*N.B.*—Sinhala and Tamil versions of this Gazette Extraordinary are published separately.

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# The Gazette of the Democratic Socialist Republic of Sri Lanka

**EXTRAORDINARY**

අංක 2053/43 - 2018 ජනවාරි මස 12 වැනි සිකුරාදා - 2018.01.12

No. 2053/43 - FRIDAY, JANUARY 12, 2018

**(Published by Authority)**

# PART I : SECTION (I) — GENERAL

## Government Notifications

### SRI LANKA ACCOUNTING AND AUDITING STANDARDS ACT, No. 15 OF 1995

**Publication under Section 4(2)**

BY virtue of the powers vested in the Institute of Chartered Accountants of Sri Lanka (hereinafter referred to as the "Institute"), the Institute has adopted the Changes to Sri Lanka Auditing Standards effective for the financial periods ending on or after 31 March 2018 published herewith for the purpose of the Sri Lanka Accounting and Auditing Standards, Act, No. 15 of 1995. This Standard shall be effective for the financial periods ending on or after 31 March 2018. Earlier application is permitted.

By Order of the Council,

Aruna Alwis,
Secretary.

The Institute of Chartered Accountants of Sri Lanka,
No. 30A,
Malalasekera Mawatha,
Colombo 07.
12th January, 2018.

**Sri Lanka Auditing Standards Changes effective for the financial periods ending on or after 31 March 2018**

| Description | 2014 | 2017 |
|---|---|---|
| **Glossary** | | |
| *Annual report* | ~~A document issued by an entity, ordinarily on an annual basis, which includes its financial statements together with the auditor's report thereon.~~ | A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. |
| *Assurance engagement* | An engagement in which a practitioner ~~expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria. The outcome of the evaluation or measurement of a subject matter is the information that results from applying the criteria (also see *Subject matter information*). Under the *Sri Lanka Framework for Assurance Engagements* there are two types of assurance engagement a practitioner is permitted to perform: a reasonable assurance engagement and a limited assurance engagement.~~<br><br>*Reasonable assurance engagement*—~~The objective of a reasonable assurance engagement is a reduction in assurance engagement risk to an acceptably low level in the circumstances of the engagement as the basis for a positive form of expression of the practitioner's conclusion.~~ | An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information (that is, the outcome of the measurement or evaluation of an underlying subject matter against criteria). Each assurance engagement is classified on two dimensions:<br><br>(i) Either a reasonable assurance engagement or a limited assurance engagement:<br><br>a. Reasonable assurance engagement— An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the |

| Description | 2014 | 2017 |
|---|---|---|
| | *Limited assurance engagement*—~~The objective of a limited assurance engagement is a reduction in assurance engagement risk to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for a negative form of expression of the practitioner's conclusion.~~ | measurement or evaluation of the underlying subject matter against criteria.<br><br>b. Limited assurance engagement—An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.<br><br>(ii) Either an attestation engagement or a direct engagement:<br><br>a. Attestation engagement—An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. |

| Description | 2014 | 2017 |
|---|---|---|
| | | In an attestation engagement, the practitioner's conclusion addresses whether the subject matter information is free from material misstatement. The practitioner's conclusion may be phrased in terms of:<br><br>i. The underlying subject matter and the applicable criteria;<br><br>ii. The subject matter information and the applicable criteria; or<br><br>iii. A statement made by the appropriate party(ies).<br><br>b. Direct engagement - An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. |
| *Assurance skills and techniques* | [No Correspondence] | Those planning, evidence gathering, evidence evaluation, communication and reporting skills and techniques demonstrated by an assurance practitioner that are distinct from expertise in the underlying subject matter of any particular assurance engagement or its measurement or evaluation. |
| Carve-out method | [No Correspondence] | Method of dealing with the services provided by a subservice organization, whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, but that subservice organization's relevant control objectives and related controls are excluded from the service organization's description of its system and from the |

| **Description** | **2014** | **2017** |
|---|---|---|
| | | scope of the service auditor's engagement. The service organization's description of its system and the scope of the service auditor's engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization's review of an assurance report on controls at the subservice organization. |
| *Control objective* | [No Correspondence] | The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate. |
| *Controls at the service organization* | [No Correspondence] | Controls over the achievement of a control objective that is covered by the service auditor's assurance report. |
| *Controls at a subservice organization* | [No Correspondence] | Controls at a subservice organization to provide reasonable assurance about the achievement of a control objective. |
| *Criteria* | ~~The benchmarks used to evaluate or measure the subject matter including, where relevant, benchmarks for presentation and disclosure. Criteria can be formal or less formal. There can be different criteria for the same subject matter. Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment.~~<br><br>~~*Suitable criteria* Exhibit the following characteristics:~~<br><br>~~(a) Relevance: relevant criteria contribute to conclusions that assist decision-making by the intended users.~~<br><br>~~(b) Completeness: criteria are sufficiently complete when relevant factors that could affect the conclusions in the context of the engagement circumstances are not omitted. Complete criteria include, where relevant, benchmarks for presentation and disclosure.~~ | The benchmarks used to measure or evaluate the underlying subject matter. The "applicable criteria" are the criteria used for the particular engagement. |

| Description | 2014 | 2017 |
|---|---|---|
| | ~~(c) Reliability: reliable criteria allow reasonably consistent evaluation or measurement of the subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by similarly qualified practitioners.~~<br><br>~~(d) Neutrality: neutral criteria contribute to conclusions that are free from bias.~~<br><br>~~(e) Understandability: understandable criteria contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.~~ | |
| *Direct assistance* | [No Correspondence] | <u>The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.</u> |
| *Engagement circumstances* | [No Correspondence] | <u>The broad context defining the particular engagement, which includes: the terms of the engagement; whether it is a reasonable assurance engagement or a limited assurance engagement, the characteristics of the underlying subject matter; the measurement or evaluation criteria; the information needs of the intended users; relevant characteristics of the responsible party, the measurer or evaluator, and the engaging party and their environment; and other matters, for example events, transactions, conditions and practices, that may have a significant effect on the engagement.</u> |
| *Engagement partner* | The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. | The partner or other person in the firm who is responsible for the engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body. <u>"Engagement partner" should be read as referring to its public sector equivalents where relevant.</u> |
| *Engagement* | [No Correspondence] | <u>The risk that the practitioner expresses an</u> |

| Description | 2014 | 2017 |
|---|---|---|
| *risk* | | inappropriate conclusion when the subject matter information is materially misstated. |
| *Engagement team* | All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. ~~This excludes external experts engaged by the firm or a network firm.*~~<br>~~* SLAuS 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."~~ | All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes an auditor's external expert engaged by the firm or by a network firm. The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of SLAuS 610 (Revised 2013). *<br>* SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors*, establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistances is restricted to situations where it is permitted. |
| *Engagement team (in the context of SLSAE 3000 (Revised)* | [No Correspondence] | All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform procedures on the engagement. This excludes a practitioner's external expert engaged by the firm or a network firm.*<br>* SLSAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. |
| *Engaging party* | [No Correspondence] | The party(ies) that engages the practitioner to perform the assurance engagement. |
| *Evidence* | [No Correspondence] | Information used by the practitioner in arriving at the practitioner's conclusion. Evidence includes both information contained in relevant information systems, if any, and other information. For purposes of the SLSAEs:<br>(i) Sufficiency of evidence is the measure of the quantity of evidence.<br>(ii) Appropriateness of evidence is the measure of the quality of evidence. |

| **Description** | **2014** | **2017** |
|---|---|---|
| *Financial statements* | A structured representation of historical financial information, including ~~related notes~~, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework~~. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information~~. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but ~~it~~ can also refer to a single financial statement. | A structured representation of historical financial information, including <u>disclosures</u>, intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. <u>Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.</u> |
| *Firm* | A sole practitioner, partnership or corporation or other entity of professional accountants. | A sole practitioner, partnership or corporation or other entity of professional accountants. <u>"Firm" should be read as referring to its public sector equivalents where relevant.</u> |
| *General purpose framework* | The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in ~~(a) or (b) above~~.*<br>~~* SLAuS 200, paragraph 13(a)~~ | The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in <u>(i) or (ii) above</u>. *<br><u>* SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 13(a)</u> |
| *GHG statement * Footnote* | ~~Assurance Framework, paragraph 8~~ | <u>SLSAE 3000 (Revised), paragraph 12(x)</u> |
| *Inconsistency* | ~~Other information that contradicts information contained in the audited financial statements. A material inconsistency may raise doubt about the audit conclusions drawn from audit evidence previously obtained and, possibly, about the basis for the auditor's opinion on the financial statements.~~ | [Deleted] |
| *Inclusive method* | No correspondence | <u>Method of dealing with the services provided by a subservice organization,</u> |

| Description | 2014 | 2017 |
|---|---|---|
| | | whereby the service organization's description of its system includes the nature of the services provided by a subservice organization, and that subservice organization's relevant control objectives and related controls are included in the service organization's description of its system and in the scope of the service auditor's engagement. |
| *Inquiry (in the context of SLSRE 2400 (Revised))* | No correspondence | Inquiry consists of seeking information of knowledgeable persons from within or outside the entity. |
| *Intended users* | ~~The person, persons or class of persons for whom the practitioner prepares the assurance report. The responsible party can be one of the intended users, but not the only one.~~ | The individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed. |
| Sri Lanka Accounting Standards | ~~The Sri Lanka Accounting Standards issued by the International Accounting Standards Board.~~ | [Deleted] |
| *Key audit matters* | No correspondence | Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance. |
| *Limited assurance (in the context of SLSRE 2400 (Revised))* | No correspondence | The level of assurance obtained where engagement risk is reduced to a level that is acceptable in the circumstances of the engagement, but where that risk is greater than for a reasonable assurance engagement, as the basis for expressing a conclusion in accordance with this SLSRE. The combination of the nature, timing and extent of evidence gathering procedures is at least sufficient for the practitioner to obtain a meaningful level of assurance. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the financial statements. |
| *Measurer or evaluator* | No correspondence | The party(ies) who measures or evaluates the underlying subject matter against the |

| Description | 2014 | 2017 |
|---|---|---|
| | | criteria. The measurer or evaluator possesses expertise in the underlying subject matter. |
| *Misstatement* | A difference between the amount, classification, presentation, or disclosure of a ~~reported~~ financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. | A difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud.<br><br>…<br><br>In the context of SLSAE 3000 (Revised), a misstatement is defined as a difference between the subject matter information and the appropriate measurement or evaluation of the underlying subject matter in accordance with the criteria. Misstatements can be intentional or unintentional, qualitative or quantitative, and include omissions |
| *Misstatement of fact* | ~~*Misstatement of fact* —~~Other information that is unrelated to matters appearing in the ~~audited financial statements~~ that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing ~~audited financial statements~~. | *Misstatement of fact (with respect to other information)(in the context of SLSAE 3000 (Revised))*—Other information that is unrelated to matters appearing in the subject matter information or the assurance report that is incorrectly stated or presented. A material misstatement of fact may undermine the credibility of the document containing the subject matter information. |
| *Misstatement of the other information* | [No correspondence] | A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). |
| *Modified opinion* | A qualified opinion, an adverse opinion or a disclaimer of opinion. | A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements. |
| *Other* | ~~Financial and non-financial information~~ | Financial or non-financial information |

| Description | 2014 | 2017 |
|---|---|---|
| *information* | ~~(other than the financial statements and the auditor's report thereon) which is included, either by law, regulation, or custom, in a document containing audited financial statements and the auditor's report thereon.~~ | (other than financial statements and the auditor's report thereon) included in an entity's annual report. |
| *Other information (in the context of SLSAE 3000 (Revised))* | [No correspondence] | Information (other than the subject matter information and the assurance report thereon) which is included, either by law, regulation or custom, in a document containing the subject matter information and the assurance report thereon. |
| *Practitioner (in the context of SLSAE 3000 (Revised))* | [No correspondence] | The individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm). Where this SLSAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. |
| *Practitioner (in the context of SLSRE 2400 (Revised))* | [No correspondence] | A professional accountant in public practice. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where SLSRE 2400 (Revised) expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term "engagement partner" rather than "practitioner" is used. "Engagement partner" and "firm" are to be read as referring to their public sector equivalents where relevant. |
| *Practitioner's expert* | [No correspondence] | An individual or organization possessing expertise in a field other than assurance, whose work in that field is used by the practitioner to assist the practitioner in obtaining sufficient appropriate evidence. A practitioner's expert may be either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert. |
| *Professional accountant* | An individual who is a ~~member of an IFAC member body~~. | An individual who is a member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka). |

| Description | 2014 | 2017 |
|---|---|---|
| *Professional judgment (in the context of SLSAE 3000 (Revised)* | [No correspondence] | <u>The application of relevant training, knowledge and experience, within the context provided by assurance and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the engagement.</u> |
| *Professional judgment (in the context of SLSRE 2400 (Revised))* | [No correspondence] | <u>The application of relevant training, knowledge and experience, within the context provided by assurance, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the review engagement.</u> |
| *Professional skepticism (in the context of SLSAE 3000 (Revised))* | [No correspondence] | <u>An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement, and a critical assessment of evidence.</u> |
| Professional standards | ~~International Standards on Auditing~~ (SLAuSs) and relevant ethical requirements | <u>Sri Lanka Auditing Standards</u> (SLAuSs) and relevant ethical requirements |
| Professional standards (in the context of SLSQC 1) | Engagement Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), as defined in the CA Sri Lanka's Preface to the ~~Sri Lanka Standards on Quality Control, Auditing, Review, Other Assurance and Related Services~~, and relevant ethical requirements. | Engagement Standards issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), as defined in the CA Sri Lanka's Preface to the <u>Sri Lanka Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements,</u> and relevant ethical requirements. |
| *Relevant ethical requirements* | Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the *Code of Ethics for Professional Accountants* (CA Sri Lanka Code) together with national requirements that are more restrictive. ~~In the context of SLSRS 4410 (Revised), relevant ethical requirements are defined as the ethical requirements the engagement team is subject to when undertaking compilation engagements. These requirements ordinarily comprise Parts A and B of the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (CA Sri Lanka Code) (excluding Section 290,~~ | Ethical requirements to which the engagement team and engagement quality control reviewer are subject, which ordinarily comprise Parts A and B of the *Code of Ethics for Professional Accountants* (CA Sri Lanka Code) together with national requirements that are more restrictive. <u>In the context of SLSRE 2400 (Revised), relevant ethical requirements are defined as the ethical requirements the engagement team is subject to when undertaking review engagements. These requirements ordinarily comprise Parts A and B of the *Code of Ethics for Professional Accountants* (CA Sri Lanka Code), together with national requirements that are more restrictive. In the context of SLSRS 4410 (Revised), relevant ethical</u> |

| Description | 2014 | 2017 |
|---|---|---|
| | ~~*Independence Audit and Review Engagements*, and Section 291, *Independence Other Assurance Engagements* in Part B), together with national requirements that are more restrictive.~~ | requirements are defined as the ethical requirements the engagement team is subject to when undertaking compilation engagements. These requirements ordinarily comprise Parts A and B of the *Code of Ethics for Professional Accountants* (CA Sri Lanka Code) (excluding Section 290, *Independence—Audit and Review Engagements*, and Section 291, *Independence—Other Assurance Engagements* in Part B), together with national requirements that are more restrictive. |
| Report on the description and design of controls at a service organization (referred to in SLSAE 3402 as a "type 1 report") (in the context of SLSAE 3402) | [No correspondence] | A report that comprises:<br><br>(a) The service organization's description of its system;<br><br>(b) A written statement by the service organization that, in all material respects, and based on suitable criteria:<br><br>(i) The description fairly presents the service organization's system as designed and implemented as at the specified date;<br><br>(ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date; and<br><br>A service auditor's assurance report that conveys a reasonable assurance conclusion about the matters in (b)(i)–(ii) above<br>* SLAuS 402, *Audit Considerations Relating to an Entity Using a Service Organization* |
| *Report on the description, design and operating effectiveness of controls at a service organization (referred to in* | [No correspondence] | A report that comprises:<br><br>(a) The service organization's description of its system;<br><br>(b) A written statement by the service organization that, in all material respects, and based on suitable criteria: |

| Description | 2014 | 2017 |
|---|---|---|
| *SLSAE 3402 as a "type 2 report")(in the context of SLSAE 3402)* | | (i) The description fairly presents the service organization's system as designed and implemented throughout the specified period;<br><br>(ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and<br><br>(iii) The controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period; and<br><br>(c) A service auditor's assurance report that:<br><br>(i) Conveys a reasonable assurance conclusion about the matters in (b)(i)–(iii) above; and<br><br>(ii) Includes a description of the tests of controls and the results thereof. |
| *Responsible party* | ~~The person (or persons) who:~~<br><br>~~(a) In a direct reporting engagement, is responsible for the subject matter; or~~<br><br>~~(b) In an assertion-based engagement, is responsible for the subject matter information (the assertion), and may be responsible for the subject matter.~~<br><br>~~The responsible party may or may not be the party who engages the practitioner (the engaging party).~~ | The party(ies) responsible for the underlying subject matter. |
| *Risk of material misstatement (in the context of SLSAE 3000 (Revised))* | [No correspondence] | The risk that the subject matter information is materially misstated prior to the engagement. |
| *Service auditor (in the context of SLSAE 3402)* | [No correspondence] | A practitioner who, at the request of the service organization, provides an assurance report on controls of a service |

| Description | 2014 | 2017 |
|---|---|---|
| | | organization. |
| *Service organization (in the context of SLSAE 3402)* | [No correspondence] | A third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting. |
| *Service organization's statement* | [No correspondence] | The written statement about the matters referred to in (b) of the definition of a report on the description, design and operating effectiveness of controls at a service organization (in the case of a type 2 report) or (b) of the definition of a report on the description and design of controls at a service organization (in the case of a type 1 report). |
| *Service organization's system (or the system)(in the context of SLSAE 3402)* | [No correspondence] | The policies and procedures designed and implemented by the service organization to provide user entities with the services covered by the service auditor's assurance report. The service organization's description of its system includes identification of: the services covered; the period, or in the case of a type 1 report, the date, to which the description relates; control objectives; and related controls. |
| *Sri Lanka Accounting Standards* | [No correspondence] | The Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka. |
| *Subject matter information* | ~~The outcome of the evaluation or measurement of a subject matter. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence to provide a reasonable basis for expressing a conclusion in an assurance report.~~ | The outcome of the measurement or evaluation of the underlying subject matter against the criteria, that is, the information that results from applying the criteria to the underlying subject matter. |
| *Subservice organization (in the context of SLSAE 3402)* | [No correspondence] | A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to user entities' internal control as it relates to financial reporting. |
| *Test of controls (in the context* | [No correspondence] | A procedure designed to evaluate the operating effectiveness of controls in |

| Description | 2014 | 2017 |
|---|---|---|
| *of SLSAE 3402)* | | <u>achieving the control objectives stated in the service organization's description of its system.</u> |
| *Underlying subject matter* | [No correspondence] | <u>The phenomenon that is measured or evaluated by applying criteria.</u> |
| *User auditor* | [No correspondence] | <u>An auditor who audits and reports on the financial statements of a user entity.</u> |
| *User entity (in the context of SLSAE 3402)* | [No correspondence] | <u>An entity that uses a service organization.</u> |
| **SRI LANKA AUDITING STANDARD 200 (SLAuS 200- OVERALL OBJECTIVES OF THE INDEPENDENT AUDITOR AND THE CONDUCT OF AN AUDIT IN ACCORDANCE WITH SRI LANKA AUDITING STANDARDS)** | | |
| 5 | …However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. (Ref: Para. ~~A28–A52~~) | …….. However, reasonable assurance is not an absolute level of assurance, because there are inherent limitations of an audit which result in most of the audit evidence on which the auditor draws conclusions and bases the auditor's opinion being persuasive rather than conclusive. (Ref: Para. <u>A30–A54</u>) |
| 13 (f) | Financial statements – A structured representation of historical financial information, including ~~related notes~~, intended to communicate an entity's economic resources or obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. ~~The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information~~. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. | Financial statements – A structured representation of historical financial information, including <u>disclosures</u>, intended to communicate an entity's economic resources or obligations at a point in time, or the changes therein for a period of time, in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. <u>Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference. (Ref: Para. A14–A15)</u> |

| Description | 2014 | 2017 |
|---|---|---|
| 14 | The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (Ref: Para. ~~A14–A17~~) | The auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements. (Ref: Para. A16–A19) |
| 15 | The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. ~~A18–A22~~) | The auditor shall plan and perform an audit with professional skepticism recognizing that circumstances may exist that cause the financial statements to be materially misstated. (Ref: Para. A20–A24) |
| 16 | The auditor shall exercise professional judgment in planning and performing an audit of financial statements. (Ref: Para. ~~A23–A27~~) | The auditor shall exercise professional judgment in planning and performing an audit of financial statements. (Ref: Para. A25–A29) |
| 17 | To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. (Ref: Para. ~~A28–A52~~) | To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor’s opinion. (Ref: Para. A30–A54) |
| 18 | The auditor shall comply with all SLAuSs relevant to the audit. A SLAuS is relevant to the audit when the SLAuS is in effect and the circumstances addressed by the SLAuS exist. (Ref: Para. ~~A53–A57~~) | The auditor shall comply with all SLAuSs relevant to the audit. An SLAuS is relevant to the audit when the SLAuS is in effect and the circumstances addressed by the SLAuS exist. (Ref: Para. A55–A59) |
| 19 | The auditor shall have an understanding of the entire text of a SLAuS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. ~~A58–A66~~) | The auditor shall have an understanding of the entire text of an SLAuS, including its application and other explanatory material, to understand its objectives and to apply its requirements properly. (Ref: Para. A60–A68) |
| 21 | To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SLAuSs in planning and performing the audit, having regard to the interrelationships among the SLAuSs, to: (Ref: Para. ~~A67–A69~~) | To achieve the overall objectives of the auditor, the auditor shall use the objectives stated in relevant SLAuSs in planning and performing the audit, having regard to the interrelationships among the SLAuSs, to: (Ref: Para. A69–A71) |

| Description | 2014 | 2017 |
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| | (a) Determine whether any audit procedures in addition to those required by the SLAuSs are necessary in pursuance of the objectives stated in the SLAuSs; and (Ref: ~~Para. A70~~)<br><br>(b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para~~. A71~~) | (a) Determine whether any audit procedures in addition to those required by the SLAuSs are necessary in pursuance of the objectives stated in the SLAuSs; and (Ref: Para. <u>A72</u>)<br><br>(b) Evaluate whether sufficient appropriate audit evidence has been obtained. (Ref: Para. <u>A73</u>) |
| 22 (b) | The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. ~~A72–A73~~) | The requirement is not relevant because it is conditional and the condition does not exist. (Ref: Para. <u>A74–A75</u>) |
| 23 | In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in a SLAuS. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. ~~A74~~) | In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SLAuS. In such circumstances, the auditor shall perform alternative audit procedures to achieve the aim of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective in achieving the aim of the requirement. (Ref: Para. <u>A76</u>) |
| | If an objective in a relevant SLAuS cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SLAuSs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with SLAuS 230. (Ref: Para. ~~A75–A76~~) | If an objective in a relevant SLAuS cannot be achieved, the auditor shall evaluate whether this prevents the auditor from achieving the overall objectives of the auditor and thereby requires the auditor, in accordance with the SLAuSs, to modify the auditor's opinion or withdraw from the engagement (where withdrawal is possible under applicable law or regulation). Failure to achieve an objective represents a significant matter requiring documentation in accordance with SLAuS 230. (Ref: Para. <u>A77–A78</u>) |
| A8 | ~~For example, the International Public~~ | <u>For example, the primary financial</u> |

| Description | 2014 | 2017 |
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| | ~~Sector Accounting Standard (IPSAS), *Financial Reporting Under the Cash Basis of Accounting*, issued by the International Public Sector Accounting Standards Board states that the primary financial statement is a statement of cash receipts and payments when a public sector entity prepares its financial statements in accordance with that IPSAS.~~ | statement is a statement of cash receipts and payments when a public sector entity prepares its financial statements in accordance with cash basis of accounting. |
| Heading | [No Correspondence] | **Definitions** |
| Sub-heading | [No Correspondence] | *Financial Statements* (Ref: Para. 13(f)) |
| A14 | [No Correspondence] | Some financial reporting frameworks may refer to an entity's economic resources or obligations in other terms. For example, these may be referred to as the entity's assets and liabilities, and the residual difference between them may be referred to as equity or equity interests. |
| A15 | [No Correspondence] | Explanatory or descriptive information required to be included in the financial statements by the applicable financial reporting framework may be incorporated therein by cross-reference to information in another document, such as a management report or a risk report. "Incorporated therein by cross-reference" means cross-referenced from the financial statements to the other document, but not from the other document to the financial statements. Where the applicable financial reporting framework does not expressly prohibit the cross-referencing of where explanatory or descriptive information may be found, and the information has been appropriately cross-referenced, the information will form part of the financial statements. |
| 2014 - A50<br><br>2017 – A52 | In light of the approaches described in paragraph ~~A49~~, the SLAuSs contain requirements for the planning and performance of the audit and | In light of the approaches described in paragraph A51, the SLAuSs contain requirements for the planning and performance of the audit and require |

| Description | 2014 | 2017 |
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| | require the auditor, among other things, to: | the auditor, among other things, to: |
| 2014 – A69<br><br>2017 – A71 | In using the objectives, the auditor is required to have regard to the interrelationships among the SLAuSs. This is because, as indicated in paragraph ~~A53~~, the SLAuSs deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics | In using the objectives, the auditor is required to have regard to the interrelationships among the SLAuSs. This is because, as indicated in paragraph A55, the SLAuSs deal in some cases with general responsibilities and in others with the application of those responsibilities to specific topics. |
| **SRI LANKA AUDITING STANDARD 210 (SLAuS 210- AGREEING THE TERMS OF AUDIT ENGAGEMENTS)** | | |
| 6 (b) | Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para. A11-A14, ~~A20~~) | Obtain the agreement of management that it acknowledges and understands its responsibility: (Ref: Para. A11–A14, A21) |
| 9 | The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: Para. ~~A21~~) | The auditor shall agree the terms of the audit engagement with management or those charged with governance, as appropriate. (Ref: Para. A22) |
| 10 | Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. ~~A22-A25~~) | Subject to paragraph 11, the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement and shall include: (Ref: Para. A23–A27) |
| 10 (e) | Reference to the expected form and content of any reports to be issued by the auditor and ~~a statement that there may be circumstances in which a report may differ from its expected form and content.~~ | Reference to the expected form and content of any reports to be issued by the auditor; and (Ref: Para. A24) |
| 10 (f) | [No Correspondence] | A statement that there may be circumstances in which a report may differ from its expected form and content. |
| 11 | If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them | If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in paragraph 10, the auditor need not record them in |

