



KPMG  
(Chartered Accountants)  
32A, Sir Mohamed Macan Markar Mawatha,  
P. O. Box 186,  
Colombo 00300, Sri Lanka.

Tel : +94 - 11 542 6426  
Fax : +94 - 11 244 5872  
+94 - 11 244 6058  
Internet : www.kpmg.com/lk

## INDEPENDENT ASSURANCE REPORT

### TO THE MANAGEMENT OF DEUTSCHE BANK AG, SRI LANKA BRANCH

We were engaged by the Management of Deutsche Bank AG, Sri Lanka Branch (“Branch”) to provide assurance on the accompanying Management’s Statement on Internal Control (“Statement”) for the year ended 31 December 2019.

#### Management’s responsibility for the Statement on Internal Control

Management is responsible for the preparation and presentation of the Statement in accordance with the “Guidance for Directors of Banks on the Directors’ Statement on Internal Control” issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

#### Scope of the engagement in compliance with SLSAE 3050

Our responsibility is to issue a report to the Management on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors’ Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

#### Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for the Management and appropriately reflects the process the Management have adopted in reviewing the system of internal control over financial reporting for the Branch.

To achieve this objective, appropriate evidence has been obtained by performing the following procedures:

- (a) Enquired the Management to obtain an understanding of the process defined by the Management for their review of the design and effectiveness of internal control and compared their understanding to the accompanying Statement made by the Management.
- (b) Reviewed the documentation prepared by the Management to support their Statement made.
- (c) Related the Statement made by the Management to our knowledge of the Branch obtained during the audit of the financial statements.
- (d) Reviewed the minutes of the meetings of the relevant Management Committees.
- (e) Considered whether the Management’s Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- (g) Obtained written representations from Management on matters material to the Statement on Internal Control where another sufficient appropriate audit evidence cannot reasonably be expected to exist.



SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Branch's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed will, in fact, remedy the problems.

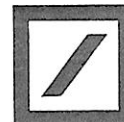
**Our conclusion**

In assessing the internal control system, all procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Branch were collated by the appointed officer and are counter verified by the respective Department Head independently for suitability of design and effectiveness on an ongoing basis.

Based on the procedures performed, nothing has come to our attention, which causes us to believe that the accompanying Statement is inconsistent with our understanding of the process the Management has adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Branch.

A handwritten signature in black ink, appearing to be 'KPMG' or similar, written in a cursive style.

Chartered Accountants  
22 May 2020  
Colombo



Deutsche Bank AG  
Colombo Branch  
86, Galle Road,  
Colombo 03,  
Sri Lanka.

The Director,  
Bank Supervision Department ,  
Central Bank of Sri Lanka  
Janadhipathi Mawatha  
Colombo 1.

P.O. Box 314  
Colombo.

Tel +94-11-2447062  
Fax +94-11-2447067

22<sup>nd</sup> May 2020

Dear Madam,

### **Management's Report on Internal Control over Financial Reporting**

The management of Deutsche Bank AG, Colombo Branch ("Branch") is responsible for establishing and maintaining adequate internal control over financial reporting. Branch's internal control system is designed to provide reasonable assurance to management regarding the preparation and fair presentation of published financial statements in accordance with generally accepted accounting principles. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Management has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Branch and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the management and accords with the guidance for directors of Banks on the Directors' Statement of Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

To the best of our knowledge, we did not identify any material deficiencies or weaknesses, in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Branch's ability to record, process, summarize and report financial data. Based on our understanding, there has been no fraud that involves management or other employees who have a significant role in the Branch's internal controls over financial reporting which requires disclosure.

The Branch management assessed the effectiveness of Branch's internal control over financial reporting as of December 31, 2019 based on the guidelines issued by the Institute of Chartered Accountants of Sri Lanka in relation to statement of internal control. Based on this assessment, management believes that, as of December 31, 2019, Branch's internal control over financial reporting is effective.

### **Internal Control Governance**

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls and governance of the Branch include the following:



The Committees are established by the Management in ensuring the effectiveness of the Branch's daily operations and that the Branch's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.

In accordance with the requirement of CBSL, Group Audit (GA) conducts an annual audit of DB AG Colombo branch using a risk-based audit approach as outlined in GA policy and GA manual. The methodology enables GA to increase transparency of audit coverage, refine the Risk Assessment (RA) approach, better align risk and resources, and exercise greater judgment in audit coverage. The RA process is fundamental to GA's understanding of the Bank's strategy, plans and objectives and is used to develop an audit plan focused on the most relevant areas in any plan year. The RA is the primary instrument for documenting the assessment of Inherent Risk (IR) and the Control Environment Indicator (CEI) for all applicable risk categories, including fraud risk. The RA results in an overall score for each Auditable Area (AA) in the Audit Universe (AU), which drives the cycle of audit coverage, to a maximum of 5 years. GA also adds coverage based on regulatory requirements and override the risk-based cycle either for all or parts of the AA. Group Audit APAC is primarily responsible for audit coverage in Sri Lanka and, where necessary, is assisted by global teams.

Operational committees have also been established with appropriate empowerment to ensure effective management and supervision of the Branch's core areas of business operations. The committees established locally are the Branch Management Board and Asset and Liability Committee. Branch also comes under the purview of the following Global Committees:

- Audit Committee
- Risk Committee
- Integrity Committee
- Compensation Control Committee
- Technology, Data and Innovation Committee

In assessing the internal control system, Branch relies on documented procedures and controls that are connected with significant accounts and disclosures of the financial statements of the Branch. These are under the overall purview of the above committees and Group Audit for suitability of design and effectiveness on an ongoing basis.

#### Adoption of Sri Lanka Accounting Standards –SLFRS 16 –Leases

##### **SLFRS 16 Leases**

On January 1, 2019, the Branch adopted SLFRS 16, "Leases", which introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The assets which are categorized under the SLFRS 16 are for land and buildings and vehicles.

In line with the Group policy, the branch has applied the practical expedient in IFRS 16 to contracts that were identified as leases applying LKAS 17, "Leases", and IFRIC 4, "Determining whether an Arrangement contains a Lease", on transition.

The Branch elected to apply the modified retrospective transition approach, without restatement of comparative figures. Under the modified retrospective approach, the branch choose on a lease by lease basis to measure the right-of-use asset at the same amount as the lease liability-



## Confirmation

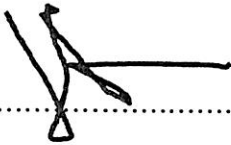
Based on the above processes, the Management confirms that:

The financial reporting system of the Branch has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Financial Reporting Standards and regulatory requirements of the Central Bank of Sri Lanka.

There was no material change in internal control over financial reporting that occurred during the period covered by the report that has materially affected, or is reasonably likely to materially affect internal control over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

## Review of the Statement by External Auditors

The external auditors have reviewed the above Management's Statement on Internal Controls for the year ended 31 December 2019 and reported to the Management that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Management in the review of the design and effectiveness of the internal control system of the Branch.



Joachim Seibt  
Director  
Regional Finance  
Deutsche Bank AG

