings.

The statutory examination report of CBSL has also been reviewed in its monthly meetings and necessary remedial actions have been taken as agreed in the time-bound action plan.

Internal assurance

The Chief Internal Auditor reports directly to the Board Audit Committee and provides independent assurance to the Committee in discharging its duties. The Committee ensures that the internal audit function is independent of the activities it audits and it possesses proficiency and exercises due professional care. The Board approved procedure manual for Internal Audit Department is in place to reflect current practices of the Internal Audit Department. The procedure manual was last reviewed and approved by the Board in June 2022.

A risk-based audit methodology and approach has been adopted and all auditable areas/ processes of the company are covered. The risk-based annual internal audit plan is reviewed by the Committee before commencement of the financial year and assesses the adequacy of resources for the department to provide uninterrupted assurance service. The Committee has reviewed the performance of the chief internal auditor for the period.

The Committee reviewed the efficacy of the internal control system and compliance with regulatory requirements and also the Company's accounting and operational policies through the internal audit function. Prior to the commencement of audits, the scope of audit is reviewed by the Committee which recommends amendments where necessary, prior to approval. Control weaknesses highlighted in the internal audit reports are critically examined by the Committee. All observations are graded into separate risk groups based on the risk grading matrix adopted by the company and action plans are prioritized according to the severity. Follow-up action taken by the management on the audit recommendations are also reviewed and recommends re-audits where necessary, to ensure the effectiveness of the internal controls.

The Committee paid high level attention on the company's information systems and its supporting technology infrastructure to ascertain the adequacy of internal controls and effectiveness and efficiency of such investments are fulfilled while ensuring the

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confidentiality, integrity and availability of the processes supports for financial reporting. The IS Audit team independently assessed the level of confidence in line with industry standards such as ISO 27001:2022, COBIT, NIST, CIS etc., and other statutory/ regulatory directions to provide assurance at the monthly Audit Committee meetings.

External assurance

The Committee assisted the Board by recommending the appointment of the External Auditor in compliance with the relevant statutes and regulations, the service period, audit fee and any resignation or dismissal of the auditor.

The Committee reviewed the independence, objectivity and the effectiveness of the audit process in accordance with applicable standards and best practices. The Committee together with management reviewed and discussed the scope of audit, approach and audit plan with the external auditor, Messrs. Ernst & Young, prior to the commencement of the audit for 2022/23. The Committee reiterated the necessity of reviewing the compliance status on regulatory and statutory requirements, preparation of financial statements in conformity with relevant accounting principles and reporting obligations, cybersecurity aspects and other internal control measures.

The Auditors were provided with the opportunity of meeting the Non-Executive Directors twice during the year, without any executive officer present, to ensure that the auditors had the unrestricted opportunity to discuss and express their opinions on any relevant matter. This process assured the Committee that the management has fully cooperated in providing the information and explanations requested by the Auditor.

The Committee met the external auditors to discuss the management letter pertaining to the previous year's audit and the management's response thereto. Follow-up actions were taken to ensure that the recommendations contained in the management letter were implemented by management.

The Committee reviewed the non-audit services provided by the auditor to ensure that the provision of these services does not impair their independence and objectivity. The Committee is satisfied that there is no conflict of interests between the Company and the

Auditor which would hinder the independence and objectivity of the Auditor. The Policy for engaging External Auditor Non-Audit services was reviewed and approved in June 2022.

During the year, the Committee evaluated the performance of the external auditor. The Audit Committee has recommended to the Board of Directors that Messrs. Ernst & Young, Chartered Accountants, be reappointed as the external auditor for the financial year ending 31st March 2024, subject to the provisions made in new corporate governance direction no. 05 of 2021 and the approval of the shareholders at the next annual general meeting.

Internal Control systems

Various processes have been implemented by the Committee to ensure the efficiency and effectiveness of company's internal control systems. Key processes related internal controls are regularly reviewed by the internal audit department and is of the view that adequate controls and procedures are in place to provide reasonable assurance to the Board that the assets of the Company are safeguarded and the financial statements present a true and fair view. Status of remediation plans are updated at the monthly audit committee meetings.

In addition, a process has been established to assess the effectiveness of the company's internal control systems and internal controls over financial reporting.

GOOD CORPORATE GOVERNANCE AND WHISTLEBLOWING POLICY

The highest standards of corporate governance and adherence to the internal policies and procedures were ensured by the Committee to establish good governance within the organisation. The requirement of establishing new policies/ procedures / and amending the existing policies/ procedures according to the new corporate governance direction no. 05 of 2021 and other statutory / regulatory requirements have been identified by the committee and processes are in place to duly comply the requirements. The Committee is satisfied with the present corporate governance framework of the organisation which ensures a balance of power and authority.

The Committee ensures the Whistleblowing Policy of the Company is a current, active set of measures to which all employees/ incidents

have recourse. There was only one incident reported by a whistleblower during the year and necessary investigations and actions were implemented as per the provisions made in the whistle-blowing policy. All employees are encouraged to practice whistleblowing if they suspect any wrongdoing. Senior Management, from time to time conducts awareness programs to encourage staff to raise genuine concerns. The Compliance Officer reports on the whistleblowing incidents to the Committee each quarter end. The Committee remains committed to follow-up on any future complaints/ incidents, should they occur. The whistleblowing policy has been reviewed and revised in March 2023 with the intention of further strengthening the existing process.

TRAINING AND DEVELOPMENT OF COMMITTEE MEMBERS

Continuous training and professional development have been undertaken by committee. Attending virtual and physical seminars, conferences, workshops, presentations done by internal and external officers on the areas such as new developments, new accounting standards, tax regulations, new statutes and directions issued by the Central Bank of Sri Lanka.

AUDIT COMMITTEE EFFECTIVENESS

As in the previous years, the effectiveness of the Committee was self-evaluated by its members and the results were presented to the Board. The Committee has concluded that its performance was effective.

I wish to thank my fellow Committee members, Executive Directors and the Senior Management for their cooperation during the year.



Mrs. Yogadinusha Bhaskaran
Chairperson - Board Audit Committee

5 June 2023