| Description | 2014 | 2017 |
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| | in a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b). (Ref: Para. ~~A22, A26–A27~~) | a written agreement, except for the fact that such law or regulation applies and that management acknowledges and understands its responsibilities as set out in paragraph 6(b). (Ref: Para. A23, A28–A29) |
| 12 | If law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b), the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in that paragraph. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b). (Ref: Para. ~~A26~~) | If law or regulation prescribes responsibilities of management similar to those described in paragraph 6(b), the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in that paragraph. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the written agreement. For those responsibilities that are not prescribed by law or regulation such that their effect is equivalent, the written agreement shall use the description in paragraph 6(b). (Ref: Para. A28) |
| 13 | On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. (Ref: Para. ~~A28~~) | On recurring audits, the auditor shall assess whether circumstances require the terms of the audit engagement to be revised and whether there is a need to remind the entity of the existing terms of the audit engagement. (Ref: Para. A30) |
| 14 | The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. (Ref: Para. ~~A29–A31~~) | The auditor shall not agree to a change in the terms of the audit engagement where there is no reasonable justification for doing so. (Ref: Para. A31–A33) |
| 15 | If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. (Ref: Para. ~~A32–A33~~) | If, prior to completing the audit engagement, the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so. (Ref: Para. A34–A35) |

| Description | 2014 | 2017 |
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| 18 | If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's opinion in accordance with SLAuS 705. (Ref: Para. ~~A34~~) | If neither of the above actions is possible, the auditor shall determine whether it will be necessary to modify the auditor's opinion in accordance with SLAuS 705. (Ref: Para. A36) |
| 21 | If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with SLAuSs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with SLAuSs. (Ref: Para. ~~A36–A37~~) | If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, the auditor shall not accept the audit engagement, unless required by law or regulation to do so. An audit conducted in accordance with such law or regulation does not comply with SLAuSs. Accordingly, the auditor shall not include any reference within the auditor's report to the audit having been conducted in accordance with SLAuSs. (Ref: Para. A38–A39) |
| A11 | An audit in accordance with SLAuSs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b).* In certain jurisdictions, such responsibilities may be specified in law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. SLAuSs do not override law or regulation in such matters. However, the concept of an independent audit requires that the auditor's role does not involve taking responsibility for the preparation of the financial statements or for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit in so far as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an independent audit. To avoid misunderstanding, agreement is reached with management that it | An audit in accordance with SLAuSs is conducted on the premise that management has acknowledged and understands that it has the responsibilities set out in paragraph 6(b).** In certain jurisdictions, such responsibilities may be specified in law or regulation. In others, there may be little or no legal or regulatory definition of such responsibilities. SLAuSs do not override law or regulation in such matters. However, the concept of an independent audit requires that the auditor's role does not involve taking responsibility for the preparation of the financial statements or for the entity's related internal control, and that the auditor has a reasonable expectation of obtaining the information necessary for the audit (including information obtained from outside of the general and subsidiary ledgers) in so far as management is able to provide or procure it. Accordingly, the premise is fundamental to the conduct of an |

| Description | 2014 | 2017 |
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| | acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the audit engagement in paragraphs 9-12.<br>* SLAuS 200, ~~paragraph A2.~~ | independent audit. To avoid misunderstanding, agreement is reached with management that it acknowledges and understands that it has such responsibilities as part of agreeing and recording the terms of the audit engagement in paragraphs 9–12.<br>** SLAuS 200, <u>paragraph A4</u> |
| Sub Heading | [No Correspondence] | <u>Additional Information (Ref: Para. 6(b)(iii)b)</u> |
| 2014 – No corresponding para.<br>2017 – A20 | [No Correspondence] | <u>Additional information that the auditor may request from management for the purpose of the audit may include when applicable, matters related to other information in accordance with SLAuS 720 (Revised). When the auditor expects to obtain other information after the date of the auditor's report, the terms of the audit engagement may also acknowledge the auditor's responsibilities relating to such other information including, if applicable, the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.</u> |
| 2014 – No corresponding para.<br>2017 – A24 | [No correspondence] | …<br>• <u>The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with SLAuS 701. *</u><br>…<br>• <u>The expectation that management will provide access to all information of which management is aware that is relevant to the preparation of the financial statements, including an expectation that management will provide access to information relevant to disclosures.</u><br>• <u>The agreement of management to</u> |

| Description | 2014 | 2017 |
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| | | <u>make available to the auditor draft financial statements, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including all information relevant to the preparation of disclosures), and the other information,** if any, in time to allow the auditor to complete the audit in accordance with the proposed timetable.</u><br>…<br><u>* SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*</u><br><u>** As defined in SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*</u> |
| 2014 – No corresponding para.<br>2017 – A25 | [No Correspondence] | <u>When the auditor is not required to communicate key audit matters, it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.</u> |
| 2014 – A26<br>2017 – A28 | If, in the circumstances described in ~~paragraphs A22 and A27~~, the auditor concludes that it is not necessary to record certain terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 11 to seek the written agreement from management that it acknowledges and understands that it has the responsibilities set out in paragraph 6(b). However, in accordance with paragraph 12, such written agreement may use the wording of the law or regulation if such law or regulation establishes | If, in the circumstances described in <u>paragraphs A23 and A29</u>, the auditor concludes that it is not necessary to record certain terms of the audit engagement in an audit engagement letter, the auditor is still required by paragraph 11 to seek the written agreement from management that it acknowledges and understands that it has the responsibilities set out in paragraph 6(b). However, in accordance with paragraph 12, such written agreement may use the wording of the law or regulation if such law or regulation establishes |

| Description | 2014 | 2017 |
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| | responsibilities for management that are equivalent in effect to those described in paragraph 6(b). The accounting profession, audit standards setter, or audit regulator in a jurisdiction may have provided guidance as to whether the description in law or regulation is equivalent. | responsibilities for management that are equivalent in effect to those described in paragraph 6(b). The accounting profession, audit standards setter, or audit regulator in a jurisdiction may have provided guidance as to whether the description in law or regulation is equivalent. |
| 2014 – A32<br>2017 – A34 | Before agreeing to change an audit engagement to a review or a related service, an auditor who was engaged to perform an audit in accordance with SLAuSs may need to assess, in addition to the matters referred to in ~~paragraphs A29-A31~~ above, any legal or contractual implications of the change. | Before agreeing to change an audit engagement to a review or a related service, an auditor who was engaged to perform an audit in accordance with SLAuSs may need to assess, in addition to the matters referred to in <u>paragraphs A31–A33</u> above, any legal or contractual implications of the change. |
| Appendix 1 | ~~(Ref: Para. A23–24)~~<br><br>Example of an Audit Engagement Letter<br><br>The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with Sri Lanka Accounting Standards. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this SLAuS. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13 ~~of this SLAuS~~). It may be appropriate to seek legal advice that any proposed letter is suitable.<br>***<br><br>To the appropriate representative of management or those charged with | <u>(Ref: Para. A24–A26)</u><br><br>Example of an Audit Engagement Letter<br><br>The following is an example of an audit engagement letter for an audit of general purpose financial statements prepared in accordance with Sri Lanka Accounting Standards. This letter is not authoritative but is intended only to be a guide that may be used in conjunction with the considerations outlined in this SLAuS. It will need to be varied according to individual requirements and circumstances. It is drafted to refer to the audit of financial statements for a single reporting period and would require adaptation if intended or expected to apply to recurring audits (see paragraph 13). It may be appropriate to seek legal advice that any proposed letter is suitable.<br>***<br><br>To the appropriate representative of |

| Description | 2014 | 2017 |
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| | governance of ABC Company*<br><br>[The objective and scope of the audit]<br><br>~~You have requested that we audit the financial statements of ABC Company, which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.~~<br><br>[The responsibilities of the auditor]<br><br>~~We will conduct our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~<br><br>~~Because of the inherent limitations of~~ | management or those charged with governance of ABC Company**:<br><br>[The objective and scope of the audit]<br><br><u>You have requested that we audit the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter.</u><br><br><u>The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards (SLAuSs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.</u><br><br>[The responsibilities of the auditor]<br><br><u>We will conduct our audit in accordance with SLAuSs. Those standards require that we comply with ethical requirements. As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism</u> |

| Description | 2014 | 2017 |
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| | ~~an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SLAuSs.~~<br><br>~~In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit~~.<br><br>[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this SLAuS are therefore used).]<br><br>Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:<br><br>(a) For the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards;<br><br>(b) For such internal control as [management] determines is necessary to enable the | throughout the audit. We also:<br><br>• Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.<br><br>• Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.<br><br>• Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.<br><br>• Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that |

| Description | 2014 | 2017 |
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| | preparation of financial statements that are free from material misstatement, whether due to fraud or error; and<br><br>(c) To provide us with:<br><br>(i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;<br><br>(ii) Additional information that we may request from [management] for the purpose of the audit; and<br><br>(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.<br><br>As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.<br><br>We look forward to full cooperation from your staff during our audit.<br><br>[Other relevant information]<br><br>[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]<br><br>[Reporting]<br><br>~~[Insert appropriate reference to the expected form and content of the auditor's report.]~~<br><br>The form and content of our report may need to be amended in the light of our audit findings.<br><br>Please sign and return the attached | a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.<br><br>• Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.<br><br>Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with SLAuSs.<br><br>[The responsibilities of management and identification of the applicable financial reporting framework (for purposes of this example it is assumed that the auditor has not determined that the law or regulation prescribes those responsibilities in appropriate terms; the descriptions in paragraph 6(b) of this SLAuS are therefore used).]<br><br>Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:<br><br>(a) For the preparation and fair |

| Description | 2014 | 2017 |
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| | copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.<br><br>XYZ & Co.<br><br>Acknowledged and agreed on behalf of ABC Company by<br><br>(signed)<br>......................<br>Name and Title<br>Date | presentation of the financial statements in accordance with Sri Lanka Accounting Standards;<br><br>(b) For such internal control as [management] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and<br><br>(c) To provide us with***:<br><br>(i) Access to all information of which [management] is aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;<br><br>(ii) Additional information that we may request from [management] for the purpose of the audit; and<br><br>(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.<br><br>As part of our audit process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the audit.<br><br>We look forward to full cooperation from your staff during our audit.<br><br>[Other relevant information]<br><br>[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]<br><br>[Reporting]<br><br><u>[Insert appropriate reference to the expected form and content of the auditor's report including, if</u> |

| Description | 2014 | 2017 |
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| | | applicable, the reporting on other information in accordance with SLAuS 720 (Revised).]<br><br>The form and content of our report may need to be amended in the light of our audit findings.<br><br>Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the financial statements including our respective responsibilities.<br><br>XYZ & Co.<br><br>Acknowledged and agreed on behalf of ABC Company by<br>(signed)<br>......................<br>Name and Title<br>Date |
| Foot Notes | * The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph ~~A21~~. | ** The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see paragraph A22.<br><br>*** See paragraph A24 for examples of other matters relating to management's responsibilities that may be included. |
| **SRI LANKA AUDITING STANDARD 220 (SLAuS 220 - QUALITY CONTROL FOR AN AUDIT OF FINANCIAL STATEMENTS)** | | |
| 7 (d) | Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. ~~This excludes an auditor's external expert engaged by the firm or a network firm.~~ | Engagement team – All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm. The term "engagement team" also excludes individuals within the client's internal audit function who provide |

| Description | 2014 | 2017 |
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| | | direct assistance on an audit engagement when the external auditor complies with the requirements of SLAuS 610 (Revised 2013). * <br>* SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors,* establishes limits on the use of direct assistance. It also acknowledges that the external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. Therefore, the use of direct assistance is restricted to situations where it is permitted. |
| 20 (d) | Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (~~Ref: Para. A26-A27, A29-A31~~) | Evaluation of the conclusions reached in formulating the auditor's report and consideration of whether the proposed auditor's report is appropriate. (Ref: Para. A26–A28, A30–A32) |
| 21 (c) | Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (~~Ref: Para. A28-A31~~) | Whether audit documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached. (Ref: Para. A29–A32) |
| 23 | An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (~~Ref: Para A32-A34~~) | An effective system of quality control includes a monitoring process designed to provide the firm with reasonable assurance that its policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. The engagement partner shall consider the results of the firm's monitoring process as evidenced in the latest information circulated by the firm and, if applicable, other network firms and whether deficiencies noted in that information may affect the audit engagement. (Ref: Para A33–A35) |
| 24 (d) | The nature and scope of, and conclusions resulting from, | The nature and scope of, and conclusions resulting from, |

| Description | 2014 | 2017 |
|---|---|---|
| | consultations undertaken during the course of the audit engagement. (~~Ref: Para. A35~~) | consultations undertaken during the course of the audit engagement. (Ref: Para. A36) |
| A10 | An engagement team includes a person using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. Consultations are addressed in paragraph 18, ~~and paragraph A21-A22~~. | An engagement team includes a person using expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm, if any, who performs audit procedures on the engagement. However, a person with such expertise is not a member of the engagement team if that person's involvement with the engagement is only consultation. Consultations are addressed in paragraphs 18, A21 and A22 |
| 2014 – No correspondent para.<br>2017 – A28 | [No Correspondence] | When SLAuS 701* applies, the conclusions reached by the engagement team in formulating the auditor's report include determining:<br>• The key audit matters to be included in the auditor's report;<br>• The key audit matters that will not be communicated in the auditor's report in accordance with paragraph 14 of SLAuS 701, if any; and<br>• If applicable, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate in the auditor's report.<br>In addition, the review of the proposed auditor's report in accordance with paragraph 20(b) includes consideration of the proposed wording to be included in the Key Audit Matters section.<br>* SLAuS 701, Communicating Key Audit Matters in the Auditor's Report |
| 2014 – A31 | Listed entities as referred to in | Listed entities as referred to in |

| Description | 2014 | 2017 |
|---|---|---|
| 2017 – A32 | paragraphs 21 and ~~A28~~ are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review. | paragraphs 21 and A29 are not common in the public sector. However, there may be other public sector entities that are significant due to size, complexity or public interest aspects, and which consequently have a wide range of stakeholders. Examples include state owned corporations and public utilities. Ongoing transformations within the public sector may also give rise to new types of significant entities. There are no fixed objective criteria on which the determination of significance is based. Nonetheless, public sector auditors evaluate which entities may be of sufficient significance to warrant performance of an engagement quality control review. |
| **SRI LANKA AUDITING STANDARD 230 (SLAuS 230 - AUDIT DOCUMENTATION)** | | |
| A10 | [No Correspondence] | • When SLAuS 701 applies,* the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.<br>* SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report* |
| Appendix 1 | This appendix identifies paragraphs in other SLAuSs ~~in effect for audits of financial statements for periods beginning on or after 01 January 2014~~ that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs.<br>…<br>• ~~SLAuS 260~~, *Communication with Those Charged with Governance – paragraph 23*<br>…<br>• SLAuS 610 (Revised), *Using the Work of Internal Auditors –* | This appendix identifies paragraphs in other SLAuSs that contain specific documentation requirements. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs.<br>…<br>• SLAuS 260 (Revised), *Communication with Those Charged with Governance –* paragraph 23<br>…<br>• SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors –* paragraph 36–37 |

| Description | 2014 | 2017 |
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| | ~~paragraph 24~~ | • SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 25 |
| **SRI LANKA AUDITING STANDARD 240 (SLAuS 240 - THE AUDITOR'S RESPONSIBILITIES RELATING TO FRAUD IN AN AUDIT OF FINANCIAL STATEMENTS)** | | |
| A4 | Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques ~~as~~:<br>…<br>• ~~Concealing, or not disclosing, facts~~ that could affect the amounts recorded in the financial statements.<br>… | Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively. Fraud can be committed by management overriding controls using such techniques as intentionally:<br>…<br>• Omitting, obscuring or misstating disclosures required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation.<br>• Concealing facts that could affect the amounts recorded in the financial statements.<br>… |
| A11 | The discussion may include such matters as:<br>• An exchange of ideas among engagement team members about how and where they believe the entity's financial statements may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated.<br>• … | The discussion may include such matters as:<br>• An exchange of ideas among engagement team members about how and where they believe the entity's financial statements (including the individual statements and the disclosures) may be susceptible to material misstatement due to fraud, how management could perpetrate and conceal fraudulent financial reporting, and how assets of the entity could be misappropriated.<br>• …<br>• A consideration of the risk that management may attempt to |

| Description | 2014 | 2017 |
|---|---|---|
| | | present disclosures in a manner that may obscure a proper understanding of the matters disclosed (for example, by including too much immaterial information or by using unclear or ambiguous language).<br>… |
| A18 | SLAuS 315 (~~Revised~~) and SLAuS 610 (Revised) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function. In carrying out the requirements of those SLAuSs in the context of fraud, the auditor may inquire about specific activities of the function including, for example:<br>• The procedures performed, if any, by the ~~internal auditors~~ during the year to detect fraud.<br>• Whether management has satisfactorily responded to any findings resulting from those procedures. | SLAuS 315 (Revised) and SLAuS 610 (Revised 2013) establish requirements and provide guidance relevant to audits of those entities that have an internal audit function. In carrying out the requirements of those SLAuSs in the context of fraud, the auditor may inquire about specific activities of the function including, for example:<br>• The procedures performed, if any, by the internal auditor function during the year to detect fraud.<br>• Whether management has satisfactorily responded to any findings resulting from those procedures. |
| **SRI LANKA AUDITING STANDARD 250 (SLAuS 250 - CONSIDERATION OF LAWS AND REGULATIONS IN AN AUDIT OF FINANCIAL STATEMENTS)** | | |
| No Changes | | |
| **SRI LANKA AUDITING STANDARD 260 (SLAuS 260 - COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE)** | | |
| **SRI LANKA AUDITING STANDARD 260 (**Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by **SRI LANKA AUDITING STANDARD 260 (REVISED)** (Effective for audits of financial statements for periods beginning on or after 01 January, 2018) | | |

| Description | 2014 | 2017 |
|---|---|---|
| **SRI LANKA AUDITING STANDARD 265 (SLAuS 265 - COMMUNICATING DEFICIENCIES IN INTERNAL CONTROL TO THOSE CHARGED WITH GOVERNANCE AND MANAGEMENT)** | | |
| A15 | …<br>• The nature of the entity. For ~~instance~~, the communication required for a public interest entity may be different from that for a non-public interest entity.<br>• The size and complexity of the entity. For ~~instance~~, the communication required for a complex entity may be different from that for an entity operating a simple business.<br>• The nature of significant deficiencies that the auditor has identified.<br>• The entity's governance composition. For ~~instance~~, more detail may be needed if those charged with governance include members who do not have significant experience in the entity's industry or in the affected areas.<br>• …. | …<br>• The nature of the entity. For <u>example</u>, the communication required for a public interest entity may be different from that for a non-public interest entity.<br>• The size and complexity of the entity. For <u>example</u>, the communication required for a complex entity may be different from that for an entity operating a simple business.<br>• The nature of significant deficiencies that the auditor has identified.<br>• The entity's governance composition. For <u>example</u>, more detail may be needed if those charged with governance include members who do not have significant experience in the entity's industry or in the affected areas.<br>• …. |
| **SRI LANKA AUDITING STANDARD 300 (SLAuS 300 - PLANNING AN AUDIT OF FINANCIAL STATEMENTS)** | | |
| 1 | Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibility to plan an audit of financial statements. This SLAuS is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified. | This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibility to plan an audit of financial statements. This SLAuS is written in the context of recurring audits. Additional considerations in an initial audit engagement are separately identified. |
| 9 (c) | Other planned audit procedures that are required to be carried out so that the engagement complies with SLAuSs. (Ref: ~~Para. A12~~) | Other planned audit procedures that are required to be carried out so that the engagement complies with SLAuSs. (Ref: Para. <u>A12-A14</u>) |

| Description | 2014 | 2017 |
|---|---|---|
| 10 | The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: ~~Para. A13~~) | The auditor shall update and change the overall audit strategy and the audit plan as necessary during the course of the audit. (Ref: Para. A15) |
| 11 | The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. ~~A14–A15~~) | The auditor shall plan the nature, timing and extent of direction and supervision of engagement team members and the review of their work. (Ref: Para. A16–A17) |
| 12 (c) | Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. ~~A16–A19~~) | Any significant changes made during the audit engagement to the overall audit strategy or the audit plan, and the reasons for such changes. (Ref: Para. A18–A21) |
| 13 | Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. ~~A20~~) | Communicating with the predecessor auditor, where there has been a change of auditors, in compliance with relevant ethical requirements. (Ref: Para. A22) |
| 2014 – No correspondent para.<br>2017 – A13 | [No Correspondence] | Determining the nature, timing and extent of planned risk assessment procedures, and the further audit procedures, as they relate to disclosures is important in light of both the wide range of information and the level of detail that may be encompassed in those disclosures. Further, certain disclosures may contain information that is obtained from outside of the general and subsidiary ledgers, which may also affect the assessed risks and the nature, timing and extent of audit procedures to address them. |
| 2014 – No correspondent para.<br>2017 – A14 | [No Correspondence] | Consideration of disclosures early in the audit assists the auditor in giving appropriate attention to, and planning adequate time for, addressing disclosures in the same way as classes of transactions, events and account balances. Early consideration may also help the auditor to determine the effects on the audit of: |

| Description | 2014 | 2017 |
|---|---|---|
| | | • Significant new or revised disclosures required as a result of changes in the entity's environment, financial condition or activities (for example, a change in the required identification of segments and reporting of segment information arising from a significant business combination);<br>• Significant new or revised disclosures arising from changes in the applicable financial reporting framework;<br>• The need for the involvement of an auditor's expert to assist with audit procedures related to particular disclosures (for example, disclosures related to pension or other retirement benefit obligations); and<br>• Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.*<br>* SLAuS 260 (Revised), *Communication with Those Charged with Governance,* paragraph A13 |
| 2014 – A19<br>2017 – A21 | As discussed in paragraph A11, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programs or checklists (see paragraph ~~A17~~) drawn up on the assumption of few relevant control activities, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments. | As discussed in paragraph A11, a suitable, brief memorandum may serve as the documented strategy for the audit of a smaller entity. For the audit plan, standard audit programs or checklists (see paragraph A19) drawn up on the assumption of few relevant control activities, as is likely to be the case in a smaller entity, may be used provided that they are tailored to the circumstances of the engagement, including the auditor's risk assessments. |
| | …<br>• Whether the entity has an internal | ….<br>• Whether the entity has an internal |

| Description | 2014 | 2017 |
|---|---|---|
| | audit function and if so, whether, in which areas and to what extent, the work of the function can be used ~~for purposes of the audit.~~<br>…<br>• ~~Significant changes in the financial reporting framework, such as changes in accounting standards~~.<br>… | audit function and, if so, whether, in which areas and to what extent, the work of the function can be used<u>, or internal auditors can be used to provide direct assistance, for purposes of the audit.</u><br>…<br>• <u>Changes within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures.</u><br>…<br>• <u>The process(es) management uses to identify and prepare the disclosures required by the applicable financial reporting framework, including disclosures containing information that is obtained from outside of the general and subsidiary ledgers</u>.<br>… |
| **SRI LANKA AUDITING STANDARD 315 (SLAuS 315 - IDENTIFYING AND ASSESSING THE RISKS OF MATERIAL MISSTATEMENT THROUGH UNDERSTANDING THE ENTITY AND ITS ENVIRONMENT)** | | |
| 2 | This SLAuS is effective for audits of financial statements for periods ~~beginning on or 01 January 2014~~. | This SLAuS is effective for audits of financial statements for periods <u>ending on or after 01 January 2015</u>. |
| 6 | The risk assessment procedures shall include the following:<br><br>(a) Inquiries of ~~management, and~~ of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. ~~A6~~)<br><br>(b) Analytical procedures. (Ref: Para. ~~A7–A10~~) | The risk assessment procedures shall include the following:<br><br>(a) Inquiries of <u>management, of appropriate individuals within the internal audit function (if the function exists), and</u> of others within the entity who in the auditor's judgment may have information that is likely to assist in identifying risks of material misstatement due to fraud or error. (Ref: Para. <u>A6–A13</u>) |

| Description | 2014 | 2017 |
|---|---|---|
| | (c) Observation and inspection. (Ref: ~~Para. A11~~) | (b) Analytical procedures. (Ref: Para. A14–A17)<br><br>(c) Observation and inspection. (Ref: Para. A18) |
| 9 | Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (Ref: ~~Para. A12–A13~~) | Where the auditor intends to use information obtained from the auditor's previous experience with the entity and from audit procedures performed in previous audits, the auditor shall determine whether changes have occurred since the previous audit that may affect its relevance to the current audit. (Ref: Para. A19–A20) |
| 10 | The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion. (Ref: ~~Para. A14–A16~~) | The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, and the application of the applicable financial reporting framework to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to engagement team members not involved in the discussion. (Ref: Para. A21–A24) |
| 11 | The auditor shall obtain an understanding of the following:<br><br>(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: ~~Para. A17–A22~~)<br><br>(b) The nature of the entity, including:<br><br>(i) its operations;<br><br>(ii) its ownership and governance structures;<br><br>(iii) the types of investments that the entity is making and | The auditor shall obtain an understanding of the following:<br><br>(a) Relevant industry, regulatory, and other external factors including the applicable financial reporting framework. (Ref: Para. A25–A30)<br><br>(b) The nature of the entity, including:<br><br>(i) its operations;<br><br>(ii) its ownership and governance structures;<br><br>(iii) the types of investments that the entity is making and plans to make, including |

| Description | 2014 | 2017 |
|---|---|---|
| | plans to make, including investments in special-purpose entities; and<br><br>(iv) the way that the entity is structured and how it is financed<br><br>to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements.(Ref: ~~Para. A23-A27~~)<br><br>(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: ~~Para. A28~~)<br><br>(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: ~~Para. A29-A35~~)<br><br>(e) The measurement and review of the entity's financial performance. (Ref: ~~Para. A36-A41~~) | investments in special-purpose entities; and<br><br>(iv) the way that the entity is structured and how it is financed,<br><br>to enable the auditor to understand the classes of transactions, account balances, and disclosures to be expected in the financial statements. (Ref: Para. A31–A35)<br><br>(c) The entity's selection and application of accounting policies, including the reasons for changes thereto. The auditor shall evaluate whether the entity's accounting policies are appropriate for its business and consistent with the applicable financial reporting framework and accounting policies used in the relevant industry. (Ref: Para. A36)<br><br>(d) The entity's objectives and strategies, and those related business risks that may result in risks of material misstatement. (Ref: Para. A37–A43)<br><br>(e) The measurement and review of the entity's financial performance. (Ref: Para. A44–A49) |
| 12 | The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. (Ref: ~~Para. A42-A65~~) | The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit. (Ref: |

| Description | 2014 | 2017 |
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| | | Para. A50–A73) |
| 13 | When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Ref: ~~Para. A66-A68~~) | When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel. (Ref: Para. A74–A76) |
| 14 (b) | The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (Ref: ~~Para. A69-A78~~) | The strengths in the control environment elements collectively provide an appropriate foundation for the other components of internal control, and whether those other components are not undermined by deficiencies in the control environment. (Ref: Para. A77–A87) |
| 15 (d) | Deciding about actions to address those risks. (Ref: ~~Para. A79)~~ | Deciding about actions to address those risks. (Ref: Para. A88) |
| 17 | If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. (Ref: ~~Para. A80~~) | If the entity has not established such a process or has an ad hoc process, the auditor shall discuss with management whether business risks relevant to financial reporting objectives have been identified and how they have been addressed. The auditor shall evaluate whether the absence of a documented risk assessment process is appropriate in the circumstances, or determine whether it represents a significant deficiency in internal control. (Ref: Para. A89) |
| 18 | The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:<br><br>(a) The classes of transactions in the entity's operations that are significant to the financial statements; | The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas: (Ref: Para. A90–A92 and A95–A96)<br><br>(a) The classes of transactions in the entity's operations that are significant to the financial |

| Description | 2014 | 2017 |
|---|---|---|
| | (b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;<br><br>(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;<br><br>(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;<br><br>(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and<br><br>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref~~:~~ ~~Para. A81–A85~~) | statements;<br><br>(b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements;<br><br>(c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form;<br><br>(d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;<br><br>(e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and<br><br>(f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A93–A94)<br><br>This understanding of the information system relevant to financial reporting shall include relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers. |
| 19 | The auditor shall obtain an understanding of how the entity | The auditor shall obtain an understanding of how the entity |

| Description | 2014 | 2017 |
|---|---|---|
| | communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including: (Ref: ~~Para. A86-A87~~) | communicates financial reporting roles and responsibilities and significant matters relating to financial reporting, including: (Ref: Para. A97–A98) |
| 20 | The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (Ref: ~~Para. A88-A94~~) | The auditor shall obtain an understanding of control activities relevant to the audit, being those the auditor judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further audit procedures responsive to assessed risks. An audit does not require an understanding of all the control activities related to each significant class of transactions, account balance, and disclosure in the financial statements or to every assertion relevant to them. (Ref: Para. A99–A106) |
| 21 | In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (Ref: ~~Para. A95-A97~~) | In understanding the entity's control activities, the auditor shall obtain an understanding of how the entity has responded to risks arising from IT. (Ref: Para. A107–A109) |
| 22 | The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal ~~control over~~ financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls. (Ref: ~~Para. A98-A100~~) | The auditor shall obtain an understanding of the major activities that the entity uses to monitor internal control relevant to financial reporting, including those related to those control activities relevant to the audit, and how the entity initiates remedial actions to deficiencies in its controls. (Ref: Para. A110–A112) |
| 23 | ~~If the entity has an internal audit function,[1] the auditor shall obtain an understanding of the following in order to determine whether the internal audit function is likely to be relevant to the audit:~~<br><br>~~(a) The nature of the internal audit function's responsibilities and how the internal audit function~~ | If the entity has an internal audit function,[2] the auditor shall obtain an understanding of the nature of the internal audit function's responsibilities, its organizational status, and the activities performed, or to be performed. (Ref: Para. A113–A120) |

| Description | 2014 | 2017 |
|---|---|---|
| | ~~fits in the entity's organizational structure; and~~<br><br>~~(b) The activities performed, or to be performed,~~ by the internal audit function. (Ref: Para. A101-A103) | |
| Foot notes | ~~1. The term "internal audit function" is defined in SLAuS 610, "Using the Work of Internal Auditors," paragraph 7(a), as: "An appraisal activity established or provided as a service to the entity. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control."~~ | 2. SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph 14(a), defines the term "internal audit function" for purposes of the SLAuS. |
| 24 | The auditor shall obtain an understanding of the sources of the information used in the entity's monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose. (Ref: ~~Para. A104~~) | The auditor shall obtain an understanding of the sources of the information used in the entity's monitoring activities, and the basis upon which management considers the information to be sufficiently reliable for the purpose. (Ref: Para. A121) |
| 25 | The auditor shall identify and assess the risks of material misstatement at:<br><br>(a) the financial statement level; and (Ref: ~~Para. A105-A108~~)<br><br>(b) the assertion level for classes of transactions, account balances, and disclosures (Ref: ~~Para. A109-A113~~)<br><br>to provide a basis for designing and performing further audit procedures. | The auditor shall identify and assess the risks of material misstatement at:<br><br>(a) the financial statement level; and (Ref: Para. A122–A125)<br><br>(b) the assertion level for classes of transactions, account balances, and disclosures, (Ref: Para. A126–A131)<br><br>to provide a basis for designing and performing further audit procedures. |
| 26 | For this purpose, the auditor shall:<br><br>(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of transactions, account balances, | For this purpose, the auditor shall:<br><br>(a) Identify risks throughout the process of obtaining an understanding of the entity and its environment, including relevant controls that relate to the risks, and by considering the classes of |

| **Description** | **2014** | **2017** |
|---|---|---|
| | and disclosures in the financial statements; (Ref: ~~Para. A114-A115~~)<br>AUDITING<br>(b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;<br><br>(c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (Ref: ~~Para. A116-A118~~)<br><br>(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement ~~is of a magnitude that~~ could result in a material misstatement. | transactions, account balances, and disclosures ~~(including the quantitative or qualitative aspects of such disclosures)~~ in the financial statements; (Ref: <u>Para. A132–A136</u>)<br><br>(b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;<br><br>(c) Relate the identified risks to what can go wrong at the assertion level, taking account of relevant controls that the auditor intends to test; and (Ref: <u>Para. A137–A139</u>)<br><br>(d) Consider the likelihood of misstatement, including the possibility of multiple misstatements, and whether the potential misstatement could result in a material misstatement. <u>(Ref: Para. A140)</u> |
| 28 (f) | Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: ~~Para. A119-A123~~) | Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. (Ref: <u>Para. A141–A145</u>) |
| 29 | If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. (Ref: ~~Para. A124-A126~~) | If the auditor has determined that a significant risk exists, the auditor shall obtain an understanding of the entity's controls, including control activities, relevant to that risk. (Ref: <u>Para. A146–A148</u>) |
| 30 | In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics | In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which |

| Description | 2014 | 2017 |
|---|---|---|
| | of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them. (Ref: ~~Para. A127–A129)~~ | often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them. (Ref: Para. A149–A151) |
| 31 | The auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly. (Ref: ~~Para. A130)~~ | The auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly. (Ref: Para. A152) |
| 32 (d) | The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27-30. (Ref: ~~Para. A131-A134~~) | The risks identified, and related controls about which the auditor has obtained an understanding, as a result of the requirements in paragraphs 27–30. (Ref: Para. A153–A156) |
| A1 | …<br>• ~~Identifying areas where special audit consideration may be necessary, for example, related party transactions, the appropriateness of management's use of the going concern assumption, or considering the business purpose of transactions;~~<br>… | …<br>• Identifying areas relating to amounts or disclosures in the financial statements where special audit consideration may be necessary, for example: related party transactions or management's assessment of the entity's ability to continue as a going concern; or when considering the business purpose of transactions;<br>… |
| Heading | *Inquiries of Management and Others within the Entity* (Ref: Para. 6(a)) | *Inquiries of Management, the Internal Audit Function and Others within the Entity* (Ref: Para. 6(a)) |

| Description | 2014 | 2017 |
|---|---|---|
| A6 | Much of the information obtained by the auditor's inquiries is obtained from management and those responsible for financial reporting~~. However, the auditor may also obtain information, or a different perspective in identifying risks of material misstatement, through inquiries of others within the entity and other employees with different levels of authority. For example:~~<br><br>~~• Inquiries directed towards those charged with governance may help the auditor understand the environment in which the financial statements are prepared.~~<br><br>~~• Inquiries directed toward internal audit personnel may provide information about internal audit procedures performed during the year relating to the design and effectiveness of the entity's internal control and whether management has satisfactorily responded to findings from those procedures.~~<br><br>~~• Inquiries of employees involved in initiating, processing or recording complex or unusual transactions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies.~~<br><br>~~• Inquiries directed toward in-house legal counsel may provide information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners and the meaning of contract terms.~~<br><br>~~• Inquiries directed towards~~ | Much of the information obtained by the auditor's inquiries is obtained from management and those responsible for financial reporting. <u>Information may also be obtained by the auditor through inquiries with the internal audit function, if the entity has such a function, and others within the entity.</u> |

| Description | 2014 | 2017 |
|---|---|---|
| | ~~marketing or sales personnel may provide information about changes in the entity's marketing strategies, sales trends, or contractual arrangements with its customers.~~ | |
| 2014 – No correspondent para.<br>2017 – A7 | [No Correspondence] | The auditor may also obtain information, or a different perspective in identifying risks of material misstatement, through inquiries of others within the entity and other employees with different levels of authority. For example:<br><br>• <u>Inquiries directed towards those charged with governance may help the auditor understand the environment in which the financial statements are prepared. SLAuS 260 (Revised)* identifies the importance of effective two-way communication in assisting the auditor to obtain information from those charged with governance in this regard.</u><br><br>• <u>Inquiries of employees involved in initiating, processing or recording complex or unusual transactions may help the auditor to evaluate the appropriateness of the selection and application of certain accounting policies.</u><br><br>• <u>Inquiries directed toward in-house legal counsel may provide information about such matters as litigation, compliance with laws and regulations, knowledge of fraud or suspected fraud affecting the entity, warranties, post-sales obligations, arrangements (such as joint ventures) with business partners and the meaning of contract terms.</u><br><br>• <u>Inquiries directed towards marketing or sales personnel may</u> |

| Description | 2014 | 2017 |
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| | | <u>provide information about changes in the entity’s marketing strategies, sales trends, or contractual arrangements with its customers.</u><br>• <u>Inquiries directed to the risk management function (or those performing such roles) may provide information about operational and regulatory risks that may affect financial reporting.</u><br>• <u>Inquiries directed to information systems personnel may provide information about system changes, system or control failures, or other information system-related risks.</u><br><u>* SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph 4(b)</u> |
| 2014 – No correspondent para.<br>2017 – A8 | [No Correspondence] | As obtaining an understanding of the entity and its environment is a continual, dynamic process, the auditor’s inquiries may occur throughout the audit engagement. |
| Heading | [No Correspondence] | Inquiries of the Internal Audit Function |
| 2014 – No correspondent para.<br>2017 – A9 | [No Correspondence] | If an entity has an internal audit function, inquiries of the appropriate individuals within the function may provide information that is useful to the auditor in obtaining an understanding of the entity and its environment, and in identifying and assessing risks of material misstatement at the financial statement and assertion levels. In performing its work, the internal audit function is likely to have obtained insight into the entity’s operations and business risks, and may have findings based on its work, such as identified control deficiencies or risks, that may provide valuable input into the auditor’s understanding of the entity, the |

| Description | 2014 | 2017 |
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| | | auditor's risk assessments or other aspects of the audit. The auditor's inquiries are therefore made whether or not the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed.* Inquiries of particular relevance may be about matters the internal audit function has raised with those charged with governance and the outcomes of the function's own risk assessment process.<br>* The relevant requirements are contained in SLAuS 610 (Revised 2013). |
| 2014 – No correspondent para.<br>2017 – A10 | [No Correspondence] | If, based on responses to the auditor's inquiries, it appears that there are findings that may be relevant to the entity's financial reporting and the audit, the auditor may consider it appropriate to read related reports of the internal audit function. Examples of reports of the internal audit function that may be relevant include the function's strategy and planning documents and reports that have been prepared for management or those charged with governance describing the findings of the internal audit function's examinations. |
| 2014 – No correspondent para.<br>2017 – A11 | [No Correspondence] | In addition, in accordance with SLAuS 240,* if the internal audit function provides information to the auditor regarding any actual, suspected or alleged fraud, the auditor takes this into account in the auditor's identification of risk of material misstatement due to fraud.<br>* SLAuS 240, paragraph 19 |
| 2014 – No correspondent para.<br>2017 – A12 | [No Correspondence] | Appropriate individuals within the internal audit function with whom inquiries are made are those who, in the auditor's judgment, have the appropriate knowledge, experience and |

| Description | 2014 | 2017 |
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| | | authority, such as the chief internal audit executive or, depending on the circumstances, other personnel within the function. The auditor may also consider it appropriate to have periodic meetings with these individuals. |
| Heading | [No Correspondence] | Considerations specific to public sector entities (Ref: Para 6(a)) |
| 2014 – No correspondent para.<br>2017 – A13 | [No Correspondence] | Auditors of public sector entities often have additional responsibilities with regard to internal control and compliance with applicable laws and regulations. Inquiries of appropriate individuals in the internal audit function can assist the auditors in identifying the risk of material noncompliance with applicable laws and regulations and the risk of deficiencies in internal control over financial reporting. |
| 2014 – No correspondent para.<br>2017 – A19 | [No Correspondence] | ….<br>• <u>Those particular types of transactions and other events or account balances (and related disclosures) where the auditor experienced difficulty in performing the necessary audit procedures, for example, due to their complexity.</u> |
| 2014 – No correspondent para.<br>2017 – A22 | [No Correspondence] | As part of the discussion among the engagement team required by paragraph 10, consideration of the disclosure requirements of the applicable financial reporting framework assists in identifying early in the audit where there may be risks of material misstatement in relation to disclosures. Examples of matters the engagement team may discuss include:<br>• <u>Changes in financial reporting requirements that may result in significant new or revised disclosures;</u> |

| Description | 2014 | 2017 |
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| | | • Changes in the entity's environment, financial condition or activities that may result in significant new or revised disclosures, for example, a significant business combination in the period under audit;<br>• Disclosures for which obtaining sufficient appropriate audit evidence may have been difficult in the past; and<br>• Disclosures about complex matters, including those involving significant management judgment as to what information to disclose. |
| 2014 – A15<br>2017 – A23 | It is not always necessary or practical for the discussion to include all members in a single discussion (as, for example, in a multi-location audit), nor is it necessary for all of the members of the engagement team to be informed of all of the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, ~~specialists~~ and those responsible for the audits of components, while delegating discussion with others, taking account of the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful. | It is not always necessary or practical for the discussion to include all members in a single discussion (as, for example, in a multi-location audit), nor is it necessary for all of the members of the engagement team to be informed of all of the decisions reached in the discussion. The engagement partner may discuss matters with key members of the engagement team including, if considered appropriate, those with specific skills or knowledge, and those responsible for the audits of components, while delegating discussion with others, taking account of the extent of communication considered necessary throughout the engagement team. A communications plan, agreed by the engagement partner, may be useful. |
| 2014 – A19<br>2017 – A27 | …<br>~~• Regulatory framework for a regulated industry.~~<br>… | …<br>• Regulatory framework for a regulated industry, including requirements for disclosures.<br>… |
| 2014 – A23<br>2017 – A31 | An understanding of the nature of an entity enables the auditor to | An understanding of the nature of an entity enables the auditor to understand |

<table>
<tr><th>Description</th><th>2014</th><th>2017</th></tr>
<tr><td></td><td>understand such matters as:<br><br>• Whether the entity has a complex structure, for example with subsidiaries or other components in multiple locations. Complex structures often introduce issues that may give rise to risks of material misstatement. Such issues may include whether goodwill, joint ventures, investments, or special-purpose entities are accounted for appropriately.<br><br>• The ownership, and ~~relations~~ between owners and other people or entities. This understanding assists in determining whether related party transactions have been identified and accounted ~~for appropriately. SLAuS 550 establishes requirements and provides guidance on the auditor’s considerations relevant to related parties.~~</td><td>such matters as:<br><br>• Whether the entity has a complex structure, for example, with subsidiaries or other components in multiple locations. Complex structures often introduce issues that may give rise to risks of material misstatement. Such issues may include whether goodwill, joint ventures, investments, or special-purpose entities are accounted for appropriately and whether adequate disclosure of such issues in the financial statements has been made.<br><br>• The ownership, and relationships between owners and other people or entities. This understanding assists in determining whether related party transactions have been appropriately identified, accounted for, and adequately disclosed in the financial statements. SLAuS 550 establishes requirements and provides guidance on the auditor’s considerations relevant to related parties.</td></tr>
<tr><td>2014 – A24<br>2017 – A32</td><td>….<br><br>• Financial reporting such as:<br><br>o Accounting principles and industry specific practices, including ~~industry-specific significant categories (for example, loans and investments for banks, or research and development for pharmaceuticals).~~<br><br>o Revenue recognition ~~practices~~.<br><br>…</td><td>…<br><br>• Financial reporting practices such as:<br><br>○ Accounting principles and industry-specific practices, including for industry-specific significant classes of transactions, account balances and related disclosures in the financial statements (for example, loans and investments for banks, or research and development for pharmaceuticals).<br><br>○ Revenue recognition.<br>…</td></tr>
<tr><td>2014 – A34</td><td>Usually, management identifies</td><td>Usually, management identifies</td></tr>
</table>

| Description | 2014 | 2017 |
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| 2017 – A42 | business risks and develops approaches to address them. Such a risk assessment process is part of internal control and is discussed in paragraph 15 and paragraphs ~~A79–A80~~. | business risks and develops approaches to address them. Such a risk assessment process is part of internal control and is discussed in paragraph 15 and paragraphs A88–A89. |
| 2014 – A37<br>2017 – A45 | The measurement and review of financial performance is not the same as the monitoring of controls (discussed as a component of internal control in paragraphs ~~A98-A104~~), though their purposes may overlap:<br>… | The measurement and review of financial performance is not the same as the monitoring of controls (discussed as a component of internal control in paragraphs A110–A121), though their purposes may overlap:<br>… |
| 2014 – A52<br>2017 – A60 | Application material relating to the five components of internal control as they relate to a financial statement audit is set out in paragraphs ~~A69–A104~~ below. Appendix 1 provides further explanation of these components of internal control. | Application material relating to the five components of internal control as they relate to a financial statement audit is set out in paragraphs A77–A121 below. Appendix 1 provides further explanation of these components of internal control. |
| 2014 – A68<br>2017 – A76 | Obtaining an understanding of an entity's controls is not sufficient to test their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls. For example, obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit. However, because of the inherent consistency of IT processing (see ~~paragraph A55~~), performing audit procedures to determine whether an automated control has been implemented may serve as a test of that control's operating effectiveness, depending on the auditor's assessment and testing of controls such as those over program changes. Tests of the operating effectiveness of controls are further described in SLAuS 330. | Obtaining an understanding of an entity's controls is not sufficient to test their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls. For example, obtaining audit evidence about the implementation of a manual control at a point in time does not provide audit evidence about the operating effectiveness of the control at other times during the period under audit. However, because of the inherent consistency of IT processing (see paragraph A63), performing audit procedures to determine whether an automated control has been implemented may serve as a test of that control's operating effectiveness, depending on the auditor's assessment and testing of controls such as those over program changes. Tests of the operating effectiveness of controls are further described in SLAuS 330. |

| Description | 2014 | 2017 |
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| 2014 – No correspondent para.<br>2017 – A80 | [No Correspondence] | The auditor may also consider how management has responded to the findings and recommendations of the internal audit function regarding identified deficiencies in internal control relevant to the audit, including whether and how such responses have been implemented, and whether they have been subsequently evaluated by the internal audit function. |
| 2014 – A72<br>2017 – A81 | …<br>• The extent to which they evaluate whether the financial statements are prepared in accordance with the applicable financial reporting framework. | …<br>• The extent to which they evaluate whether the financial statements are prepared in accordance with the applicable financial reporting framework, <u>including whether the financial statements include adequate disclosures.</u> |
| 2014 – A76<br>2017 – A85 | The control environment within small entities is likely to differ from larger entities. For example, those charged with governance in small entities may not include an independent or outside member, and the role of governance may be undertaken directly by the owner-manager where there are no other owners. The nature of the control environment may also influence the significance of other controls, or their absence. For example, the active involvement of an owner-manager may mitigate certain of the risks arising from a lack of segregation of duties in a small ~~business;~~ it may, however, increase other risks, for example, the risk of override of controls. | The control environment within small entities is likely to differ from larger entities. For example, those charged with governance in small entities may not include an independent or outside member, and the role of governance may be undertaken directly by the owner-manager where there are no other owners. The nature of the control environment may also influence the significance of other controls, or their absence. For example, the active involvement of an owner-manager may mitigate certain of the risks arising from a lack of segregation of duties in a small <u>entity</u>; it may, however, increase other risks, for example, the risk of override of controls. |
| 2014 – No correspondent para.<br>2017 – A91 | [No Correspondence] | Financial statements may contain information that is obtained from outside of the general and subsidiary ledgers. Examples of such information may include:<br>• <u>Information obtained from lease agreements disclosed in the financial statements, such as</u> |

| Description | 2014 | 2017 |
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| | | renewal options or future lease payments.<br>• Information disclosed in the financial statements that is produced by an entity's risk management system.<br>• Fair value information produced by management's experts and disclosed in the financial statements.<br>• Information disclosed in the financial statements that has been obtained from models, or from other calculations used to develop estimates recognized or disclosed in the financial statements, including information relating to the underlying data and assumptions used in those models, such as:<br>○ Assumptions developed internally that may affect an asset's useful life; or<br>○ Data such as interest rates that are affected by factors outside the control of the entity.<br>• Information disclosed in the financial statements about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.<br>• Information recognized or disclosed in the financial statements that has been obtained from an entity's tax returns and records.<br>• Information disclosed in the financial statements that has been obtained from analyses prepared to support management's assessment of the entity's ability to continue as a going concern, such as disclosures, if any, related to |

| Description | 2014 | 2017 |
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| | | events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.*<br>* See paragraphs 19–20 of SLAuS 570 (Revised), *Going Concern*. |
| 2014 – No correspondent para.<br>2017 – A92 | [No Correspondence] | The understanding of the information system relevant to financial reporting required by paragraph 18 of this SLAuS (including the understanding of relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers) is a matter of the auditor's professional judgment. For example, certain amounts or disclosures in the entity's financial statements (such as disclosures about credit risk, liquidity risk, and market risk) may be based on information obtained from the entity's risk management system. However, the auditor is not required to understand all aspects of the risk management system, and uses professional judgment in determining the necessary understanding. |
| Heading | Journal entries | Journal entries (Ref: Para. 18(f)) |
| Heading | Related business processes | Related business processes (Ref: Para. 18) |
| Heading | Considerations specific to smaller entities | Considerations specific to smaller entities (Ref: Para. 18) |
| 2014 – A85<br>2017 – A96 | ~~Information systems and related business processes relevant to financial reporting in small entities are likely to be less sophisticated than in larger entities, but their role is just as significant.~~ Small entities with active management involvement may not need extensive descriptions of accounting procedures, sophisticated | The information system, and related business processes relevant to financial reporting in small entities, including relevant aspects of that system relating to information disclosed in the financial statements that is obtained from within or outside of the general and subsidiary ledgers, is likely to be less sophisticated than in larger |

| **Description** | **2014** | **2017** |
|---|---|---|
| | accounting records, or written policies. Understanding the ~~entity's systems and processes~~ may therefore be easier in an audit of smaller entities, and may be more dependent on inquiry than on review of documentation. The need to obtain an understanding, however, remains important. | entities, but its role is just as significant. Small entities with active management involvement may not need extensive descriptions of accounting procedures, sophisticated accounting records, or written policies. Understanding the entity's information systems relevant to financial reporting may therefore be easier in an audit of smaller entities, and may be more dependent on inquiry than on review of documentation. The need to obtain an understanding, however, remains important. |
| Heading | *Components of Internal Control—Control Activities* (Ref: Para. 20) | *Components of Internal Control—Control Activities <u>Relevant to the Audit</u>* (Ref: Para. 20) |
| 2014 – No correspondent para.<br>2017 – A103 | [No Correspondence] | Control activities relevant to the audit may include controls established by management that address risks of material misstatement related to disclosures not being prepared in accordance with the applicable financial reporting framework, in addition to controls that address risks related to account balances and transactions. Such control activities may relate to information included in the financial statements that is obtained from outside of the general and subsidiary ledgers. |
| 2014 – A96<br>2017 – A108 | …<br><br>They are generally implemented to deal with the risks referred to in ~~paragraph A56~~ above. | …<br><br>They are generally implemented to deal with the risks referred to in <u>paragraph A64</u> above. |
| Heading | ~~Internal Audit Functions (Ref: Para. 23)~~ | The Entity's Internal Audit Function (Ref: Para. 23) |
| A101 | ~~The entity's internal audit function is likely to be relevant to the audit if the nature of the internal audit function's responsibilities and activities are related to the entity's financial~~ | [Content Deleted] |

| Description | 2014 | 2017 |
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| | ~~reporting, and the auditor expects to use the work of the internal auditors to modify the nature or timing, or reduce the extent, of audit procedures to be performed. If the auditor determines that the internal audit function is likely to be relevant to the audit, SLAuS 610 applies.~~ | |
| 2014 – No correspondent para.<br>2017 – A113 | [No Correspondence] | If the entity has an internal audit function, obtaining an understanding of that function contributes to the auditor's understanding of the entity and its environment, including internal control, in particular the role that the function plays in the entity's monitoring of internal control over financial reporting. This understanding, together with the information obtained from the auditor's inquiries in paragraph 6(a) of this SLAuS, may also provide information that is directly relevant to the auditor's identification and assessment of the risks of material misstatement. |
| 2014 – A102<br>2017 – A114 | ~~The objectives of an internal audit function, and therefore the nature of its responsibilities and its status within the organization, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. The responsibilities of an internal audit function may include, for example, monitoring of internal control, risk management, and review of compliance with laws and regulations. On the other hand, the responsibilities of the internal audit function may be limited to the review of the economy, efficiency and effectiveness of operations, for example, and accordingly, may not relate to the entity's financial reporting.~~ | The objectives and scope of an internal audit function, the nature of its responsibilities and its status within the organization, including the function's authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance. These matters may be set out in an internal audit charter or terms of reference. |

| Description | 2014 | 2017 |
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| 2014 – A103<br>2017 – A115 | ~~If the nature of the internal audit function's responsibilities are related to the entity's financial reporting, the external auditor's consideration of the activities performed, or to be performed by, the internal audit function may include review of the internal audit function's audit plan for the period, if any, and discussion of that plan with the internal auditors.~~ | The responsibilities of an internal audit function may include performing procedures and evaluating the results to provide assurance to management and those charged with governance regarding the design and effectiveness of risk management, internal control and governance processes. If so, the internal audit function may play an important role in the entity's monitoring of internal control over financial reporting. However, the responsibilities of the internal audit function may be focused on evaluating the economy, efficiency and effectiveness of operations and, if so, the work of the function may not directly relate to the entity's financial reporting. |
| 2014 – No correspondent para.<br>2017 – A116 | [No Correspondence] | The auditor's inquiries of appropriate individuals within the internal audit function in accordance with paragraph 6(a) of this SLAuS help the auditor obtain an understanding of the nature of the internal audit function's responsibilities. If the auditor determines that the function's responsibilities are related to the entity's financial reporting, the auditor may obtain further understanding of the activities performed, or to be performed, by the internal audit function by reviewing the internal audit function's audit plan for the period, if any, and discussing that plan with the appropriate individuals within the function. |
| 2014 – No correspondent para.<br>2017 – A117 | [No Correspondence] | If the nature of the internal audit function's responsibilities and assurance activities are related to the entity's financial reporting, the auditor may also be able to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the auditor in obtaining |

| Description | 2014 | 2017 |
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| | | audit evidence. Auditors may be more likely to be able to use the work of an entity's internal audit function when it appears, for example, based on experience in previous audits or the auditor's risk assessment procedures, that the entity has an internal audit function that is adequately and appropriately resourced relative to the size of the entity and the nature of its operations, and has a direct reporting relationship to those charged with governance. |
| 2014 – No correspondent para.<br>2017 – A118 | [No Correspondence] | If, based on the auditor's preliminary understanding of the internal audit function, the auditor expects to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed, SLAuS 610 (Revised 2013) applies. |
| 2014 – No correspondent para.<br>2017 – A119 | [No Correspondence] | As is further discussed in SLAuS 610 (Revised 2013), the activities of an internal audit function are distinct from other monitoring controls that may be relevant to financial reporting, such as reviews of management accounting information that are designed to contribute to how the entity prevents or detects misstatements. |
| 2014 – No correspondent para.<br>2017 – A120 | [No Correspondence] | Establishing communications with the appropriate individuals within an entity's internal audit function early in the engagement, and maintaining such communications throughout the engagement, can facilitate effective sharing of information. It creates an environment in which the auditor can be informed of significant matters that may come to the attention of the internal audit function when such matters may affect the work of the auditor. SLAuS 200 discusses the importance of the auditor planning and performing the audit with professional |

| Description | 2014 | 2017 |
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| | | skepticism, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring such information to the auditor's attention. The auditor is then able to take such information into account in the auditor's identification and assessment of risks of material misstatement. |
| 2014 – A106<br>2017 – A123 | Risks at the financial statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as ~~management's lack of competence~~ may have a more pervasive effect on the financial statements and may require an overall response by the auditor. | Risks at the financial statement level may derive in particular from a deficient control environment (although these risks may also relate to other factors, such as declining economic conditions). For example, deficiencies such as a lack of management competence or lack of oversight over the preparation of the financial statements may have a more pervasive effect on the financial statements and may require an overall response by the auditor. |
| 2014 – A110<br>2017 – A127 | In representing that the financial statements are in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions ~~regarding the recognition, measurement, presentation and disclosure of the various elements of financial statements and related disclosures.~~ | In representing that the financial statements are in accordance with the applicable financial reporting framework, management implicitly or explicitly makes assertions regarding recognition, measurement~~,~~ and presentation of classes of transactions and events, account balances and disclosures. |
| 2014 – No correspondent para.<br>2017 – A128 | [No Correspondence] | The auditor may use the assertions as described in paragraph A129(a)–(b) below or may express them differently provided all aspects described below have been covered. For example, the auditor may choose to combine the assertions about classes of transactions and events, and related disclosures, with the assertions about account |

| Description | 2014 | 2017 |
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| | | balances, and related disclosures. |
| 2014 – A111<br>2017 – A129 | ~~Assertions used by the auditor to consider the different types of potential misstatements that may occur fall into the following three categories and may take the following forms:~~<br><br>~~(a) Assertions about classes of transactions and events for the period under audit:~~<br><br>~~(i) Occurrence transactions and events that have been recorded have occurred and pertain to the entity.~~<br><br>~~(ii) Completeness all transactions and events that should have been recorded have been recorded.~~<br><br>~~(iii) Accuracy amounts and other data relating to recorded transactions and events have been recorded appropriately.~~<br><br>~~(iv) Cutoff transactions and events have been recorded in the correct accounting period.~~<br><br>~~(v) Classification transactions and events have been recorded in the proper accounts.~~<br><br>~~(b)Assertions about account balances at the period end:~~<br><br>~~(i) Existence assets, liabilities, and equity interests exist.~~<br><br>~~(ii) Rights and obligations the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.~~<br><br>~~(iii) Completeness all assets, liabilities and equity interests that should have been recorded have been recorded.~~ | Assertions used by the auditor in considering the different types of potential misstatements that may occur may fall into the following categories:<br><br>(a) <u>Assertions about classes of transactions and events, and related disclosures, for the period under audit:</u><br><br>i. <u>Occurrence—transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity.</u><br><br>ii. <u>Completeness—all transactions and events that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.</u><br><br>iii. <u>Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.</u><br><br>iv. <u>Cutoff—transactions and events have been recorded in the correct accounting period.</u><br><br>v. <u>Classification—transactions and events have been recorded in the proper accounts.</u><br><br>vi. <u>Presentation—transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.</u> |

| Description | 2014 | 2017 |
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| | ~~(iv) Valuation and allocation assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.~~<br><br>~~(c)Assertions about presentation and disclosure:~~<br><br>~~(i) Occurrence and rights and obligations disclosed events, transactions, and other matters have occurred and pertain to the entity.~~<br><br>~~(ii) Completeness all disclosures that should have been included in the financial statements have been included.~~<br><br>~~(iii) Classification and understandability financial information is appropriately presented and described, and disclosures are clearly expressed.~~<br><br>~~(iv) Accuracy and valuation financial and other information are disclosed fairly and at appropriate amounts.~~ | b. Assertions about account balances, and related disclosures, at the period end:<br><br>i. Existence—assets, liabilities, and equity interests exist.<br><br>ii. Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.<br><br>iii. Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded, and all related disclosures that should have been included in the financial statements have been included.<br><br>iv. Accuracy, valuation and allocation—assets, liabilities, and equity interests have been included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments have been appropriately recorded, and related disclosures have been appropriately measured and described.<br><br>v. Classification—assets, liabilities and equity interests have been recorded in the proper accounts.<br><br>vi. Presentation—assets, liabilities and equity interests are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework. |

| **Description** | **2014** | **2017** |
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| 2014 – A112<br>2017 – No correspondent para. | ~~The auditor may use the assertions as described above or may express them differently provided all aspects described above have been covered. For example, the auditor may choose to combine the assertions about transactions and events with the assertions about account balances.~~ | [No correspondence] |
| Heading | [No Correspondence] | <u>Assertions about other disclosures</u> |
| 2014 – No correspondent para.<br>2017 – A130 | [No Correspondence] | The assertions described in paragraph 129(a)–(b) above, adapted as appropriate, may also be used by the auditor in considering the different types of potential misstatements that may occur in disclosures not directly related to recorded classes of transactions, events, or account balances. As an example of such a disclosure, the entity may be required to describe its exposure to risks arising from financial instruments, including how the risks arise; the objectives, policies and processes for managing the risks; and the methods used to measure the risks. |
| 2014 – A113<br>2017 – A131 | When making assertions about the financial statements of public sector entities, in addition to those assertions set out in ~~paragraph A111~~, management may often assert that transactions and events have been carried out in accordance with law, regulation or other authority. Such assertions may fall within the scope of the financial statement audit. | When making assertions about the financial statements of public sector entities, in addition to those assertions set out in <u>paragraph A129(a)–(b)</u>, management may often assert that transactions and events have been carried out in accordance with law, regulation or other authority. Such assertions may fall within the scope of the financial statement audit. |
| 2014 – A114<br>2017 – A132 | Information gathered by performing risk assessment procedures, including the audit evidence obtained in evaluating the design of controls and determining whether they have been implemented, is used as audit evidence to support the risk assessment. The risk assessment | Information gathered by performing risk assessment procedures, including the audit evidence obtained in evaluating the design of controls and determining whether they have been implemented, is used as audit evidence to support the risk assessment. The risk assessment determines the nature, |

| Description | 2014 | 2017 |
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| | determines the nature, timing, ~~and extent of further audit procedures to be performed.~~ | timing and extent of further audit procedures to be performed. In identifying the risks of material misstatement in the financial statements, the auditor exercises professional skepticism in accordance with SLAuS 200.*<br>* SLAuS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards,* paragraph 15 |
| 2014 – A115<br>2017 – A133 | Appendix 2 provides examples of conditions and events that may indicate the existence of risks of ~~material misstatement.~~ | Appendix 2 provides examples of conditions and events that may indicate the existence of risks of material misstatement, including risks of material misstatement relating to disclosures. |
| 2014 – No correspondent para.<br>2017 – A134 | [No Correspondence] | As explained in SLAuS 320,* materiality and audit risk are considered when identifying and assessing the risks of material misstatement in classes of transactions, account balances and disclosures. The auditor's determination of materiality is a matter of professional judgment, and is affected by the auditor's perception of the financial reporting needs of users of the financial statements.**<br>* SLAuS 320, paragraph A1<br>** SLAuS 320, paragraph 4 |
| 2014 – No correspondent para.<br>2017 – A135 | [No Correspondence] | The auditor's consideration of disclosures in the financial statements when identifying risks includes quantitative and qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole). Depending on the circumstances of the entity and the engagement, examples |

| **Description** | **2014** | **2017** |
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| | | of disclosures that will have qualitative aspects and that may be relevant when assessing the risks of material misstatement include disclosures about:<br>• Liquidity and debt covenants of an entity in financial distress.<br>• Events or circumstances that have led to the recognition of an impairment loss.<br>• Key sources of estimation uncertainty, including assumptions about the future.<br>• The nature of a change in accounting policy, and other relevant disclosures required by the applicable financial reporting framework, where, for example, new financial reporting requirements are expected to have a significant impact on the financial position and financial performance of the entity.<br>• Share-based payment arrangements, including information about how any amounts recognized were determined, and other relevant disclosures.<br>• Related parties, and related party transactions.<br>• Sensitivity analysis, including the effects of changes in assumptions used in the entity's valuation techniques intended to enable users to understand the underlying measurement uncertainty of a recorded or disclosed amount. |
| Heading | [No Correspondence] | Considerations specific to smaller entities |
| 2014 – No correspondent para. | [No Correspondence] | Disclosures in the financial statements of smaller entities may be less detailed or less complex (e.g., some financial |

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| 2017 – A136 | | reporting frameworks allow smaller entities to provide fewer disclosures in the financial statements). However, this does not relieve the auditor of the responsibility to obtain an understanding of the entity and its environment, including internal control, as it relates to disclosures. |
| Heading | [No Correspondence] | Material Misstatements |
| 2014 – No correspondent para.<br>2017 – A139 | [No Correspondence] | Potential misstatements in individual statements and disclosures may be judged to be material due to size, nature or circumstances. (Ref: Para. 26(d)) |
| Appendix 1 | ~~(Ref: Paras. 4(c), 14-24, A69-A104)~~<br><br>… | (Ref: Para. 4(c), 14–24, A77–A121)<br>…. |
| Appendix 1 Para 1 | This appendix further explains the components of internal control, as set out in paragraphs 4(c), 14-24 and ~~A69-A104~~, as they relate to a financial statement audit. | This appendix further explains the components of internal control, as set out in paragraphs 4(c), 14–24 and A77–A121, as they relate to a financial statement audit. |
| Appendix 2 | ~~(Ref: Para. A33, A115)~~<br><br>**Conditions and Events That May Indicate Risks of Material Misstatement**<br><br>The following are examples of conditions and events that may indicate the existence of risks of material misstatement. The examples provided cover a broad range of conditions and events; however, not all conditions and events are relevant to every audit engagement and the list of examples is not necessarily complete.<br><br>…<br><br>• Events or transactions that involve significant measurement uncertainty, including accounting ~~estimates.~~ | (Ref: Para. A41, A133)<br><br>**Conditions and Events That May Indicate Risks of Material Misstatement**<br><br>The following are examples of conditions and events that may indicate the existence of risks of material misstatement in the financial statements. The examples provided cover a broad range of conditions and events; however, not all conditions and events are relevant to every audit engagement and the list of examples is not necessarily complete.<br><br>…<br><br>• Incentives for management and employees to engage in fraudulent financial reporting.<br><br>… |

| Description | 2014 | 2017 |
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| | … | • Events or transactions that involve significant measurement uncertainty, including accounting estimates, and related disclosures.<br>• Omission, or obscuring, of significant information in disclosures.<br>… |
| **SRI LANKA AUDITING STANDARD 320 (SLAus 320 - MATERIALITY IN PLANNING AND PERFORMING AN AUDIT)** | | |
| 6 | In planning the audit, the auditor makes judgments about ~~the size of~~ misstatements that will be considered material. These judgments provide a basis for:<br>(a) Determining the nature, timing and extent of risk assessment procedures;<br>(b) Identifying and assessing the risks of material misstatement; and<br>(c) Determining the nature, timing and extent of further audit procedures.<br>The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. ~~Although it~~ is not practicable to design audit procedures to detect misstatements that could be material solely because of their nature~~, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, when evaluating their~~ | In planning the audit, the auditor makes judgments about misstatements that will be considered material. These judgments provide a basis for:<br>(a) Determining the nature, timing and extent of risk assessment procedures;<br>(b) Identifying and assessing the risks of material misstatement; and<br>(c) Determining the nature, timing and extent of further audit procedures.<br>The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. It is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature. However, consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures to address risks of material misstatement.** In addition, when evaluating the effect on the financial statements of all uncorrected misstatements, the auditor considers |

| Description | 2014 | 2017 |
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| | ~~effect on the financial statements.~~* <br> * ~~SLAuS 450, paragraph A16.~~ | not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence.*** (Ref: Para. A2) <br> ** See SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraphs A134–A135. <br><br> *** SLAuS 450, paragraph A21 |
| 10 | When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. ~~A2–A11~~) | When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A3–A12) |
| 11 | The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. ~~A12~~) | The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. A13) |
| 12 | The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount | The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. (Ref: Para. A14) |

| Description | 2014 | 2017 |
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| | (or amounts) initially. (Ref: Para. ~~A13~~) | |
| Sub-Heading | [No Correspondence] | **Materiality in the Context of an Audit** (Ref: Para. 6) |
| 2014 – No correspondent para.<br>2017 – A2 | [No Correspondence] | Identifying and assessing the risks of material misstatement* involves the use of professional judgment to identify those classes of transactions, account balances and disclosures, including qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole). When considering whether misstatements in qualitative disclosures could be material, the auditor may identify relevant factors such as:<br>• The circumstances of the entity for the period (for example, the entity may have undertaken a significant business combination during the period).<br>• The applicable financial reporting framework, including changes therein (for example, a new financial reporting standard may require new qualitative disclosures that are significant to the entity).<br>• Qualitative disclosures that are important to users of the financial statements because of the nature of an entity (for example, liquidity risk disclosures may be important to users of the financial statements for a financial institution).<br><br>* SLAuS 315 (Revised), paragraph 25, requires the auditor to identify and assess the risk of material misstatement at the financial statement and assertion level. |

| Description | 2014 | 2017 |
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| 2014 – A10<br>2017 – A11 | Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:<br><br>• Whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, ~~and~~ the remuneration of management and those charged with governance).<br><br>• The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).<br><br>• Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements ~~(for example, a newly acquired business~~). | Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:<br><br>• Whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, the remuneration of management and those charged with governance, and sensitivity analysis for fair value accounting estimates with high estimation uncertainty).<br><br>• The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).<br><br>• Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, disclosures about segments or a significant business combination). |
| **SRI LANKA AUDITING STANDARD 330 (SLAuS 330 - THE AUDITOR'S RESPONSES TO ASSESSED RISKS)** | | |
| 20 (a) | ~~Agreeing or reconciling the financial statements with the underlying accounting records; and~~ | Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether |

| Description | 2014 | 2017 |
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| | | such information is obtained from within or outside of the general and subsidiary ledgers; and |
| Sub-heading | **Adequacy of Presentation ~~and Disclosure~~** | **Adequacy of Presentation of the Financial Statements** |
| 24 | The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements~~, including the related disclosures, is in accordance with the applicable financial reporting framework. (Ref: Para. A59)~~ | The auditor shall perform audit procedures to evaluate whether the overall presentation of the financial statements is in accordance with the applicable financial reporting framework. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:<br>• Classification and description of financial information and the underlying transactions, events and conditions; and<br>• Presentation, structure and content of the financial statements. (Ref: Para. A59) |
| 30 | The auditor's documentation shall demonstrate that ~~the financial statements agree or reconcile with the underlying accounting records.~~ | The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers. |
| A1 | …<br>• Emphasizing to the ~~audit~~ team the need to maintain professional skepticism.<br>… | …<br>• Emphasizing to the engagement team the need to maintain professional skepticism.<br>… |
| A13 | …<br>~~• Agreeing the financial statements to the accounting records;~~<br>… | …<br>• Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling disclosures, |

| Description | 2014 | 2017 |
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| | | whether such information is obtained from within or outside of the general and subsidiary ledgers; <br> … |
| 2014 – No correspondent para. <br> 2017 – A14 | [No Correspondence] | … <br> • The timing of the preparation of the financial statements, particularly for those disclosures that provide further explanation about amounts recorded in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows. <br> … |
| A51 | … <br> Substantive Procedures Related to the Financial Statement Closing Process (Ref: ~~Para. 20(b)).~~ | … <br> Substantive Procedures Related to the Financial Statement Closing Process (Ref: Para. 20) |
| A52 | The nature, and also the extent, of the auditor's ~~examination of journal entries and other adjustments~~ depends on the nature and complexity of the entity's financial reporting process and the related risks of material misstatement. | The nature, and also the extent, of the auditor's substantive procedures related to the financial statement closing process depends on the nature and complexity of the entity's financial reporting process and the related risks of material misstatement. |
| Sub Heading | Adequacy of Presentation ~~and Disclosure~~ (Ref: Para. 24) | Adequacy of Presentation of the Financial Statements (Ref: Para. 24) |
| A59 | ~~Evaluating the overall presentation of the financial statements, including the related disclosures, relates to whether the individual financial statements are presented in a manner that reflects the appropriate classification and description of financial information, and the form, arrangement, and content of the financial statements and their appended notes. This includes, for example, the terminology used, the amount of detail given, the classification of items in the~~ | Evaluating the appropriate presentation, arrangement and content of the financial statements includes, for example, consideration of the terminology used as required by the applicable financial reporting framework, the level of detail provided, the aggregation and disaggregation of amounts and the bases of amounts set forth. |

| Description | 2014 | 2017 |
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| | ~~statements, and the bases of amounts set forth.~~ | |
| **SRI LANKA AUDITING STANDARD 402 (SLAuS 402 - AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION)** | | |
| No Changes | | |
| **SRI LANKA AUDITING STANDARD 450 (SLAuS 450 - EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT)** | | |
| 4 (a) | Misstatement – A difference between the amount, classification, presentation, or disclosure of a ~~reported~~ financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. (Ref: Para. A1)<br>… | Misstatement – A difference between the <u>reported</u> amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Misstatements can arise from error or fraud. (Ref: Para. A1)<br>… |
| 5 | The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. ~~A2–A3~~) | The auditor shall accumulate misstatements identified during the audit, other than those that are clearly trivial. (Ref: Para. <u>A2–A6</u>) |
| 6 | The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:<br>(a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or (Ref: Para. ~~A4~~)<br>(b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SLAuS 320. (Ref: Para. ~~A5~~) | The auditor shall determine whether the overall audit strategy and audit plan need to be revised if:<br>(a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the audit, could be material; or (Ref: Para. <u>A7</u>)<br>(b) The aggregate of misstatements accumulated during the audit approaches materiality determined in accordance with SLAuS 320. (Ref: Para. <u>A8</u>) |
| 7 | If, at the auditor's request, management has examined a class of | If, at the auditor's request, management has examined a class of |

| Description | 2014 | 2017 |
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| | transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. (Ref: Para. ~~A6~~) | transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain. (Ref: Para. A9) |
| 8 | The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements. (Ref: Para~~. A7–A9~~) | The auditor shall communicate on a timely basis all misstatements accumulated during the audit with the appropriate level of management, unless prohibited by law or regulation. The auditor shall request management to correct those misstatements. (Ref: Para. A10–A12) |
| 9 | If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. (Ref: Para. ~~A10~~) | If management refuses to correct some or all of the misstatements communicated by the auditor, the auditor shall obtain an understanding of management's reasons for not making the corrections and shall take that understanding into account when evaluating whether the financial statements as a whole are free from material misstatement. (Ref: Para. A13) |
| 10 | Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SLAuS 320 to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. ~~A11–A12~~) | Prior to evaluating the effect of uncorrected misstatements, the auditor shall reassess materiality determined in accordance with SLAuS 320 to confirm whether it remains appropriate in the context of the entity's actual financial results. (Ref: Para. A14–A15) |
| 11 | The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:<br><br>(a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular circumstances of their occurrence; | The auditor shall determine whether uncorrected misstatements are material, individually or in aggregate. In making this determination, the auditor shall consider:<br><br>(a) The size and nature of the misstatements, both in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole, and the particular |

| Description | 2014 | 2017 |
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| | and (Ref: Para. ~~A13-A17, A19-A20~~)<br><br>(b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. (Ref: Para. ~~A18~~) | circumstances of their occurrence; and (Ref: Para. A16–A22, A24–A25)<br><br>(b) The effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. (Ref: Para. A23) |
| 12 | The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. ~~A21-A23~~) | The auditor shall communicate with those charged with governance uncorrected misstatements and the effect that they, individually or in aggregate, may have on the opinion in the auditor's report, unless prohibited by law or regulation. The auditor's communication shall identify material uncorrected misstatements individually. The auditor shall request that uncorrected misstatements be corrected. (Ref: Para. A26–A28) |
| 14 | The auditor shall request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation. (Ref: ~~Para. A24~~). | The auditor shall request a written representation from management and, where appropriate, those charged with governance whether they believe the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. A summary of such items shall be included in or attached to the written representation. (Ref: Para. A29) |
| 15 | The auditor shall include in the audit documentation: (Ref: ~~Para. A25~~)<br>… | The auditor shall include in the audit documentation: (Ref: Para. A30)<br>… |
| A1 | Misstatements may result from:<br><br>(a) An inaccuracy in gathering or processing data from which the financial statements are prepared;<br><br>(b) ~~An omission of an amount or disclosure;~~ | Misstatements may result from:<br><br>(a) An inaccuracy in gathering or processing data from which the financial statements are prepared;<br><br>(b) An omission of an amount or disclosure, including inadequate or incomplete disclosures, and those |

| Description | 2014 | 2017 |
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| | (c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; ~~and~~<br><br>(d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate. | disclosures required to meet disclosure objectives of certain financial reporting frameworks as applicable;*<br><br>(c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts;<br><br>(d) Judgments of management concerning accounting estimates that the auditor considers unreasonable or the selection and application of accounting policies that the auditor considers inappropriate.<br><br>(e) An inappropriate classification, aggregation or disaggregation, of information; and<br><br>(f) For financial statements prepared in accordance with a fair presentation framework, the omission of a disclosure necessary for the financial statements to achieve fair presentation beyond disclosures specifically required by the framework.**<br><br>Examples of misstatements arising from fraud are provided in SLAuS 240.***<br><br>* For example, Sri Lanka Accounting Standard 7 (SLFRS), *Financial Instruments: Disclosures*, paragraph 42H states that "an entity shall disclose any additional information that it considers necessary to meet the disclosure objectives in paragraph…"<br><br>** For example, SLFRS requires an entity to provide additional disclosures when compliance with the specific requirements in SLFRS is insufficient to enable |

| Description | 2014 | 2017 |
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| | | users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (Sri Lanka Accounting Standard 1, *Presentation of Financial Statements*, paragraph 17(c)).<br><br>*** SLAuS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A1–A6 |
| A2 | ~~The auditor may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial statements. "Clearly trivial" is not another expression for "not material." Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with SLAuS 320, and will be matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.~~ | *"Clearly Trivial"*<br><br>Paragraph 5 of this SLAuS requires the auditor to accumulate misstatements identified during the audit other than those that are clearly trivial. "Clearly trivial" is not another expression for "not material." Misstatements that are clearly trivial will be of a wholly different (smaller) order of magnitude, or of a wholly different nature than those that would be determined to be material, and will be misstatements that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the misstatement is considered not to be clearly trivial. |
| Heading | [No Correspondence] | *Misstatements in Individual Statements* |
| 2014 – No correspondent para.<br>2017 - A3 | [No Correspondence] | The auditor may designate an amount below which misstatements of amounts in the individual statements would be clearly trivial, and would not need to be accumulated because the auditor expects that the accumulation of such amounts clearly would not have a material effect on the financial |

| **Description** | **2014** | **2017** |
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| | | statements. However, misstatements of amounts that are above the designated amount are accumulated as required by paragraph 5 of this SLAuS. In addition, misstatements relating to amounts may not be clearly trivial when judged on criteria of nature or circumstances, and, if not, are accumulated as required by paragraph 5 of this SLAuS. |
| Heading | [No Correspondence] | *Misstatements in Disclosures* |
| 2014 – No correspondent para.<br>2017 – A4 | [No Correspondence] | Misstatements in disclosures may also be clearly trivial whether taken individually or in aggregate, and whether judged by any criteria of size, nature or circumstances. Misstatements in disclosures that are not clearly trivial are also accumulated to assist the auditor in evaluating the effect of such misstatements on the relevant disclosures and the financial statements as a whole. Paragraph A17 of this SLAuS provides examples of where misstatements in qualitative disclosures may be material. |
| Heading | [No Correspondence] | *Accumulation of Misstatements* |
| 2014 – No correspondent para.<br>2017 – A5 | [No Correspondence] | Misstatements by nature or circumstances, accumulated as described in paragraphs A3–A4, cannot be added together as is possible in the case of misstatements of amounts. Nevertheless, the auditor is required by paragraph 11 of this SLAuS to evaluate those misstatements individually and in aggregate (i.e., collectively with other misstatements) to determine whether they are material. |
| 2014 – A3<br>2017 – A6 | …<br>• ~~Judgmental misstatements are differences arising from the judgments of management concerning accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies~~ | …<br>• Judgmental misstatements are differences arising from the judgments of management including those concerning recognition, measurement, presentation and disclosure in the |

| Description | 2014 | 2017 |
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| | ~~that the auditor considers inappropriate~~.<br><br>… | financial statements (including the selection or application of accounting policies) that the auditor considers unreasonable or inappropriate.<br><br>… |
| 2014 – A7<br>2017 – A10 | Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the ~~items are misstatements~~, inform the auditor if it disagrees, and take action as necessary. Ordinarily, the appropriate level of management is the one that has responsibility and authority to evaluate the misstatements and to take the necessary action. | Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the classes of transactions, account balances and disclosures are misstated, inform the auditor if it disagrees, and take action as necessary. Ordinarily, the appropriate level of management is the one that has responsibility and authority to evaluate the misstatements and to take the necessary action. |
| 2014 – A13<br>2017 – A16 | Each individual misstatement is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded. | Each individual misstatement of an amount is considered to evaluate its effect on the relevant classes of transactions, account balances or disclosures, including whether the materiality level for that particular class of transactions, account balance or disclosure, if any, has been exceeded. |
| 2014 – No correspondent para.<br>2017 – A17 | [No correspondence] | In addition, each individual misstatement of a qualitative disclosure is considered to evaluate its effect on the relevant disclosure(s), as well as its overall effect on the financial statements as a whole. The determination of whether a misstatement(s) in a qualitative disclosure is material, in the context of the applicable financial reporting framework and the specific circumstances of the entity, is a matter that involves the exercise of professional judgment. Examples where such misstatements may be material include:<br><br>• Inaccurate or incomplete |

| Description | 2014 | 2017 |
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| | | descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.<br>• The omission of information about the events or circumstances that have led to an impairment loss (e.g., a significant long-term decline in the demand for a metal or commodity) in an entity with mining operations.<br>• The incorrect description of an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows.<br>• The inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities. |
| 2014 – No correspondent para.<br>2017 – A18 | [No Correspondence] | In determining whether uncorrected misstatements by nature are material as required by paragraph 11 of this SLAuS, the auditor considers uncorrected misstatements in amounts and disclosures. Such misstatements may be considered material either individually, or when taken in combination with other misstatements. For example, depending on the misstatements identified in disclosures, the auditor may consider whether:<br>(a) Identified errors are persistent or pervasive; or<br>(b) A number of identified misstatements are relevant to the same matter, and considered collectively may affect the users' understanding of that matter.<br>This consideration of accumulated misstatements is also helpful when |

| Description | 2014 | 2017 |
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| | | evaluating the financial statements in accordance with paragraph 13(d) of SLAuS 700 (Revised), which requires the auditor to consider whether the overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. |
| 2014 – A16<br>2017 – A21 | …<br>• Affects other information ~~that will be communicated in documents containing the audited financial statements~~ (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial statements. ~~SLAuS 720~~* deals with the auditor's ~~consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements.~~<br>…<br>* ~~SLAuS 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements~~ | …<br>• Affects other information to be included in the entity's annual report (for example, information to be included in a "Management Discussion and Analysis" or an "Operating and Financial Review") that may reasonably be expected to influence the economic decisions of the users of the financial statements. SLAuS 720 (Revised)** deals with the auditor's responsibilities relating to other information.<br>…<br>** SLAuS 720 (Revised), The Auditor's Responsibilities Relating to Other Information |
| 2014 – A17<br>2017 – A22 | SLAuS 240 explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial statements. | SLAuS 240 explains how the implications of a misstatement that is, or may be, the result of fraud ought to be considered in relation to other aspects of the audit, even if the size of the misstatement is not material in relation to the financial statements. Depending on the circumstances, misstatements in disclosures could also be indicative of fraud, and, for example, may arise from: |

| Description | 2014 | 2017 |
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| | | • Misleading disclosures that have resulted from bias in management's judgments; or<br>• Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial statements.<br><br>When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional skepticism in accordance with SLAuS 200.*<br>* SLAuS 200, paragraph 15 |
| **SRI LANKA AUDITING STANDARD 500 (SLAuS 500 - AUDIT EVIDENCE)** | | |
| 5 (c) | Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and ~~other information.~~ | Audit evidence – Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and ~~information obtained from other sources.~~ |
| **SRI LANKA AUDITING STANDARD 501 (SLAuS 501 - AUDIT EVIDENCE—SPECIFIC CONSIDERATIONS FOR SELECTED ITEMS)** | | |
| 11 | If:<br><br>(a) management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and<br><br>(b) the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures, ~~the auditor shall modify the opinion~~ | If:<br><br>(a) management refuses to give the auditor permission to communicate or meet with the entity's external legal counsel, or the entity's external legal counsel refuses to respond appropriately to the letter of inquiry, or is prohibited from responding; and<br><br>(b) the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures,<br><br>the auditor shall modify the opinion in |

| Description | 2014 | 2017 |
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| | ~~in the auditor's report in accordance with SLAuS 705.~~ | the auditor's report in accordance with SLAuS 705 (Revised). |
| **SRI LANKA AUDITING STANDARD 505 (SLAuS 505 - EXTERNAL CONFIRMATIONS)** | | |
| No changes | | |
| **SRI LANKA AUDITING STANDARD 510 (SLAuS 510 - INITIAL AUDIT ENGAGEMENTS—OPENING BALANCES)** | | |
| Appendix | ~~(Ref: Para. A8)~~<br><br>~~**Illustrations of Auditors' Reports with Modified Opinions**~~<br><br>~~**Illustration 1:**~~<br><br>~~**Circumstances described in paragraph A8(a) include the following:**~~<br><br>• ~~**The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**~~<br><br>• ~~**The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.**~~[1]<br><br>• ~~**The financial position at year end is fairly presented.**~~<br><br>• ~~**In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial**~~ | (Ref: Para. A8)<br><br>**Illustrations of Auditors' Reports with Modified Opinions**<br><br>Note: Throughout these illustrative auditor's reports, the Opinion section has been positioned first in accordance with SLAuS 700 (Revised), and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new Basis for Opinion section.<br><br>**Illustration1:**<br><br>**For purposes of this illustrative auditor's report, the following circumstances are assumed:**<br><br>• **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600**[13] **does not apply).**<br><br>• **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**<br><br>• **The terms of the audit engagement reflect the** |

| Description | 2014 | 2017 |
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| | ~~**performance and cash flows and unmodified regarding financial position.**~~<br><br>~~INDEPENDENT AUDITOR'S REPORT~~<br><br>~~[Appropriate Addressee]~~<br><br>~~**Report on the Financial Statements**[2]~~<br><br>~~We have audited the accompanying financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.~~<br><br>~~*Management's[3] Responsibility for the Financial Statements*~~<br><br>~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,[4] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.~~<br><br>~~*Auditor's Responsibility*~~<br><br>~~Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable~~ | **description of management's responsibility for the financial statements in SLAuS 210.[14]**<br><br>• **The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**<br><br>• **The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.[15]**<br><br>• **The financial position at year end is fairly presented.**<br><br>• **In this particular jurisdiction, law and regulation prohibit the auditor from giving an opinion which is qualified regarding the financial performance and cash flows and unmodified regarding financial position.**<br><br>• **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**<br><br>• **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570** |

| Description | 2014 | 2017 |
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| | ~~assurance about whether the financial statements are free from material misstatement.~~<br><br>~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation[5] of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[6] An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~<br><br>~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~<br><br>~~*Basis for Qualified Opinion*~~<br><br>~~We were appointed as auditors of the company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were~~ | **(Revised).[16]**<br><br>• **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.[17]**<br><br>• **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**<br><br>• **Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.**<br><br>• **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**<br><br>• **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**<br><br>**INDEPENDENT AUDITOR'S REPORT**<br><br>To the Shareholders of ABC Company [or Other Appropriate Addressee] |

| Description | 2014 | 2017 |
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| | ~~unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.~~<br><br>~~*Qualified Opinion*~~<br><br>~~In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.~~<br><br>~~*Other Matter*~~<br><br>~~The financial statements of ABC Company for the year ended December 31, 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.~~<br><br>~~**Report on Other Legal and Regulatory Requirements**~~<br><br>~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~<br><br>~~[Auditor's signature]~~<br><br>~~[Date of the auditor's report]~~<br><br>~~[Auditor's address]~~ | **Report on the Audit of the Financial Statements**[18]<br><br>**Qualified Opinion**<br><br>We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.<br><br>In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRSs).<br><br>**Basis for Qualified Opinion**<br><br>We were appointed as auditors of the company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of |

| Description | 2014 | 2017 |
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| | ~~**Illustration 2:**~~<br><br>~~**Circumstances described in paragraph A8(b) include the following:**~~<br><br>• ~~**The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**~~<br><br>• ~~**The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.**~~[7]<br><br>• ~~**The financial position at year end is fairly presented.**~~<br><br>• ~~**An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.**~~<br><br>~~INDEPENDENT AUDITOR'S REPORT~~<br><br>~~[Appropriate Addressee]~~<br><br>~~**Report on the Financial Statements**~~[8]<br><br>~~We have audited the accompanying~~ | comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.<br><br>We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [*jurisdiction*], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.<br><br>**Other Matter**<br><br>The financial statements of the Company for the year ended December 31, 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.<br><br>**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**<br><br>[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised)*.]<br><br>**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[19]<br><br>[*Reporting in accordance with SLAuS 700 (Revised)*[20] *– see Illustration 1 in* |

| Description | 2014 | 2017 |
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| | ~~financial statements of ABC Company, which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.~~<br><br>~~*Management's[9] Responsibility for the Financial Statements*~~<br><br>~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,[10] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.~~<br><br>~~*Auditor's Responsibility*~~<br><br>~~Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.~~<br><br>~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk~~ | *SLAuS 700 (Revised*).]<br>**Auditor's Responsibilities for the Audit of the Financial Statements**<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised*).]<br>**Report on Other Legal and Regulatory Requirements**<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised*).]<br><br>[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]<br><br>[*Auditor Address*]<br><br>[*Date*]<br><br>**Illustration 2:**<br><br>**For purposes of this illustrative auditor's report, the following circumstances are assumed:**<br><br>• **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**<br><br>• **The financial statements are prepared by management of the entity in accordance with SLFRSs (a general purpose framework).**<br><br>• **The terms of the audit engagement reflect the description of management's** |

| Description | 2014 | 2017 |
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| | ~~assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation[11] of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[12] An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.~~<br><br>~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.~~<br><br>~~*Basis for Qualified Opinion on the Financial Performance and Cash Flows*~~<br><br>~~We were appointed as auditors of the company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.~~ | **responsibility for the financial statements in SLAuS 210.**<br><br>• **The auditor did not observe the counting of the physical inventory at the beginning of the current period and was unable to obtain sufficient appropriate audit evidence regarding the opening balances of inventory.**<br><br>• **The possible effects of the inability to obtain sufficient appropriate audit evidence regarding opening balances of inventory are deemed to be material but not pervasive to the entity's financial performance and cash flows.[21]**<br><br>• **The financial position at year end is fairly presented.**<br><br>• **An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered appropriate in the circumstances.**<br><br>• **The relevant ethical requirements that apply to the audit are those of the jurisdiction.**<br><br>• **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).** |

| Description | 2014 | 2017 |
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| | ~~*Qualified Opinion on the Financial Performance and Cash Flows*~~<br><br>~~In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the Statement of Comprehensive Income and Statement of Cash Flows present fairly, in all material respects (or *give a true and fair view of*), the financial performance and cash flows of ABC Company for the year ended December 31, 20X1 in accordance with International Financial Reporting Standards.~~<br><br>~~*Opinion on the Financial Position*~~<br><br>~~In our opinion, the statement of financial position presents fairly, in all material respects (or *gives a true and fair view of*) the financial position of ABC Company as at December 31, 20X1 in accordance with Sri Lanka Accounting Standards.~~<br><br>~~*Other Matter*~~<br><br>~~The financial statements of ABC Company for the year ended December 31, 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.~~<br><br>~~**Report on Other Legal and Regulatory Requirements**~~<br><br>~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~<br><br>~~[Auditor's signature]~~<br><br>~~[Date of the auditor's report]~~<br><br>~~[Auditor's address]~~ | • **<u>The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.</u>**<br><br>• **<u>The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.</u>**<br><br>• **<u>Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.</u>**<br><br>• **<u>Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.</u>**<br><br>• **<u>In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.</u>**<br><br>**<u>INDEPENDENT AUDITOR'S REPORT</u>**<br><br><u>To the Shareholders of ABC Company [or Other Appropriate Addressee]</u><br><br>**<u>Report on the Audit of the Financial Statements[22]</u>**<br><br>***<u>Opinions</u>*** |

| Description | 2014 | 2017 |
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| | | We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.<br><br>*Qualified Opinion on the Financial Performance and Cash Flows*<br><br>In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying statement of comprehensive income and statement of cash flows present fairly, in all material respects (or give a true and fair view of), the financial performance and cash flows of the Company for the year ended December 31, 20X1 in accordance with Sri Lanka Accounting Standards (SLFRSs).<br><br>*Opinion on the Financial Position*<br><br>In our opinion, the accompanying statement of financial position presents fairly, in all material respects (or gives a true and fair view of), the financial position of the Company as at December 31, 20X1 in accordance with SLFRSs.<br><br>**Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows**<br><br>We were appointed as auditors of the Company on June 30, 20X1 and thus did not observe the counting of the physical inventories at the beginning |

| Description | 2014 | 2017 |
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| | | of the year. We were unable to satisfy ourselves by alternative means concerning inventory quantities held at December 31, 20X0. Since opening inventories enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of comprehensive income and the net cash flows from operating activities reported in the statement of cash flows.<br><br>We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in [jurisdiction], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the financial position and our qualified audit opinion on the financial performance and cash flows.<br><br>Other Matter<br><br>The financial statements of the Company for the year ended December 31, 20X0 were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.<br><br>**Other Information [or another title if appropriate such as "Information Other than the Financial Statements** |

| Description | 2014 | 2017 |
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| | | **and Auditor's Report Thereon"]**<br><br>[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised)—see Illustration 1 in Appendix 2 of SLAuS 720 (Revised)*]<br><br>**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[23]<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised)*.]<br><br>**Auditor's Responsibilities for the Audit of the Financial Statements**<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised)*.]<br><br>**Report on Other Legal and Regulatory Requirements**<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised)*.]<br><br>[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction*]<br><br>[*Auditor Address*]<br><br>[*Date*] |
| Footnotes | 1. ~~If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.~~<br><br>~~2. The sub-title "Report on the~~ | 13. SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*<br><br>*14.* SLAuS 210, Agreeing the Terms of Audit Engagements<br><br>15. If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the |

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| | ~~Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.~~<br><br>~~3. Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.~~<br><br>~~4. Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such ..."~~<br><br>~~5. In the case of footnote 9, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."~~<br><br>~~6. In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of~~ | entity's financial performance and cash flows, the auditor would disclaim an opinion on the financial performance and cash flows.<br><br>16. SLAuS 570 (Revised), *Going Concern*<br><br>*17.* SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*<br><br>*18.* The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.<br><br>19. Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.<br><br>20. SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*<br><br>*21.* If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.<br><br>22. The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.<br><br>23. Or other terms that are appropriate in the context of the legal framework in the particular |

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| | ~~footnote 9, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."~~<br><br>~~7. If the possible effects, in the auditor's judgment, are considered to be material and pervasive to the entity's financial performance and cash flows, the auditor would disclaim the opinion on the financial performance and cash flows.~~<br><br>~~8. The sub-title "Report on the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.~~<br><br>~~9. Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.~~<br><br>~~10. Where management's responsibility is to prepare financial statements that give a true and fair view, this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such ..."~~<br><br>~~11. In the case of footnote 15, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in~~ | jurisdiction |

<table>
<tr><th>Description</th><th>2014</th><th>2017</th></tr>
<tr><td></td><td>~~the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."~~<br><br>~~12. In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 15, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."~~</td><td></td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 520 (SLAuS 520 - ANALYTICAL PROCEDURES)</td></tr>
<tr><td colspan="3">No Changes</td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 530 (SLAuS 530 - AUDIT SAMPLING)</td></tr>
<tr><td>Appendix 2</td><td>5.<br>…<br>For large populations, the actual size of the population has little, if any, effect on sample size. ~~Thus, for~~ small populations, audit sampling ~~is often not~~ as efficient as alternative means of obtaining sufficient appropriate audit evidence.</td><td>5.<br>…<br>For large populations, the actual size of the population has little, if any, effect on sample size. <u>For</u> small populations <u>however</u>, audit sampling <u>may not be</u> as efficient as alternative means of obtaining sufficient appropriate audit evidence.</td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 540 (SLAuS 540 - AUDITING ACCOUNTING</td></tr>
</table>

| Description | 2014 | 2017 |
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| **ESTIMATES, INCLUDING FAIR VALUE ACCOUNTING ESTIMATES, AND RELATED DISCLOSURES)** | | |
| A19 | • Accounting policies relating to accounting estimates have changed, as a result of changes ~~to~~ the requirements of the applicable financial reporting framework or otherwise. | • Accounting policies relating to accounting estimates have changed, as a result of changes <u>within</u> the requirements of the applicable financial reporting framework or otherwise. |
| A114 | With respect to accounting estimates that have not been recognized, the focus of the auditor's evaluation is on whether the recognition criteria of the applicable financial reporting framework have in fact been met. Even where an accounting estimate has not been recognized, and the auditor concludes that this treatment is appropriate, there may be a need for disclosure of the circumstances in the notes to the financial statements. ~~The auditor may also determine that there is a need to draw the reader's attention to a significant uncertainty by adding an Emphasis of Matter paragraph to the auditor's report. SLAuS 706[1] establishes requirements and provides guidance concerning such paragraphs.~~ | With respect to accounting estimates that have not been recognized, the focus of the auditor's evaluation is on whether the recognition criteria of the applicable financial reporting framework have in fact been met. Even where an accounting estimate has not been recognized, and the auditor concludes that this treatment is appropriate, there may be a need for disclosure of the circumstances in the notes to the financial statements. <u>Where applicable, the auditor may also determine that an accounting estimate that has been identified as having a high estimation uncertainty is a key audit matter to be communicated in the auditor's report in accordance with SLAuS 701,[2] or may consider it necessary to include an Emphasis of Matter paragraph in the auditor's report (see SLAuS 706 (Revised)).[3] If the matter is determined to be a key audit matter, SLAuS 706 (Revised) prohibits the auditor from including an Emphasis of Matter paragraph in the auditor's report.[4]</u> |
| | 1. ~~SLAuS 706, *Emphasis of matter Paragraphs and other Matter Paragraphs in the Independent Auditor's Report*~~ | <u>2. SLAuS 701, Communicating Key Audit Matters in the Independent Auditor's Report</u><br><u>3. SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*</u><br><u>4. SLAuS 706 (Revised), paragraph 8(b)</u> |

| **Description** | **2014** | **2017** |
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| **SRI LANKA AUDITING STANDARD 550 (SLAuS 550 - RELATED PARTIES)** | | |
| No changes | | |
| **SRI LANKA AUDITING STANDARD 560 (SLAuS 560 - SUBSEQUENT EVENTS)** | | |
| 1 | This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. ~~(Ref: Para. A1)~~ | This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. <u>It does not deal with matters relating to the auditor's responsibilities for other information obtained after the date of the auditor's report, which are addressed in SLAuS 720 (Revised).* However, such other information may bring to light a subsequent event that is within the scope of this SLAuS. (Ref: Para. A1)</u><br><u>* SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*</u> |
| 10 | The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall: ~~(Ref: Para. A11)~~<br>… | The auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report. However, if, after the date of the auditor's report but before the date the financial statements are issued, a fact becomes known to the auditor that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall: <u>(Ref: Para. A11-A12)</u><br>… |
| 12 (a) | Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or ~~(Ref: Para. A12)~~ | Amend the auditor's report to include an additional date restricted to that amendment that thereby indicates that the auditor's procedures on subsequent events are restricted solely to the amendment of the financial statements described in the relevant note to the financial statements; or <u>**(Ref: Para.**</u> |

| Description | 2014 | 2017 |
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| | | **A13)** |
| 13 | In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report. However, if management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then: ~~(Ref: Para. A13-A14)~~<br><br>(a) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by ~~SLAuS 705~~ and then provide the auditor's report; or<br><br>(b) If the auditor's report has already been provided to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action, to seek to prevent reliance on the auditor's report. ~~(Ref. Para: A15-A16)~~ | In some jurisdictions, management may not be required by law, regulation or the financial reporting framework to issue amended financial statements and, accordingly, the auditor need not provide an amended or new auditor's report. However, if management does not amend the financial statements in circumstances where the auditor believes they need to be amended, then: **(Ref: Para. A14–A15)**<br><br>(a) If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion as required by SLAuS 705 (Revised) and then provide the auditor's report; or<br><br>(b) If the auditor's report has already been provided to the entity, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, not to issue the financial statements to third parties before the necessary amendments have been made. If the financial statements are nevertheless subsequently issued without the necessary amendments, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. **(Ref. Para: A16–A17)** |
| 14 (c) | Inquire how management intends to address the matter in the financial statements. | Inquire how management intends to address the matter in the financial statements. (Ref: Para. A18) |
| 15 | If management amends the financial statements, the auditor shall: ~~(Ref: Para. A17)~~<br>… | If management amends the financial statements, the auditor shall: (Ref: Para. A19)<br>… |
| 17 | If management does not take the necessary steps to ensure that anyone | If management does not take the necessary steps to ensure that anyone |

| Description | 2014 | 2017 |
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| | in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. ~~(Ref: Para. A18)~~ | in receipt of the previously issued financial statements is informed of the situation and does not amend the financial statements in circumstances where the auditor believes they need to be amended, the auditor shall notify management and, unless all of those charged with governance are involved in managing the entity, those charged with governance, that the auditor will seek to prevent future reliance on the auditor's report. If, despite such notification, management or those charged with governance do not take these necessary steps, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report. **<u>(Ref: Para. A20)</u>** |
| A1 | When the audited financial statements are included in other documents subsequent to the issuance of the financial ~~statements, the~~ auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered. For example, the auditor may be required to perform additional audit procedures to the date of the final offering document. These procedures may include those referred to in paragraphs 6 and 7 performed up to a date at or near the effective date of the final offering document, and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated. | When the audited financial statements are included in other documents subsequent to the issuance of the financial <u>statements (other than annual reports that would be within the scope of SLAuS 720 (Revised)), the</u> auditor may have additional responsibilities relating to subsequent events that the auditor may need to consider, such as legal or regulatory requirements involving the offering of securities to the public in jurisdictions in which the securities are being offered. For example, the auditor may be required to perform additional audit procedures to the date of the final offering document. These procedures may include those referred to in paragraphs 6 and 7 performed up to a date at or near the effective date of the final offering document, and reading the offering document to assess whether the other information in the offering document is consistent with the financial information with which the auditor is associated. |
| Heading | [No correspondence] | *<u>Implications of Other Information</u>* |

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| | | *Obtained after the Date of the Auditor's Report* (Ref: Para. 10) |
| 2014 – No correspondent para.<br>2017 – A11 | [No correspondence] | While the auditor has no obligation to perform any audit procedures regarding the financial statements after the date of the auditor's report but before the date the financial statements are issued, SLAuS 720 (Revised) contains requirements and guidance with respect to other information obtained after the date of the auditor's report, which might include other information obtained after the date of the auditor's report, but before the date the financial statements are issued. |
| Heading | [No correspondence] | *Implications of Other Information Received After the Financial Statements Have Been Issued* (Ref: Para.14) |
| 2014 – No correspondent para.<br>2017 – A18 | [No correspondence] | The auditor's obligations regarding other information received after the date of the auditor's report are addressed in SLAuS 720 (Revised). While the auditor has no obligation to perform any audit procedures regarding the financial statements after the financial statements have been issued, SLAuS 720 (Revised) contains requirements and guidance with respect to other information obtained after the date of the auditor's report. |
| **SRI LANKA AUDITING STANDARD 570 (SLAuS 570- GOING CONCERN)** | | |
| Sri Lanka Auditing Standard 570 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 570 (Revised) (Effective for audits of financial statements for periods beginning on or after 01 January, 2018) | | |
| **SRI LANKA AUDITING STANDARD 580 (SLAuS 580 - WRITTEN REPRESENTATIONS)** | | |
| A3 | Due to its responsibility for the preparation of the financial statements, and its responsibilities for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing ~~and presenting~~ the financial | Due to its responsibility for the preparation of the financial statements, and its responsibilities for the conduct of the entity's business, management would be expected to have sufficient knowledge of the process followed by the entity in preparing the financial statements and the assertions therein |

| Description | 2014 | 2017 |
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| | statements and the assertions therein on which to base the written representations. | on which to base the written representations. |
| Appendix 1 | …<br><br>This appendix identifies paragraphs in other SLAuSs ~~in effect for audits of financial statements for periods beginning on or after 01 January 2014~~ that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs.<br>…<br>• ~~SLAuS 570~~, *Going Concern* – paragraph 16(e)<br>… | This appendix identifies paragraphs in other SLAuSs that require subject-matter specific written representations. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs.<br><br>…<br>• <u>SLAuS 570 (Revised),</u> *Going Concern* – paragraph 16(e)<br>…<br>• <u>SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 13(c)</u> |
| Appendix 2 | …<br><br>The following illustrative letter includes written representations that are required by this and other SLAuSs ~~in effect for audits of financial statements for periods beginning on or after 01 January 2014.~~ It is assumed in this illustration that the applicable financial reporting framework is Sri Lanka Accounting Standards; the requirement of SLAuS 570 to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.<br><br>… | …<br><br>The following illustrative letter includes written representations that are required by this and other SLAuSs. It is assumed in this illustration that the applicable financial reporting framework is Sri Lanka Accounting Standards; the requirement of SLAuS 570 to obtain a written representation is not relevant; and that there are no exceptions to the requested written representations. If there were exceptions, the representations would need to be modified to reflect the exceptions.<br><br>…. |
| **SRI LANKA AUDITING STANDARD 600 (SLAuS 600 - SPECIAL CONSIDERATIONS—AUDITS OF GROUP FINANCIAL STATEMENTS (INCLUDING THE WORK OF COMPONENT AUDITORS))** | | |
| Appendix 1 | ~~(Ref: Para. A19)~~<br><br>~~**Example of a Qualified Opinion**~~ | <u>**(Ref: Para. A19)**</u><br><br><u>**Illustration of Independent**</u> |

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| | ~~**Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion**~~<br><br>~~In this example, the group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by the equity method (recognized at Rs 15 million in the statement of financial position, which reflects total assets of Rs 60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.~~<br><br>~~The group engagement team has read the audited financial statements of the component as of December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.~~<br><br>~~In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.~~<br><br>~~INDEPENDENT AUDITOR'S REPORT~~<br><br>~~[Appropriate Addressee]~~<br><br>~~**Report on the Consolidated Financial Statements**~~[1]<br><br>~~We have audited the accompanying consolidated financial statements of ABC Company and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of~~ | **Auditor's Report Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion**<br><br>Note: Throughout this illustrative auditor's report, the Opinion section has been positioned first in accordance with SLAuS 700 (Revised), and the Basis for Opinion section is positioned immediately after the Opinion section. Also, the first and last sentence that was included in the extant auditor's responsibilities section is now subsumed as part of the new Basis for Opinion section.<br><br>**For purposes of this illustrative auditor's report, the following circumstances are assumed:**<br>• **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit (i.e., SLAuS 600 applies).**<br>• **The consolidated financial statements are prepared by management of the entity in accordance with SLFRSs (a general purpose framework).**<br>• **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SLAuS 210.**<br>• **The group engagement team is unable to obtain sufficient appropriate audit evidence relating to a significant component accounted for by** |

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| | ~~comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.~~<br><br>~~*Management's[2] Responsibility for the Consolidated Financial Statements*~~<br><br>~~Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards,[3] and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.~~<br><br>~~*Auditor's Responsibility*~~<br><br>~~Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.~~<br><br>~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the~~ | **the equity method (recognized at $15 million in the statement of financial position, which reflects total assets of $60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.**<br>• **The group engagement team has read the audited financial statements of the component as at December 31, 20X1, including the auditor's report thereon, and considered related financial information kept by group management in relation to the component.**<br>• **In the group engagement partner's judgment, the effect on the group financial statements of this inability to obtain sufficient appropriate audit evidence is material but not pervasive.[6]**<br>• **The Code of Ethics for Professional Accountants (CA Sri Lanka Code) comprises all of the relevant ethical requirements that apply to the audit.**<br>• **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).[7]**<br>• **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.[8]** |

<table>
<tr><th>Description</th><th>2014</th><th>2017</th></tr>
<tr><td></td><td>~~entity's preparation and fair presentation[4] of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.[5] An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.~~<br><br>~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~<br><br>~~*Basis for Qualified Opinion*~~<br><br>~~ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs 15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of Rs 1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.~~<br><br>~~*Qualified Opinion*~~<br><br>~~In our opinion, except for the possible~~</td><td>• **The auditor has obtained all of the other information prior to the date of the auditor's report and the qualified opinion on the consolidated financial statements also affects the other information.**<br>• **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**<br>• **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**<br><br>**INDEPENDENT AUDITOR'S REPORT**<br><br>To the Shareholders of ABC Company [or Other Appropriate Addressee]<br><br>**Report on the Audit of the Consolidated Financial Statements**[9]<br><br>**Qualified Opinion**<br><br>We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.<br><br>In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects</td></tr>
</table>

| Description | 2014 | 2017 |
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| | ~~effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ABC Company and its subsidiaries as at December 31, 20X1, and (*of*) their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.~~<br><br>~~**Report on Other Legal and Regulatory Requirements**~~<br><br>~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~<br><br>~~[Auditor's signature]~~<br><br>~~[Date of the auditor's report]~~<br><br>~~[Auditor's address]~~<br><br>~~If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with SLAuS 705.~~ | (or give a true and fair view of), the consolidated financial position of the Group as at December 31, 20X1, and (of) their consolidated financial performance and consolidated cash flows for the year then ended in accordance with Sri Lanka Accounting Standards (SLFRSs).<br><br>**Basis for Qualified Opinion**<br><br>ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at $15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of $1 million is included in the consolidated statement of comprehensive income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.<br><br>We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the *Code of Ethics for Professional Accountants* (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka Code. We believe that the audit |

| Description | 2014 | 2017 |
|---|---|---|
| | | evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.<br><br>**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**<br><br>[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised)*[10] *– see Illustration 6 in Appendix 2 of SLAuS 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.*]<br><br>**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**[11]<br><br>[*Reporting in accordance with SLAuS 700 (Revised)*[12] *– see Illustration 2 in SLAuS 700 (Revised*).]<br><br>**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised*). *The last two paragraphs which are applicable for audits of listed entities only would not be included.*]<br><br>**Report on Other Legal and Regulatory Requirements**<br><br>[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised*).]<br><br>[*Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the* |

| Description | 2014 | 2017 |
|---|---|---|
| | | *particular jurisdiction*]<br>[*Auditor Address*]<br>[*Date*]<br>If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with SLAuS 705 (Revised). |
| | 1. ~~The sub-title, "Report on the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.~~<br>2. ~~Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.~~<br>3. ~~Where management's responsibility is to prepare consolidated financial statements that give a true and fair view, this may read "Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such ..."~~<br>4. ~~In the case of footnote 27, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control."~~<br>5. ~~In circumstances when the auditor~~ | 6. If, in the group engagement partner's judgment, the effect on the group financial statements of the inability to obtain sufficient appropriate audit evidence is material and pervasive, the group engagement partner would disclaim an opinion in accordance with SLAuS 705 (Revised).<br>7. SLAuS 570 (Revised), *Going Concern*<br>8. SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*<br>9. The sub-title, "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title, "Report on Other Legal and Regulatory Requirements" is not applicable.<br>10. SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*<br>11. Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction. |

| Description | 2014 | 2017 |
|---|---|---|
| | ~~also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the consolidated financial statements, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair_presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances." In the case of footnote 27, this may read: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances."~~ | 12. SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* |
| Appendix 4 | …<br><br>This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects (give a true and fair view of) the financial position of the group ~~as of [date] and of~~ its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].<br>… | …<br><br>This letter is provided in connection with your audit of the group financial statements of [name of parent] for the year ended [date] for the purpose of expressing an opinion on whether the group financial statements present fairly, in all material respects (give a true and fair view of) the financial position of the group as at [date] and (of) its financial performance and cash flows for the year then ended in accordance with [indicate applicable financial reporting framework].<br><br>… |
| Appendix 5 | …<br>• ~~*The ethical requirements that are relevant to the group audit and, in particular, the independence requirements.*~~<br>… | …<br><br>• *The ethical requirements that are relevant to the group audit and, in particular, the independence requirements, for example, where the group auditor is prohibited by law or regulation from using* |

| Description | 2014 | 2017 |
|---|---|---|
| | | *internal auditors to provide direct assistance, it is relevant for the group auditor to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.*[1]<br>… |
| Foot note | [No Correspondence] | 1. SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph A31 |

**SRI LANKA AUDITING STANDARD 610 (SLAuS 610 - USING THE WORK OF INTERNAL AUDITORS)**

Sri Lanka Auditing Standard 610 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 610 (Revised) (Effective for audits of financial statements for periods beginning on or after 01 January, 2015)

**SRI LANKA AUDITING STANDARD 620 (SLAuS 620 - USING THE WORK OF AN AUDITOR'S EXPERT)**

No Changes

**SRI LANKA AUDITING STANDARD 700 (SLAuS 700 - FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS)**

Sri Lanka Auditing Standard 700 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 700 (Revised) (Effective for audits of financial statements for periods beginning on or after 01 January, 2018)

**SRI LANKA AUDITING STANDARD 701 (SLAuS 701- COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT)**

Sri Lanka Auditing Standard 701 is effective for audits of financial statements for periods beginning on or after 01 January, 2018.

**SRI LANKA AUDITING STANDARD 705 (SLAuS 705 - MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT)**

Sri Lanka Auditing Standard 705 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 705 (Effective for audits of financial statements for periods beginning on or after 01 January, 2018)

**SRI LANKA AUDITING STANDARD 706 (SLAuS 706 - EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT)**

Sri Lanka Auditing Standard 706 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 706 (Revised) (Effective for audits of financial statements for periods beginning on or after 01 January, 2018)

| Description | 2014 | 2017 |
|---|---|---|
| **SRI LANKA AUDITING STANDARD 710 (SLAuS 710 - COMPARATIVE INFORMATION—CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS)** | | |
| 3 | The essential audit reporting differences between the approaches are:<br><br>(a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only ~~(which is the applicable financial reporting framework in Sri Lanka); whereas~~<br><br>(b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented ~~(which is not the applicable financial reporting framework in Sri Lanka).~~<br><br>This SLAuS addresses separately the auditor's reporting requirements for each approach. | The essential audit reporting differences between the approaches are:<br><br>(a) For corresponding figures, the auditor's opinion on the financial statements refers to the current period only<u>; whereas</u><br><br>(b) For comparative financial statements, the auditor's opinion refers to each period for which financial statements are presented.<br><br>This SLAuS addresses separately the auditor's reporting requirements for each approach. |
| 4 | This SLAuS is effective for audits of financial statements for periods beginning on or after 01 January ~~2012.~~ | This SLAuS is effective for audits of financial statements for periods beginning on or after 01 January <u>2014.</u> |
| 15 | When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed~~. (Ref: Para. A8 A9)~~ | When comparative financial statements are presented, the auditor's opinion shall refer to each period for which financial statements are presented and on which an audit opinion is expressed. <u>(Ref: Para. A9–A10)</u> |
| 16 | When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with ~~SLAuS 706. (Ref: Para. A10)~~ | When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with <u>SLAuS 706 (Revised). (Ref: Para. A11)</u> |
| 18 | If the auditor concludes that a material misstatement exists that | If the auditor concludes that a material misstatement exists that affects the |

| **Description** | **2014** | **2017** |
|---|---|---|
| | affects the prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and, unless all of those charged with governance are involved in managing the entity, those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. ~~(Ref: Para. A11)~~ | prior period financial statements on which the predecessor auditor had previously reported without modification, the auditor shall communicate the misstatement with the appropriate level of management and, unless all of those charged with governance are involved in managing the entity, those charged with governance and request that the predecessor auditor be informed. If the prior period financial statements are amended, and the predecessor auditor agrees to issue a new auditor's report on the amended financial statements of the prior period, the auditor shall report only on the current period. <u>(Ref: Para. A12)</u> |
| Heading | [No correspondence] | <u>Prior Period Financial Statements Not Audited (Ref: Para. 14)</u> |
| 2014 - No corresponding para<br>2017 - A8 | [No correspondence] | <u>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by SLAuS 705 (Revised)* to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with SLAuS 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with SLAuS 701.**</u><br><u>* SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*</u><br><u>** SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*</u> |
| Heading | [No correspondence] | <u>Prior Period Financial Statements Not Audited (Ref: Para. 19)</u> |
| 2014 - No corresponding para<br>2017 – A13 | [No correspondence] | <u>If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by SLAuS 705</u> |

<table>
<tr><th>Description</th><th>2014</th><th>2017</th></tr>
<tr><td></td><td></td><td>(Revised) to express a qualified opinion or disclaim an opinion on the financial statements, as appropriate, in accordance with SLAuS 705 (Revised). If the auditor encountered significant difficulty in obtaining sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements, the auditor may determine this to be a key audit matter in accordance with SLAuS 701.</td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 720 (SLAuS 720 - THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS)</td></tr>
<tr><td colspan="3">Sri Lanka Auditing Standard 720 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 720 (Revised) (Effective for audits of financial statements for periods beginning on or after 01 January, 2018)</td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 800 (SLAuS 800 - SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS)</td></tr>
<tr><td colspan="3">Sri Lanka Auditing Standard 800 (Effective for audits of financial statements for periods beginning on or after 01 January 2014) is replaced by Sri Lanka Auditing Standard 800 (Revised) (Effective for audits of financial statements for periods beginning on or after 01 January, 2018)</td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 805 (SLAuS 805 - SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT)</td></tr>
<tr><td colspan="3">Sri Lanka Auditing Standard 805 is effective for audits of financial statements for periods beginning on or after 01 January, 2018.</td></tr>
<tr><td colspan="3">SRI LANKA AUDITING STANDARD 810 (SLAuS 810 - ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS)</td></tr>
<tr><td colspan="3">Sri Lanka Auditing Standard 810 is effective for audits of financial statements for periods beginning on or after 01 January, 2018.</td></tr>
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# SRI LANKA FRAMEWORK FOR ASSURANCE ENGAGEMENTS

This amended *Sri Lanka Framework for Assurance Engagements* will replace the extant *Sri Lanka Framework for Assurance Engagements* at the time SLSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, comes into effect.

## CONTENTS

## Introduction

1. This Framework is issued solely to facilitate understanding of the elements and objectives of an assurance engagement and the engagements to which Sri Lanka Auditing Standards (SLAuS), Sri Lanka Standards on Review Engagements (SLSRE) and Sri Lanka Standards on Assurance Engagements (SLSAE) (hereinafter referred to as Assurance Standards) apply.

2. This Framework is not a Standard and, accordingly, does not establish any requirements (or basic principles or essential procedures) for the performance of audits, reviews, or other assurance engagements.[1] An assurance report cannot, therefore, claim that an engagement has been conducted in accordance with this Framework, but rather should refer to relevant Assurance Standards. Assurance Standards contain objectives, requirements, application and other explanatory material, introductory material and definitions that are consistent with this Framework, and are to be applied in audit, review, and other assurance engagements. Appendix 1 illustrates the ambit of pronouncements issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and their relationship to each other and to the *Code of Ethics for Professional Accountants* issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka Code).

3. This Framework provides a frame of reference for

   (a) Assurance practitioners;
   (b) Others involved with assurance engagements, including the intended users of an assurance report and those engaging a practitioner (the "engaging party"); and
   (c) The Council of CA Sri Lanka in its development of Assurance Standards, Practice Notes and other papers.

4. The following is an overview of this Framework:

   - *Introduction*: This Framework deals with assurance engagements performed by practitioners.
   - *Description of assurance engagements*: This section describes assurance engagements and distinguishes direct engagements from attestation engagements, and reasonable assurance engagements from limited assurance engagements.
   - *Scope of the Framework*: This section distinguishes assurance engagements from other engagements, such as consulting engagements.
   - *Preconditions for an assurance engagement*: This section sets out preconditions for a practitioner to accept an assurance engagement.
   - *Elements of an assurance engagement*: This section identifies and discusses five elements assurance engagements exhibit: a three party relationship; an underlying subject matter; criteria; evidence; and an assurance report. It further explains important distinctions between reasonable assurance engagements and limited assurance engagements. This section also discusses, for example, the significant variation in the underlying subject matters of assurance engagements, the required characteristics of suitable criteria, the role of risk and materiality in assurance engagements, and how conclusions are expressed in reasonable assurance engagements and in limited assurance engagements.
   - *Other matters*: This section discusses communication responsibilities other than the practitioner's assurance report, documentation, and the implications of a practitioner's association with an underlying subject matter or with subject matter information.

[1] See the *Preface to the Sri Lanka Other Audit Pronouncements and Sri Lanka Related Services Pronouncements*

## Ethical Principles and Quality Control Standards

5. Quality control within firms that perform assurance engagements, and compliance with ethical principles, including independence requirements, are widely recognized as being in the public interest and an integral part of high-quality assurance engagements. Such engagements are performed in accordance with Assurance Standards, which are premised on the basis that:
   (a) The members of the engagement team and the engagement quality control reviewer (for those engagements where one has been appointed) are subject to Parts A and B of the CA Sri Lanka Code related to assurance engagements, other professional requirements, or requirements in law or regulation, that are at least demanding; and

   (b) The practitioner performing the engagement is a member of a firm that is subject to SLSQC 1,[2] or other professional requirements, or requirements in law or regulation, regarding the firm's responsibility for its system of quality control, that are at least as demanding as SLSQC 1.

*The CA Sri Lanka Code*

6. Part A of the CA Sri Lanka Code establishes the following fundamental principles with which the practitioner is required to comply:

   (a) Integrity;

   (b) Objectivity;

   (c) Professional competence and due care;

   (d) Confidentiality; and

   (e) Professional behavior.

7. Part A also provides a conceptual framework for professional accountants to apply to identify threats to compliance with the fundamental principles, evaluate the significance of the threats identified, and apply safeguards, when necessary, to eliminate the threats or reduce them to an acceptable level.

8. Part B of the CA Sri Lanka Code describes how the conceptual framework in Part A applies in certain situations to professional accountants in public practice, including independence. The CA Sri Lanka Code defines independence as comprising both independence of mind and independence in appearance. Independence safeguards the ability to form an assurance conclusion without being affected by influences that might compromise that conclusion. Independence enhances the ability to act with integrity, to be objective and to maintain an attitude of professional skepticism.

*SLSQC 1*

9. SLSQC 1 deals with the firm's responsibilities to establish and maintain its system of quality control for assurance engagements. Compliance with SLSQC 1 requires, among other things, that the firm establish and maintain a system of quality control that includes policies and procedures addressing each of the following elements, and that it documents its policies and procedures and communicates them to the firm's personnel:

   (a) Leadership responsibilities for quality within the firm;

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2 Sri Lanka Standard on Quality Control (SLSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

(b) Relevant ethical requirements;

(c) Acceptance and continuance of client relationships and specific engagements;

(d) Human resources;

(e) Engagement performance; and

(f) Monitoring.

## Description of Assurance Engagements

10. An assurance engagement is an engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the measurement or evaluation of an underlying subject matter against criteria.

11. The outcome of the measurement or evaluation of an underlying subject matter is the information that results from applying the criteria to the underlying subject matter. For example:

- The financial statements (outcome) result from measuring an entity’s financial position, financial performance and cash flows (underlying subject matter) by applying a financial reporting framework (criteria).
- A statement about the effectiveness of internal control (outcome) results from evaluating the effectiveness of an entity’s internal control process (underlying subject matter) by applying relevant criteria.
- Entity-specific performance measures (outcome) result from measuring various aspects of performance (underlying subject matter) by applying relevant measurement methodologies (criteria).
- A greenhouse gas statement (outcome) results from measuring an entity’s greenhouse emissions (underlying subject matter) by applying recognition, measurement and presentation protocols (criteria).
- A statement about compliance (outcome) results from evaluating the compliance of an entity (underlying subject matter) with, for example, law and regulation (criteria).

The term “subject matter information” is used to mean the outcome of the measurement or evaluation of an underlying subject matter against the criteria. It is the subject matter information about which the practitioner gathers sufficient appropriate evidence as the basis for the practitioner’s conclusion.

## Attestation Engagements and Direct Engagements

12. In an attestation engagement, a party other than the practitioner measures or evaluates the underlying subject matter against the criteria. A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report. The practitioner’s conclusion addresses whether the subject matter information is free from material misstatement (see also paragraph 85).

13. In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria. In addition, the practitioner applies assurance skills and techniques to obtain sufficient appropriate evidence about the outcome of the measurement or evaluation of the underlying subject matter against the criteria. The practitioner may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such

measurement or evaluation. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria and is phrased in terms of the underlying subject matter and the criteria. In some direct engagements, the practitioner's conclusion is, or is part of, the subject matter information (see also Appendix 2).

## Reasonable Assurance Engagements and Limited Assurance Engagements

14. In a reasonable assurance engagement, the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria.

15. In a limited assurance engagement, the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated. The nature, timing and extent of procedures performed in a limited assurance engagement is limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, meaningful. To be meaningful, the level of assurance obtained by the practitioner is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential.

16. Across the range of all limited assurance engagements, what is meaningful assurance can vary from just above assurance that is likely to enhance the intended users' confidence about the subject matter information to a degree that is clearly more than inconsequential to just below reasonable assurance. What is meaningful in a particular engagement represents a judgment within that range that depends on the engagement circumstances, including the information needs of intended users as a group, the criteria, and the underlying subject matter of the engagement. In some cases, the consequences to intended users of receiving an inappropriate conclusion may be so great that a reasonable assurance engagement is needed for the practitioner to obtain assurance that is meaningful in the circumstances.

## Scope of the Framework

17. Not all engagements performed by practitioners are assurance engagements. Other frequently performed engagements that are not consistent with the description in paragraph 10 above (and therefore are not covered by this Framework) include:

    - Engagements covered by Sri Lanka Standards on Related Services (SLSRSs), such as agreed-upon procedures and compilation engagements.[3]
    - The preparation of tax returns where no assurance conclusion is expressed.
    - Consulting (or advisory) engagements,[4] such as management and tax consulting.

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3 SLSRS 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*, and SLSRS 4410 (Revised), *Compilation Engagements*

4 In a consulting engagement, the practitioner applies technical skills, education, observations, experiences, and knowledge of the consulting process. Consulting engagements involve an analytical process that typically involves some combination of activities relating to: objective-setting, fact-finding, definition of problems or opportunities, evaluation of alternatives, development of

18. An assurance engagement may be part of a larger engagement, for example, when a business acquisition consulting engagement includes a requirement to obtain assurance regarding historical or prospective financial information. In such circumstances, this Framework is relevant only to the assurance portion of the engagement.

19. The following engagements, which may be consistent with the description in paragraph 10, are not considered assurance engagements in terms of this Framework:

    (a) Engagements to testify in legal proceedings regarding accounting, auditing, taxation or other matters; and

    (b) Engagements that include professional opinions, views or wording from which a user may derive some assurance, if all of the following apply:

        (i) Those opinions, views or wording are merely incidental to the overall engagement;

        (ii) Any written report issued is expressly restricted for use by only the intended users specified in the report;

        (iii) Under a written understanding with the specified intended users, the engagement is not intended to be an assurance engagement; and

        (iv) The engagement is not represented as an assurance engagement in the practitioner's report.

## Reports on Non-Assurance Engagements

20. A practitioner reporting on an engagement that is not an assurance engagement within the scope of this Framework clearly distinguishes that report from an assurance report. So as not to confuse users, a report that is not an assurance report avoids, for example:

    - Implying compliance with this Framework, or with Assurance Standards.
    - Inappropriately using the words "assurance," "audit" or "review."
    - Including a statement that could reasonably be mistaken for a conclusion based on sufficient appropriate evidence that is designed to enhance the degree of confidence of intended users about the outcome of the measurement or evaluation of an underlying subject matter against criteria.

21. The practitioner and the responsible party may agree to apply the principles of this Framework to an engagement when there are no intended users other than the responsible party but where all other requirements of relevant Assurance Standards are met. In such cases, the practitioner's report includes a statement restricting the use of the report to the responsible party.

## Preconditions for an Assurance Engagement

22. The following preconditions for an assurance engagement are relevant when considering whether an assurance engagement is to be accepted or continued:

    (a) The roles and responsibilities of the appropriate parties (that is, the responsible party, the measurer or evaluator, and the engaging party, as appropriate) are suitable in the circumstances; and

    (b) The engagement exhibits all of the following characteristics:

        (i) The underlying subject matter is appropriate;

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recommendations including actions, communication of results, and sometimes implementation and follow-up. Reports (if issued) are generally written in a narrative (or "long-form") style. Generally the work performed is only for the use and benefit of the client. The nature and scope of work is determined by agreement between the practitioner and the client. Any service that meets the definition of an assurance engagement is not a consulting engagement but an assurance engagement.

(ii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable to the engagement circumstances, including that they exhibit the characteristics described in paragraph 44;

(iii) The criteria that the practitioner expects to be applied in the preparation of the subject matter information will be available to the intended users;

(iv) The practitioner expects to be able to obtain the evidence needed to support the practitioner's conclusion;

(v) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement, is to be contained in a written report; and

(vi) A rational purpose including, in the case of a limited assurance engagement, that the practitioner expects to be able to obtain a meaningful level of assurance.

23. The underlying subject matters of different assurance engagements can vary greatly. Some underlying subject matters may require specialized skills and knowledge beyond those ordinarily possessed by an individual practitioner. It is important, however, that the practitioner be satisfied that those persons who are to perform the engagement collectively have the appropriate competence and capabilities (see also paragraph 31).

24. When a potential engagement cannot be accepted as an assurance engagement, the engaging party may be able to identify a different engagement that will meet the needs of intended users. For example:

(a) If the criteria that the practitioner expects to be applied are not suitable, an assurance engagement that meets the other preconditions in paragraph 22 may still be performed if:

(i) The practitioner can identify one or more aspects of the underlying subject matter for which those criteria are suitable. In such cases, the practitioner could perform an assurance engagement with respect to that aspect of the underlying subject matter in its own right. In such cases, the assurance report may need to clarify that the report does not relate to the original underlying subject matter in its entirety; or

(ii) Alternative criteria suitable for the underlying subject matter can be selected or developed.

(b) The engaging party may request an engagement that is not an assurance engagement, such as a consulting or an agreed-upon procedures engagement.

25. Having been accepted, it is not appropriate to change an assurance engagement to a non-assurance engagement, or a reasonable assurance engagement to a limited assurance engagement, without reasonable justification. A change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement, may justify a request for a change in the engagement. If such a change is made, evidence that was obtained prior to the change is not disregarded. An inability to obtain sufficient appropriate evidence to form a reasonable assurance conclusion is not an acceptable reason to change from a reasonable assurance engagement to a limited assurance engagement.

## Elements of an Assurance Engagement

26. The following elements of an assurance engagement are discussed in this section:

(a) A three party relationship involving a practitioner, a responsible party, and intended users;

(b) An appropriate underlying subject matter;

(c) Suitable criteria;
(d) Sufficient appropriate evidence; and
(e) A written assurance report in the form appropriate to a reasonable assurance engagement or a limited assurance engagement.

## Three Party Relationship

27. All assurance engagements have at least three separate parties: the practitioner, the responsible party and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party (see also Appendix 3).

28. The responsible party and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage a practitioner to perform an assurance engagement on a particular aspect of the entity's activities that is the immediate responsibility of a lower level of management (the responsible party), but for which senior management is ultimately responsible.

*Practitioner*

29. The "practitioner" is the individual(s) conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement.[5] In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and applies assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement.

30. If a competent practitioner other than a professional accountant in public practice chooses to represent compliance with an Assurance Standard, it is important to recognize that those Standards include requirements that reflect the premise in the paragraph 5 regarding the CA Sri Lanka Code and SLSQC 1, or other professional requirements, or requirements in law or regulation that are at least as demanding.

31. An engagement is not accepted if preliminary knowledge of the engagement circumstances indicates that ethical requirements regarding competence will not be satisfied. In some cases, these requirements can be satisfied by the practitioner using the work of a practitioner's expert.

32. In addition, the practitioner needs to be able to be sufficiently involved in the work of the practitioner's expert and other assurance practitioners to an extent that is sufficient to accept responsibility for the assurance conclusion on the subject matter information, and to obtain the evidence necessary to conclude whether the work of that expert or other assurance practitioner is adequate for the practitioner's purposes.

33. The practitioner has sole responsibility for the assurance conclusion expressed, and that responsibility is not reduced by the practitioner's use of the work of a practitioner's expert or other assurance practitioners. Nonetheless, if the practitioner using the work of a practitioner's expert, having followed the relevant Assurance Standards, concludes that the work of that expert is adequate for the practitioner's purposes, the practitioner may accept that expert's findings or conclusions in the expert's field as appropriate evidence.

[5] "Engagement partner" and "firm" should be read as referring to their public sector equivalents where relevant.

*Responsible Party*

34. The responsible party is the party responsible for the underlying subject matter. In an attestation engagement, the responsible party is often also the measurer or evaluator. The responsible party may or may not be the party that engages the practitioner to perform the assurance engagement (the engaging party).

*Intended Users*

35. The intended users are the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. The responsible party can be one of the intended users, but not the only one.

36. In some cases, there may be intended users other than those to whom the assurance report is addressed. The practitioner may not be able to identify all those who will read the assurance report, particularly where a large number of people will have access to it. In such cases, particularly where possible users are likely to have a broad range of interests in the underlying subject matter, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by law or regulation.

37. Intended users or their representatives may be directly involved with the practitioner and the responsible party (and the engaging party if different) in determining the requirements of the engagement. Regardless of the involvement of others however, and unlike an agreed-upon procedures engagement (which involves reporting factual findings based upon the procedures agreed with the engaging party and any appropriate third parties, rather than a conclusion):

    (a) The practitioner is responsible for determining the nature, timing and extent of procedures; and

    (b) The practitioner may need to perform additional procedures if information comes to the practitioner's attention that differs significantly from that on which the determination of planned procedures was based.

38. In some cases, intended users (for example, bankers and regulators) impose a requirement for, or request, the appropriate party(ies) to arrange for an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, the assurance report includes a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by restricting the distribution or use of the assurance report. While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular user or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that user or for that purpose. Whether a legal responsibility is owed will depend on the circumstances of each case and the relevant jurisdiction.

## Underlying Subject Matter

39. The underlying subject matter of an assurance engagement can take many forms, such as:

- Historical financial performance or condition (for example, historical financial position, financial performance and cash flows) for which the subject matter information may be the recognition, measurement, presentation and disclosure represented in financial statements.
- Future financial performance or condition (for example, prospective financial position, financial performance and cash flows) for which the subject matter information may be the recognition, measurement, presentation and disclosure represented in a financial forecast or projection.
- Non-financial performance or conditions (for example, performance of an entity) for which the subject matter information may be key indicators of efficiency and effectiveness.
- Physical characteristics (for example, capacity of a facility) for which the subject matter information may be a specifications document.
- Systems and processes (for example, an entity's internal control or IT system) for which the subject matter information may be a statement about effectiveness.
- Behavior (for example, corporate governance, compliance with regulation, human resource practices) for which the subject matter information may be a statement of compliance or a statement of effectiveness.

Appendix 4 shows a categorization of the range of possible underlying subject matters with some examples.

40. Different underlying subject matters have different characteristics, including the degree to which information about them is qualitative versus quantitative, objective versus subjective, historical versus prospective, and relates to a point in time or covers a period. Such characteristics affect the:

    (a) Precision with which the underlying subject matter can be measured or evaluated against criteria; and

    (b) The persuasiveness of available evidence.

    The assurance report may note characteristics that are of particular relevance to the intended users.

41. The appropriateness of an underlying subject matter is not affected by the level of assurance, that is, if an underlying subject matter is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa. An appropriate underlying subject matter is identifiable and capable of consistent measurement or evaluation against the identified criteria such that the resulting subject matter information can be subjected to procedures for obtaining sufficient appropriate evidence to support a reasonable assurance or limited assurance conclusion, as appropriate.

## Criteria

42. Criteria are the benchmarks used to measure or evaluate the underlying subject matter. Criteria can be formal, for example in the preparation of financial statements, the criteria may be Sri Lanka Accounting Standards or Sri Lanka Public Sector Accounting Standards; when reporting on the operating effectiveness of internal controls, the criteria may be based on an established internal control framework or individual control objectives specifically designed for the purpose; and when reporting on compliance, the criteria may be the applicable law, regulation or contract. Examples of less formal criteria are an internally developed code of conduct or an agreed level of performance (such as the number of times a particular committee is expected to meet in a year).

43. Suitable criteria are required for reasonably consistent measurement or evaluation of an underlying subject matter within the context of professional judgment. Without the frame of reference provided by suitable criteria, any conclusion is open to individual interpretation and misunderstanding. Suitable

criteria are context-sensitive, that is, relevant to the engagement circumstances. Even for the same underlying subject matter there can be different criteria, which will yield a different measurement or evaluation. For example, one of the criteria a measurer or evaluator might select as a measure of the underlying subject matter of customer satisfaction is the number of customer complaints resolved to the acknowledged satisfaction of the customer, while another measurer or evaluator might select the number of repeat purchases in the three months following the initial purchase. Further, criteria may be suitable for a particular set of engagement circumstances, but may not be suitable for a different set of engagement circumstances. For example, reporting to governments or regulators may require the use of a particular set of criteria, but these criteria may not be suitable for a broader group of users.

44. Suitable criteria exhibit the following characteristics:
   (a) Relevance: Relevant criteria result in subject matter information that assists decision-making by the intended users.
   (b) Completeness: Criteria are complete when subject matter information prepared in accordance with them does not omit relevant factors that could reasonably be expected to affect decisions of the intended users made on the basis of that subject matter information. Complete criteria include, where relevant, benchmarks for presentation and disclosure.
   (c) Reliability: Reliable criteria allow reasonably consistent measurement or evaluation of the underlying subject matter including, where relevant, presentation and disclosure, when used in similar circumstances by different practitioners.
   (d) Neutrality: Neutral criteria result in subject matter information that is free from bias as appropriate in the engagement circumstances.
   (e) Understandability: Understandable criteria result in subject matter information that can be understood by the intended users.

45. Vague descriptions of expectations or judgments of an individual's experiences do not constitute suitable criteria.

46. The relative importance of each of the above characteristics when assessing the suitability of criteria to a particular engagement is a matter of professional judgment. The suitability of criteria is not affected by the level of assurance, that is, if criteria are unsuitable for a reasonable assurance engagement, they are also unsuitable for a limited assurance engagement, and vice versa. Criteria may be prescribed by law or regulation, or issued by authorized or recognized bodies of experts that follow a transparent due process (established criteria). Other criteria may be specifically developed for the purpose of preparing the subject matter information in the particular circumstances of the engagement. Whether criteria are established or specifically developed affects the work needed to assess their suitability for a particular engagement, for example, in the absence of indications to the contrary, established criteria are presumed to be suitable if they are relevant to the intended users' information needs.

47. Criteria need to be available to the intended users to allow them to understand how the underlying subject matter has been measured or evaluated. Criteria are made available to the intended users in one or more of the following ways:
   (a) Publicly.
   (b) Through inclusion in a clear manner in the presentation of the subject matter information.
   (c) Through inclusion in a clear manner in the assurance report.
   (d) By general understanding, for example the criterion for measuring time in hours and minutes.

48. Criteria may also be available only to specific intended users, for example the terms of a contract, or criteria issued by an industry association that are available only to those in the industry because they are relevant only to a specific purpose (see also paragraph 38).

49. As part of the engagement, the practitioner determines whether the criteria are suitable.

## Evidence

50 Assurance engagements are planned and performed with an attitude of professional skepticism to obtain sufficient appropriate evidence in the context of the engagement about the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. Professional judgment needs to be exercised in considering materiality, engagement risk, and the quantity and quality of available evidence when planning and performing the engagement, in particular when determining the nature, timing and extent of procedures.

*Professional Skepticism*

51. Professional skepticism is an attitude that includes being alert to, for example:

(a) Evidence that is inconsistent with other evidence obtained;

(b) Information that calls into question the reliability of documents and responses to inquiries to be used as evidence;

(c) Circumstances that suggest the need for procedures in addition to those required by relevant Assurance Standards; and

(d) Conditions that may indicate likely misstatement.

52. Maintaining professional skepticism throughout the engagement is necessary to, for example, reduce the risk of:

- Overlooking unusual circumstances;
- Overgeneralizing when drawing conclusions from observations; and
- Using inappropriate assumptions in determining the nature, timing and extent of procedures and evaluating the results thereof.

53. Professional skepticism is necessary to the critical assessment of evidence. This includes questioning inconsistent evidence and the reliability of documents and responses to inquiries. It also includes consideration of the sufficiency and appropriateness of evidence obtained in the light of the circumstances.

54. Unless the engagement involves assurance about whether documents are genuine, records and documents may be accepted as genuine unless the practitioner has reason to believe the contrary. Nevertheless, the practitioner considers the reliability of information to be used as evidence.

55. The practitioner cannot be expected to disregard past experience of the honesty and integrity of those who provide evidence. Nevertheless, a belief that those who provide evidence are honest and have integrity does not relieve the practitioner of the need to maintain professional skepticism.

*Professional Judgment*

56. Professional judgment is essential to the proper conduct of an assurance engagement. This is because interpretation of relevant ethical requirements and relevant Assurance Standards and the informed decisions required throughout the engagement cannot be made without the application of relevant

training, knowledge and experience to the facts and circumstances. Professional judgment is necessary in particular regarding decisions about:

- Materiality and engagement risk.
- The nature, timing and extent of procedures used to meet the requirements of relevant Assurance Standards and obtain evidence.
- Evaluating whether sufficient appropriate evidence has been obtained, and whether more needs to be done to achieve the objectives of relevant Assurance Standards. In particular, in the case of a limited assurance engagement, professional judgment is required in evaluating whether a meaningful level of assurance has been obtained.
- In the case of a direct engagement, applying the criteria to the underlying subject matter, and if the practitioner selects or develops the criteria, selecting or developing them. In the case of an attestation engagement, evaluating such judgments made by others.
- The appropriate conclusions to draw based on the evidence obtained.

57. The distinguishing feature of the professional judgment expected of a practitioner is that it is exercised by a practitioner whose training, knowledge and experience have assisted in developing the necessary competencies to achieve reasonable judgments.

58. The exercise of professional judgment in any particular case is based on the facts and circumstances that are known by the practitioner. Consultation on difficult or contentious matters during the course of the engagement, both within the engagement team and between the engagement team and others at the appropriate level within or outside the firm assist the practitioner in making informed and reasonable judgments.

59. Professional judgment can be evaluated based on whether the judgment reached reflects a competent application of assurance and measurement or evaluation principles and is appropriate in the light of, and consistent with, the facts and circumstances that were known to the practitioner up to the date of the practitioner’s assurance report.

60. Professional judgment needs to be exercised throughout the engagement. Professional judgment is not to be used as the justification for decisions that are not otherwise supported by the facts and circumstances of the engagement or sufficient appropriate evidence.

*Sufficiency and Appropriateness of Evidence*

61. The sufficiency and appropriateness of evidence are interrelated. Sufficiency is the measure of the quantity of evidence. The quantity of evidence needed is affected by the risks of the subject matter information being materially misstated (the higher the risks, the more evidence is likely to be required) and also by the quality of such evidence (the higher the quality, the less may be required). Obtaining more evidence, however, may not compensate for its poor quality (see also paragraphs 81–82).

62. Appropriateness is the measure of the quality of evidence; that is, its relevance and its reliability in providing support for the practitioner’s conclusion.

63. The reliability of evidence is influenced by its source and by its nature, and is dependent on the individual circumstances under which it is obtained. Generalizations about the reliability of various kinds of evidence can be made; however, such generalizations are subject to important exceptions. Even

when evidence is obtained from external sources, circumstances may exist that could affect its reliability. For example, evidence obtained from an external source may not be reliable if the source is not knowledgeable or objective. While recognizing that exceptions may exist, the following generalizations about the reliability of evidence may be useful:

- Evidence is more reliable when it is obtained from sources outside the appropriate party(ies).
- Evidence that is generated internally is more reliable when the related controls are effective.
- Evidence obtained directly by the practitioner (for example, observation of the application of a control) is more reliable than evidence obtained indirectly or by inference (for example, inquiry about the application of a control).
- Evidence is more reliable when it exists in documentary form, whether paper, electronic, or other media (for example, a contemporaneously written record of a meeting is ordinarily more reliable than a subsequent oral representation of what was discussed).

64. More assurance is ordinarily obtained from consistent evidence obtained from different sources or of a different nature than from items of evidence considered individually. In addition, obtaining evidence from different sources or of a different nature may either corroborate other evidence or indicate that an individual item of evidence is not reliable. When evidence obtained from one source is inconsistent with that obtained from another, it is necessary to determine what additional procedures are needed to resolve the inconsistency.

65. In terms of obtaining sufficient appropriate evidence, it is generally more difficult to obtain assurance about subject matter information covering a period than about subject matter information at a point in time. In addition, conclusions provided on processes ordinarily are limited to the period covered by the engagement; the practitioner provides no conclusion about whether the process will continue to function in the specified manner in the future.

66. Whether sufficient appropriate evidence has been obtained on which to base the practitioner's conclusion is a matter of professional judgment, which involves considering the relationship between the cost of obtaining evidence and the usefulness of the information obtained. The practitioner uses professional judgment and exercises professional skepticism in evaluating the quantity and quality of evidence, and thus its sufficiency and appropriateness, to support the assurance report.

*Materiality*

67. Materiality is relevant when planning and performing the assurance engagement, including when determining the nature, timing and extent of procedures, and when evaluating whether the subject matter information is free of misstatement. Professional judgments about materiality are made in light of surrounding circumstances, but are not affected by the level of assurance, that is, for the same intended users and purpose, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement because materiality is based on the information needs of intended users.

68. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of intended users taken on the basis of the subject matter information. The practitioner's consideration of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. Unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered.

69. Materiality is considered in the context of qualitative factors and, when applicable, quantitative factors. The relative importance of qualitative and quantitative factors when considering materiality in a particular engagement is a matter for professional judgment.

70. Materiality relates to the information covered by the practitioner's assurance report. Therefore, when the engagement covers some, but not all aspects of the subject matter information, materiality is considered in relation to only that portion of the subject matter information that is covered by the engagement.

*Engagement Risk*

71. Subject matter information can fail to be properly expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. This occurs when the subject matter information does not properly reflect the application of the criteria to measure or evaluate the underlying subject matter.

72. Engagement risk is the risk that the practitioner expresses an inappropriate conclusion when the subject matter information is materially misstated. Engagement risk does not refer to or include the practitioner's business risks, such as loss from litigation, adverse publicity, or other events arising in connection with particular subject matter information.

73. Reducing engagement risk to zero is very rarely attainable or cost beneficial and, therefore, "reasonable assurance" is less than absolute assurance, as a result of factors such as the following:

- The use of selective testing.
- The inherent limitations of internal control.
- The fact that much of the evidence available to the practitioner is persuasive rather than conclusive.
- The use of professional judgment in gathering and evaluating evidence and forming conclusions based on that evidence.
- In some cases, the characteristics of the underlying subject matter when measured or evaluated against the criteria.

74. In general, engagement risk can be represented by the following components, although not all of these components will necessarily be present or significant for all assurance engagements:

(a) Risks that the practitioner does not directly influence, which in turn consist of:

(i) The susceptibility of the subject matter information to a material misstatement before consideration of any related controls applied by the appropriate party(ies) (inherent risk); and

(ii) The risk that a material misstatement that occurs in the subject matter information will not be prevented, or detected and corrected, on a timely basis by the appropriate party(ies)'s internal control (control risk); and

(b) Risks that the practitioner does directly influence, which, in turn, consist of:

(i) The risk that the procedures performed by the practitioner will not detect a material misstatement (detection risk); and

(ii) In the case of a direct engagement, the risks associated with the practitioner's measurement or evaluation of the underlying subject matter against the criteria (measurement or evaluation risk).

75. The degree to which each of these components is relevant to the engagement is affected by the engagement circumstances, in particular:

- The nature of the underlying subject matter and the subject matter information. For example, the concept of control risk may be more useful when the underlying subject matter relates to the preparation of information about an entity's performance than when it relates to information about the effectiveness of a control or the existence of a physical condition.
- Whether a reasonable assurance or a limited assurance engagement is being performed. For example, in limited assurance engagements the practitioner may often decide to obtain evidence by means other than testing of controls, in which case consideration of control risk may be less relevant than in a reasonable assurance engagement on the same subject matter information.
- Whether it is a direct engagement or an attestation engagement. While the concept of control risk is relevant to attestation engagements, the broader concept of measurement or evaluation risk is more relevant to direct engagements.

The consideration of risks is a matter of professional judgment, rather than a matter capable of precise measurement.

*Nature, Timing and Extent of Procedures*

76. A combination of procedures is typically used to obtain either reasonable assurance or limited assurance. Procedures may include:

- Inspection;
- Observation;
- Confirmation;
- Re-calculation;
- Re-performance;
- Analytical procedures; and
- Inquiry.

The exact nature, timing and extent of procedures will vary from one engagement to the next. For many assurance engagements, infinite variations in procedures are possible in theory. In practice, however, these are difficult to communicate clearly and unambiguously.

77. Both reasonable assurance and limited assurance engagements require the application of assurance skills and techniques and the gathering of sufficient appropriate evidence as part of an iterative, systematic engagement process that includes obtaining an understanding of the underlying subject matter and other engagement circumstances.

78. A reasonable assurance engagement involves:

(a) Based on an understanding of the underlying subject matter and other engagement circumstances, identifying and assessing the risks of material misstatement in the subject matter information;

(b) Designing and performing procedures to respond to the assessed risks and to obtain reasonable assurance to support the practitioner's conclusion; and

(c) Evaluating the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempting to obtain further evidence.

79. The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are limited relative to a reasonable assurance engagement. An underlying subject matter-specific Assurance Standard may establish that, for example, sufficient appropriate evidence for a particular type of limited assurance engagement is obtained primarily through analytical procedures and inquiries. In the absence of underlying subject matter-specific Assurance Standards for other types of limited assurance engagements, however, the procedures for gathering sufficient appropriate evidence may or may not primarily be analytical procedures and inquiries and will vary with the circumstances of the engagement, in particular, the underlying subject matter, and the information needs of the intended users and the engaging party, including relevant time and cost constraints. Determining the nature, timing and extent of procedures is a matter of professional judgment and will vary from one engagement to the next.

80. A limited assurance engagement involves:

(a) Based on an understanding of the underlying subject matter and other engagement circumstances, identifying areas where a material misstatement of the subject matter information is likely to arise;

(b) Designing and performing procedures to address those areas and to obtain limited assurance to support the practitioner's conclusion; and

(c) If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the subject matter information may be materially misstated, designing and performing additional procedures to obtain further evidence.

*Quantity and Quality of Available Evidence*

81. The quantity or quality of available evidence is affected by:

(a) The characteristics of the underlying subject matter and subject matter information. For example, less objective evidence might be expected when the subject matter information is future oriented rather than historical (see paragraph 40); and

(b) Other circumstances such as when evidence that could reasonably be expected to exist is not available because of, for example, the timing of the practitioner's appointment, an entity's document retention policy, inadequate information systems, or a restriction imposed by the responsible party.

Ordinarily, available evidence will be persuasive rather than conclusive.

82. An unmodified conclusion is not appropriate for either a reasonable assurance or a limited assurance engagement when:

(a) Circumstances prevent the practitioner from obtaining evidence required to reduce engagement risk to the appropriate level; or

(b) A party to the engagement imposes a restriction that prevents the practitioner from obtaining evidence required to reduce engagement risk to the appropriate level.

## Assurance Report

83. The practitioner forms a conclusion on the basis of the evidence obtained, and provides a written report containing a clear expression of that assurance conclusion about the subject matter information. Assurance Standards establish basic elements for assurance reports.

84. In a reasonable assurance engagement, the practitioner's conclusion is expressed in the positive form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter.

85. Examples of conclusions expressed in a form appropriate for a reasonable assurance engagement include:

    - When expressed in terms of the underlying subject matter and the applicable criteria, "In our opinion, the entity has complied, in all material respects, with XYZ law;"
    - When expressed in terms of the subject matter information and the applicable criteria, "In our opinion, the financial statements present fairly, in all material respects, the financial position of the entity as at [*date*] and its financial performance and its cash flows for the year then ended in accordance with XYZ framework;" or
    - When expressed in terms of a statement made by the appropriate party, "In our opinion, the [appropriate party's] statement that the entity has complied with XYZ law is, in all material respects, fairly stated," or "In our opinion, the [appropriate party's] statement that the key performance indicators are presented in accordance with XYZ criteria is, in all material respects, fairly stated."

    In a direct engagement, the practitioner's conclusion is phrased in terms of the underlying subject matter and the criteria.

86. In a limited assurance engagement, the practitioner's conclusion is expressed in a form that conveys whether, based on the engagement performed, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated, for example, "Based on the procedures performed and evidence obtained, nothing has come to our attention that causes us to believe that the entity has not complied, in all material respects, with XYZ law."

87. The practitioner may choose a "short-form" or "long-form" style of reporting to facilitate effective communication to the intended users. "Short-form" reports ordinarily include only the basic elements. "Long-form" reports include other information and explanations that are not intended to affect the practitioner's conclusion. As well as the basic elements, long-form reports may describe in detail the terms of the engagement, the criteria being used, findings relating to particular aspects of the engagement, details of the qualifications and experience of the practitioner and others involved with the engagement, disclosure of materiality levels, and, in some cases, recommendations. Whether to include any such information depends on its significance to the information needs of the intended users.

88. The practitioner's conclusion is clearly separated from information or explanations that are not intended to affect the practitioner's conclusion, including any Emphasis of Matter, Other Matter, findings related to particular aspects of the engagement, recommendations or additional information included in the assurance report. The wording used makes it clear that an Emphasis of Matter, Other Matter, findings, recommendations or additional information is not intended to detract from the practitioner's conclusion.

89. The practitioner expresses a modified conclusion in the following circumstances:

    (a) When, in the practitioner's professional judgment, a scope limitation exists and the effect of the matter may be material. In such cases, the practitioner expresses a qualified conclusion or a disclaimer of conclusion. In some cases, the practitioner considers withdrawing from the engagement.

(b) When, in the practitioner's professional judgment, the subject matter information is materially misstated. In such cases, the practitioner expresses a qualified conclusion or adverse conclusion. In those direct engagements where the subject matter information is the practitioner's conclusion, and the practitioner concludes that some or all of the underlying subject matter does not, in all material respects, conform with the criteria, such a conclusion would also be considered to be qualified (or adverse as appropriate).

90. A qualified conclusion is expressed when the effects, or possible effects, of a matter are not so material and pervasive as to require an adverse conclusion or a disclaimer of conclusion.

91. If it is discovered after the engagement has been accepted that one or more preconditions for an assurance engagement is not present, the practitioner discusses the matter with the appropriate party(ies), and determines:

(a) Whether the matter can be resolved to the practitioner's satisfaction;

(b) Whether it is appropriate to continue with the engagement; and

(c) Whether and, if so, how to communicate the matter in the assurance report.

92. If it is discovered after the engagement has been accepted that some or all of the criteria are unsuitable or some or all of the underlying subject matter is not appropriate for an assurance engagement, the practitioner considers withdrawing from the engagement, if withdrawal is possible under applicable law or regulation. If the practitioner continues with the engagement, the practitioner expresses:

(a) A qualified conclusion or adverse conclusion depending on how material and pervasive the matter is, when, in the practitioner's professional judgment, the unsuitable criteria or inappropriate underlying subject matter is likely to mislead the intended users; or

(b) A qualified conclusion or a disclaimer of conclusion depending on, in the practitioner's professional judgment, how material and pervasive the matter is, in other cases.

## Other Matters

*Other Communication Responsibilities*

93. The practitioner considers whether, pursuant to the terms of the engagement and other engagement circumstances, any matter has come to the attention of the practitioner that is to be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others.

*Documentation*

94. Engagement documentation provides a record of the basis for the assurance report when it is prepared on a timely basis and is sufficient and appropriate to enable an experienced practitioner, having no previous connection with the engagement, to understand:

(a) The nature, timing and extent of the procedures performed to comply with relevant Assurance Standards and applicable legal and regulatory requirements;

(b) The results of the procedures performed, and the evidence obtained; and

(c) Significant matters arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.

95. Engagement documentation includes how the practitioner addressed any inconsistency between information identified by the practitioner and the practitioner's final conclusion regarding a significant matter.

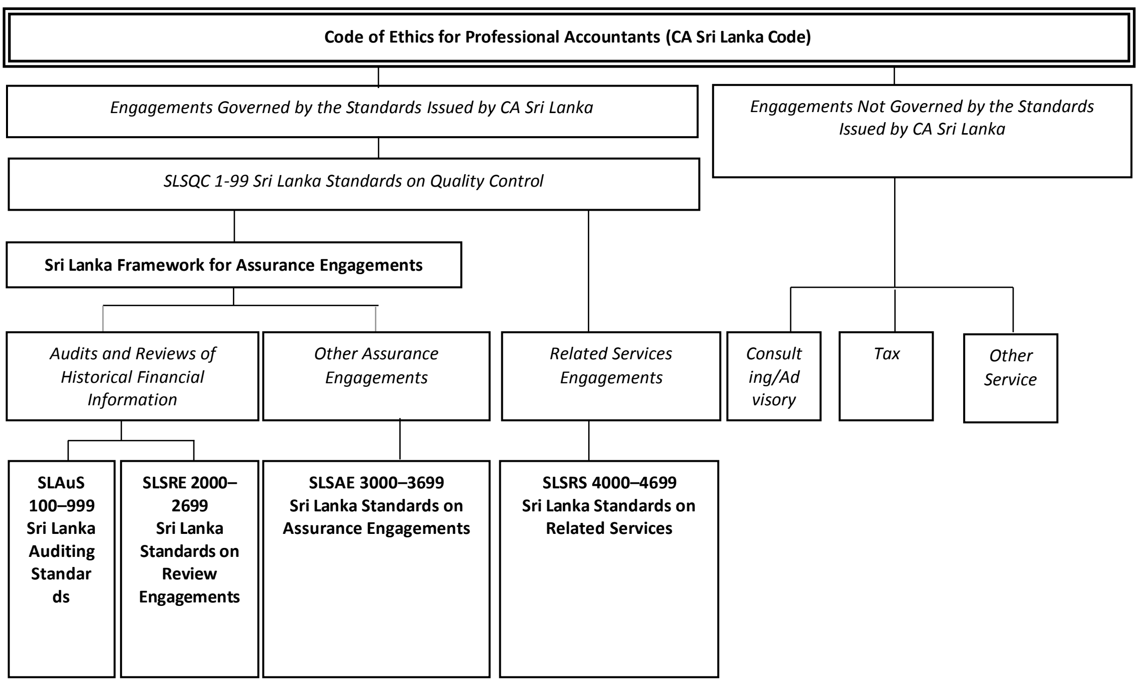
## Inappropriate Use of the Practitioner's Name

96. A practitioner is associated with an underlying subject matter, or with the related subject matter information, when the practitioner reports on information about that underlying subject matter or consents to the use of the practitioner's name in a professional connection with that underlying subject matter, or with the related subject matter information. If the practitioner is not associated in this manner, third parties can assume no responsibility of the practitioner. If the practitioner learns that a party is inappropriately using the practitioner's name in association with an underlying subject matter, or with the related subject matter information, the practitioner requires the party to cease doing so. The practitioner also considers what other steps may be needed, such as informing any known third party users of the inappropriate use of the practitioner's name or seeking legal advice.

## Appendix 1

Pronouncements Issued by the Council of CA Sri Lanka, and Their Relationship to Each Other and the CA Sri Lanka Code.

This Appendix illustrates the ambit of pronouncements issued by the CA Sri Lanka, and their relationship to each other and to the *Code of Ethics for Professional Accountants (CA Sri Lanka Code)*.



**Appendix 2**

## Attestation Engagements and Direct Engagements

This Appendix outlines the differences between an attestation engagement and a direct engagement.

1. In an attestation engagement, the measurer or evaluator, who is not the practitioner, measures or evaluates the underlying subject matter against the criteria, the outcome of which is the subject matter information. Subject matter information can fail to be properly expressed in the context of the underlying subject matter and the criteria, and can therefore be misstated, potentially to a material extent. The role of the practitioner in an attestation engagement is to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information, as prepared by the measurer or evaluator, is free from material misstatement.

2. In a direct engagement, the practitioner measures or evaluates the underlying subject matter against the criteria and presents the resulting subject matter information as part of, or accompanying the assurance report. The practitioner's conclusion in a direct engagement addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria. In some direct engagements, the practitioner's conclusion is, or is part of, the subject matter information. Depending on the underlying subject matter:

   (a) The outcome of the measurement or evaluation in a direct engagement may be similar to a report or statement prepared by the measurer or evaluator in an attestation engagement. In other circumstances, however, the outcome, that is, the subject matter information, may be reflected in the description of the findings and basis for the practitioner's conclusion in a long-form assurance report; and

   (b) The practitioner may use data collected or compiled by others. For example, the data may come from an information system maintained by the responsible party.

3. In addition to measuring or evaluating the underlying subject matter, in a direct engagement the practitioner also applies assurance skills and techniques to obtain sufficient appropriate evidence in order to express a conclusion about whether the subject matter information is materially misstated. The practitioner may obtain that evidence simultaneously with the measurement or evaluation of the underlying subject matter, but may also obtain it before or after such measurement or evaluation.

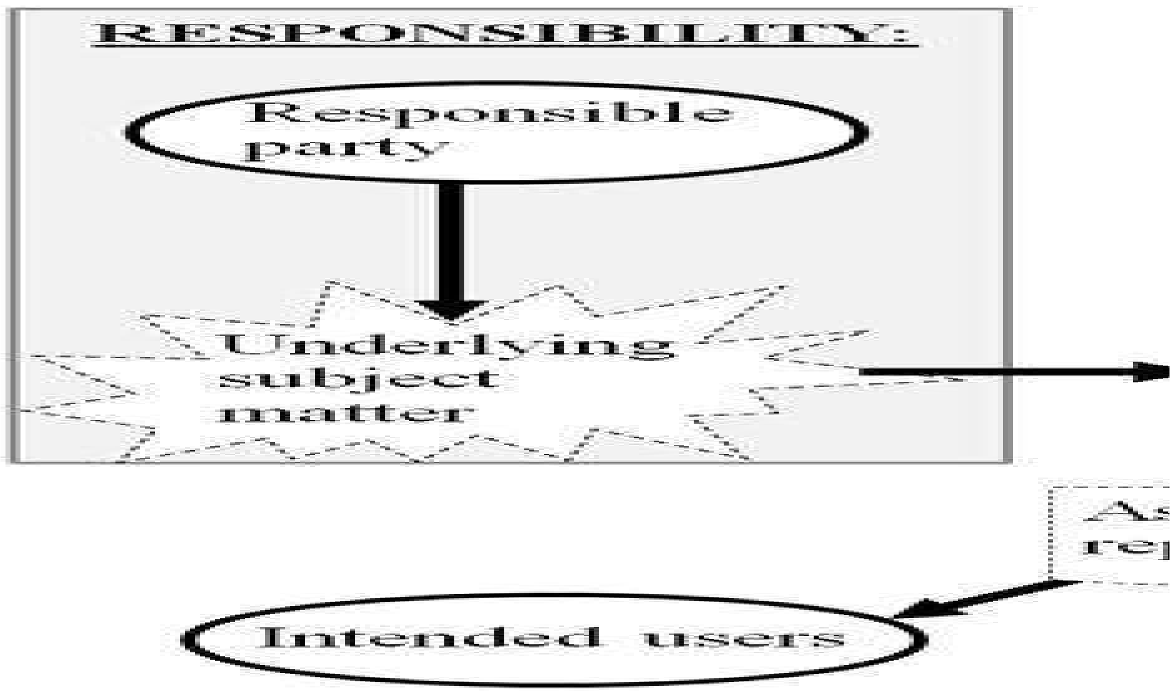
4. The value of a direct engagement lies in the combination of:

   (a) The independence of the practitioner from the underlying subject matter, the engaging party, intended users and the responsible party, notwithstanding that the practitioner is not independent of the subject matter information because the practitioner prepared the subject matter information; and

   (b) The assurance skills and techniques applied when measuring or evaluating the underlying subject matter, which results in the accumulation of evidence that is of a similar quantity and quality as for an attestation engagement. It is this obtaining of sufficient appropriate evidence that distinguishes a direct engagement from a mere compilation. To illustrate this point, if a practitioner were compiling an entity's greenhouse gas statement, the practitioner would not, for example, test the calibration of monitoring devices. In a direct engagement, however, the practitioner would, where relevant, either calibrate monitoring devices as part of the measurement process, or test the calibration of monitoring devices performed by others to the same extent as would be the case if the engagement were an attestation engagement.

**Appendix 3**

## The Parties to an Assurance Engagement




1. All assurance engagements have at least three parties: the responsible party, the practitioner, and the intended users. Depending on the engagement circumstances, there may also be a separate role of measurer or evaluator, or engaging party.

2. The above diagram illustrates how the following roles relate to an assurance engagement:

   a. The responsible party is responsible for the underlying subject matter.

   b. The measurer or evaluator uses the criteria to measure or evaluate the underlying subject matter resulting in the subject matter information.

   c. The engaging party agrees the terms of the engagement with the practitioner.

   d. The practitioner obtains sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information.

   e. The intended users make decisions on the basis of the subject matter information. The intended users are the individual(s) or organization(s), or group(s) thereof that the practitioner expects will use the assurance report. In some cases, there may be intended users other than those to whom the assurance report is addressed.

3. The following observations can be made about these roles:

- Every assurance engagement has at least a responsible party and intended users, in addition to the practitioner.
- The practitioner cannot be the responsible party, the engaging party or an intended user.
- In a direct engagement, the practitioner is also the measurer or evaluator.
- In an attestation engagement, the responsible party, or someone else, but not the practitioner, can be the measurer or evaluator.
- Where the practitioner has measured or evaluated the underlying subject matter against the criteria, the engagement is a direct engagement. The character of that engagement cannot be changed to an attestation engagement by another party assuming responsibility for the measurement or evaluation, for example, by the responsible party attaching a statement to the subject matter information accepting responsibility for it.
- The responsible party can be the engaging party.
- In many attestation engagements the responsible party may also be the measurer or evaluator, and the engaging party. An example is when an entity engages a practitioner to perform an assurance engagement regarding a report it has prepared about its own sustainability practices. An example of when the responsible party is different from the measurer or evaluator is when the practitioner is engaged to perform an assurance engagement regarding a report prepared by a government organization about a private company's sustainability practices.
- In an attestation engagement, the measurer or evaluator ordinarily provides the practitioner with a written representation about the subject matter information. In some cases, the practitioner may not be able to obtain such a representation, for example, when the engaging party is not the measurer or evaluator.
- The responsible party can be one of the intended users, but not the only one.
- The responsible party, the measurer or evaluator, and the intended users may be from different entities or the same entity. As an example of the latter case, in a two-tier board structure, the supervisory board may seek assurance about information provided by the executive board of that entity. The relationship between the responsible party, the measurer or evaluator, and the intended users needs to be viewed within the context of a specific engagement and may differ from more traditionally defined lines of responsibility. For example, an entity's senior management (an intended user) may engage a practitioner to perform an assurance engagement on a particular aspect of the entity's activities that is the immediate responsibility of a lower level of management (the responsible party), but for which senior management is ultimately responsible.
- An engaging party that is not also the responsible party can be the intended user.

4. The practitioner's conclusion may be phrased either in terms of:
   - The underlying subject matter and the applicable criteria;
   - The subject matter information and the applicable criteria; or
   - A statement made by the appropriate party.
5. The practitioner and the responsible party may agree to apply the principles of the Assurance Standards to an engagement when there are no intended users other than the responsible party but where all other requirements of the Assurance Standards are met. In such cases, the practitioner's report includes a statement restricting the use of the report to the responsible party.

**Appendix 4**

## Categorization of Underlying Subject Matters

The table below shows a categorization of the range of possible underlying subject matters with some examples. For some categories no example is given because it is unlikely that assurance engagements with respect to information in these categories would be undertaken. The categorization is not necessarily complete, the categories are not necessarily mutually exclusive, and some underlying subject matter or subject matter information may have components in more than one category, for example, integrated reporting and corporate social responsibility reporting will likely have both historical and future-oriented information and both financial and non-financial information. Also, in some cases, the examples are the subject matter information, in other cases they are the underlying subject matter or merely an indication of the type of question that information could assist with, whichever is more meaningful in the circumstances.

<table>
<tr><th colspan="2">Information about:</th><th>Historical Information</th><th>Future Oriented Information</th></tr>
<tr><td rowspan="2">Financial</td><td>Performance</td><td rowspan="2">Financial Statements prepared in accordance with an acceptable financial reporting framework</td><td>Forecast/projected cash flow</td></tr>
<tr><td>Position</td><td>Forecast/projected financial position</td></tr>
<tr><td rowspan="2">Non-Financial</td><td>Performance Use of Resources/ Value for Money</td><td>Greenhouse Gas Statement<br>Sustainability Report<br>KPIs<br>Statement on effective use of resources<br>Statement on Value for Money<br>Corporate social responsibility reporting</td><td>Expected emissions reductions attributable to a new technology, or Greenhouse Gases to be captured by planting trees<br>Statement that a proposed action will provide value for money</td></tr>
<tr><td>Condition</td><td>Description of a system/process as implemented at a point in time<br>Physical characteristics, for example, the size of leased property</td><td></td></tr>
<tr><td rowspan="3">System/ Process</td><td>Description</td><td>The description of a system of internal control</td><td></td></tr>
<tr><td>Design</td><td>The design of controls at a service organization</td><td>The design of proposed controls for a forthcoming production process</td></tr>
<tr><td>Operation/ Performance</td><td>The operating effectiveness of procedures for hiring and training staff</td><td></td></tr>
<tr><td rowspan="2">Aspects of Behavior</td><td>Compliance</td><td>An entity’s compliance with, for example, loan covenants, or specific legal or regulatory requirements</td><td></td></tr>
<tr><td>Human Behavior</td><td>Evaluation of audit committee effectiveness</td><td></td></tr>
</table>

| **Information about:** | | **Historical Information** | **Future Oriented Information** |
|---|---|---|---|
| | **Other** | The fitness for purpose of a software package | |

# SRI LANKA AUDITING STANDARD 260 (REVISED)

# COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

(Effective for audits of financial statements for periods ending
on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 260 (Revised), *Communication with Those Charged with Governance*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards.*

# Introduction

## Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibility to communicate with those charged with governance in an audit of financial statements. Although this SLAuS applies irrespective of an entity's governance structure or size, particular considerations apply where all of those charged with governance are involved in managing an entity, and for listed entities. This SLAuS does not establish requirements regarding the auditor's communication with an entity's management or owners unless they are also charged with a governance role.

2. This SLAuS is written in the context of an audit of financial statements, but may also be applicable, adapted as necessary in the circumstances, to audits of other historical financial information when those charged with governance have a responsibility to oversee the preparation of the other historical financial information.

3. Recognizing the importance of effective two-way communication in an audit of financial statements, this SLAuS provides an overarching framework for the auditor's communication with those charged with governance, and identifies some specific matters to be communicated with them. Additional matters to be communicated, which complement the requirements of this SLAuS, are identified in other SLAuSs (see Appendix 1). In addition, SLAuS 265[1] establishes specific requirements regarding the communication of significant deficiencies in internal control the auditor has identified during the audit to those charged with governance. Further matters, not required by this or other SLAuSs, may be required to be communicated by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body. Nothing in this SLAuS precludes the auditor from communicating any other matters to those charged with governance. (Ref: Para. A33–A36)

### The Role of Communication

4. This SLAuS focuses primarily on communications from the auditor to those charged with governance. Nevertheless, effective two-way communication is important in assisting:
   (a) The auditor and those charged with governance in understanding matters related to the audit in context, and in developing a constructive working relationship. This relationship is developed while maintaining the auditor's independence and objectivity;
   (b) The auditor in obtaining from those charged with governance information relevant to the audit. For example, those charged with governance may assist the auditor in understanding the entity and its environment, in identifying appropriate sources of audit evidence, and in providing information about specific transactions or events; and
   (c) Those charged with governance in fulfilling their responsibility to oversee the financial reporting process, thereby reducing the risks of material misstatement of the financial statements.

5. Although the auditor is responsible for communicating matters required by this SLAuS, management also has a responsibility to communicate matters of governance interest to those charged with governance. Communication by the auditor does not relieve management of this responsibility. Similarly, communication by management with those charged with governance of matters that the auditor is required to communicate does not relieve the auditor of the responsibility to also communicate them.

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1 SLAuS 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*

Communication of these matters by management may, however, affect the form or timing of the auditor's communication with those charged with governance.

6. Clear communication of specific matters required to be communicated by SLAuSs is an integral part of every audit. SLAuSs do not, however, require the auditor to perform procedures specifically to identify any other matters to communicate with those charged with governance.

7. In some jurisdictions, law or regulation may restrict the auditor's communication of certain matters with those charged with governance. Law or regulations may specifically prohibit a communication, or other action, that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act, including alerting the entity, for example, when the auditor is required to report identified or suspected non-compliance with laws and regulations to an appropriate authority pursuant to anti-money laundering legislation. In these circumstances, the issues considered by the auditor may be complex and the auditor may consider it appropriate to obtain legal advice.

**Effective Date**

8. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

## Objectives

9. The objectives of the auditor are:

   (a) To communicate clearly with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, and an overview of the planned scope and timing of the audit;

   (b) To obtain from those charged with governance information relevant to the audit;

   (c) To provide those charged with governance with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process; and

   (d) To promote effective two-way communication between the auditor and those charged with governance.

## Definitions

10. For purposes of the SLAuSs, the following terms have the meanings attributed below:

    (e) Those charged with governance – The person(s) or organization(s) (e.g., a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1–A8.

    (f) Management – The person(s) with executive responsibility for the conduct of the entity's operations. For some entities in some jurisdictions, management includes some or all of those charged with governance, for example, executive members of a governance board, or an owner-manager.

## Requirements

**Those Charged with Governance**

11. The auditor shall determine the appropriate person(s) within the entity's governance structure with whom to communicate. (Ref: Para. A1–A4)

*Communication with a Subgroup of Those Charged with Governance*

12. If the auditor communicates with a subgroup of those charged with governance, for example, an audit committee, or an individual, the auditor shall determine whether the auditor also needs to communicate with the governing body. (Ref: Para. A5–A7)

*When All of Those Charged with Governance Are Involved in Managing the Entity*

13. In some cases, all of those charged with governance are involved in managing the entity, for example, a small business where a single owner manages the entity and no one else has a governance role. In these cases, if matters required by this SLAuS are communicated with person(s) with management responsibilities, and those person(s) also have governance responsibilities, the matters need not be communicated again with those same person(s) in their governance role. These matters are noted in paragraph 16(c). The auditor shall nonetheless be satisfied that communication with person(s) with management responsibilities adequately informs all of those with whom the auditor would otherwise communicate in their governance capacity. (Ref: Para. A8)

**Matters to Be Communicated**

*The Auditor's Responsibilities in Relation to the Financial Statement Audit*

14. The auditor shall communicate with those charged with governance the responsibilities of the auditor in relation to the financial statement audit, including that:
    (a) The auditor is responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance; and
    (b) The audit of the financial statements does not relieve management or those charged with governance of their responsibilities. (Ref: Para. A9–A10)

*Planned Scope and Timing of the Audit*

15. The auditor shall communicate with those charged with governance an overview of the planned scope and timing of the audit, which includes communicating about the significant risks identified by the auditor. (Ref: Para. A11–A16)

*Significant Findings from the Audit*

16. The auditor shall communicate with those charged with governance: (Ref: Para. A17–A18)
    (a) The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. When applicable, the auditor shall explain to those charged with governance why the auditor considers a significant accounting practice, that is acceptable under the applicable financial reporting framework, not to be most appropriate to the particular circumstances of the entity; (Ref: Para. A19–A20)
    (b) Significant difficulties, if any, encountered during the audit; (Ref: Para. A21)
    (g) Unless all of those charged with governance are involved in managing the entity:
        (i) Significant matters arising during the audit that were discussed, or subject to correspondence, with management; and (Ref: Para. A22)
        (ii) Written representations the auditor is requesting;

(h) Circumstances that affect the form and content of the auditor's report, if any; and (Ref: Para. A23–A25)

(i) Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process. (Ref: Para. A26–A28)

*Auditor Independence*

17. In the case of listed entities, the auditor shall communicate with those charged with governance:

(a) A statement that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence; and

(i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor; and

(ii) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level. (Ref: Para. A29–A32)

**The Communication Process**

*Establishing the Communication Process*

18. The auditor shall communicate with those charged with governance the form, timing and expected general content of communications. (Ref: Para. A37–A45)

*Forms of Communication*

19. The auditor shall communicate in writing with those charged with governance regarding significant findings from the audit if, in the auditor's professional judgment, oral communication would not be adequate. Written communications need not include all matters that arose during the course of the audit. (Ref: Para. A46–A48)

20. The auditor shall communicate in writing with those charged with governance regarding auditor independence when required by paragraph 17.

*Timing of Communications*

21. The auditor shall communicate with those charged with governance on a timely basis. (Ref: Para. A49–A50)

*Adequacy of the Communication Process*

22. The auditor shall evaluate whether the two-way communication between the auditor and those charged with governance has been adequate for the purpose of the audit. If it has not, the auditor shall evaluate the effect, if any, on the auditor's assessment of the risks of material misstatement and ability to obtain sufficient appropriate audit evidence, and shall take appropriate action. (Ref: Para. A51–A53)

**Documentation**

23. Where matters required by this SLAuS to be communicated are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated. Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation.2 (Ref: Para. A54)

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## Application and Other Explanatory Material

**Those Charged with Governance** (Ref: Para. 11)

A1 Governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. For example:

- In some jurisdictions, a supervisory (wholly or mainly non-executive) board exists that is legally separate from an executive (management) board (a "two-tier board" structure). In other jurisdictions, both the supervisory and executive functions are the legal responsibility of a single, or unitary, board (a "one-tier board" structure).
- In some entities, those charged with governance hold positions that are an integral part of the entity's legal structure, for example, company directors. In others, for example, some government entities, a body that is not part of the entity is charged with governance.
- In some cases, some or all of those charged with governance are involved in managing the entity. In others, those charged with governance and management comprise different persons.
- In some cases, those charged with governance are responsible for approving[3] the entity's financial statements (in other cases management has this responsibility).

A2 In most entities, governance is the collective responsibility of a governing body, such as a board of directors, a supervisory board, partners, proprietors, a committee of management, a council of governors, trustees, or equivalent persons. In some smaller entities, however, one person may be charged with governance, for example, the owner-manager where there are no other owners, or a sole trustee. When governance is a collective responsibility, a subgroup such as an audit committee or even an individual, may be charged with specific tasks to assist the governing body in meeting its responsibilities. Alternatively, a subgroup or individual may have specific, legally identified responsibilities that differ from those of the governing body.

A3 Such diversity means that it is not possible for this SLAuS to specify for all audits the person(s) with whom the auditor is to communicate particular matters. Also, in some cases, the appropriate person(s) with whom to communicate may not be clearly identifiable from the applicable legal framework or other engagement circumstances, for example, entities where the governance structure is not formally defined, such as some family-owned entities, some not-for-profit organizations, and some government

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[2] SLAuS 230, *Audit Documentation*, paragraphs 8–11 and A6

[3] As described in paragraph A68 of SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, having responsibility for approving in this context means having the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared.

entities. In such cases, the auditor may need to discuss and agree with the engaging party the relevant person(s) with whom to communicate. In deciding with whom to communicate, the auditor's understanding of an entity's governance structure and processes obtained in accordance with SLAuS 315 (Revised)[4] is relevant. The appropriate person(s) with whom to communicate may vary depending on the matter to be communicated.

A4 SLAuS 600 includes specific matters to be communicated by group auditors with those charged with governance.[5] When the entity is a component of a group, the appropriate person(s) with whom the component auditor communicates depends on the engagement circumstances and the matter to be communicated. In some cases, a number of components may be conducting the same businesses within the same system of internal control and using the same accounting practices. Where those charged with governance of those components are the same (e.g., common board of directors), duplication may be avoided by dealing with these components concurrently for the purpose of communication.

*Communication with a Subgroup of Those Charged with Governance (Ref: Para. 12)*

A5 When considering communicating with a subgroup of those charged with governance, the auditor may take into account such matters as:

- The respective responsibilities of the subgroup and the governing body.
- The nature of the matter to be communicated.
- Relevant legal or regulatory requirements.
- Whether the subgroup has the authority to take action in relation to the information communicated, and can provide further information and explanations the auditor may need.

A6 When deciding whether there is also a need to communicate information, in full or in summary form, with the governing body, the auditor may be influenced by the auditor's assessment of how effectively and appropriately the subgroup communicates relevant information with the governing body. The auditor may make explicit in agreeing the terms of engagement that, unless prohibited by law or regulation, the auditor retains the right to communicate directly with the governing body.

A7 Audit committees (or similar subgroups with different names) exist in many jurisdictions. Although their specific authority and functions may differ, communication with the audit committee, where one exists, has become a key element in the auditor's communication with those charged with governance. Good governance principles suggest that:

- The auditor will be invited to regularly attend meetings of the audit committee.
- The chair of the audit committee and, when relevant, the other members of the audit committee, will liaise with the auditor periodically.
- The audit committee will meet the auditor without management present at least annually.

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[4] SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

[5] SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49

*When All of Those Charged with Governance Are Involved in Managing the Entity (Ref: Para.13)*

A8 In some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position. In such cases, communication with person(s) with management responsibilities may not adequately inform all of those with whom the auditor would otherwise communicate in their governance capacity. For example, in a company where all directors are involved in managing the entity, some of those directors (e.g., one responsible for marketing) may be unaware of significant matters discussed with another director (e.g., one responsible for the preparation of the financial statements).

**Matters to Be Communicated**

*The Auditor's Responsibilities in Relation to the Financial Statement Audit* (Ref: Para. 14)

A9 The auditor's responsibilities in relation to the financial statement audit are often included in the engagement letter or other suitable form of written agreement that records the agreed terms of the engagement.[6] Law, regulation or the governance structure of the entity may require those charged with governance to agree the terms of the engagement with the auditor. When this is not the case, providing those charged with governance with a copy of that engagement letter or other suitable form of written agreement may be an appropriate way to communicate with them regarding such matters as:

- The auditor's responsibility for performing the audit in accordance with SLAuSs, which is directed towards the expression of an opinion on the financial statements. The matters that SLAuSs require to be communicated, therefore, include significant matters arising during the audit of the financial statements that are relevant to those charged with governance in overseeing the financial reporting process.
- The fact that SLAuSs do not require the auditor to design procedures for the purpose of identifying supplementary matters to communicate with those charged with governance.
- When SLAuS 701[7] applies, the auditor's responsibilities to determine and communicate key audit matters in the auditor's report.
- When applicable, the auditor's responsibility for communicating particular matters required by law or regulation, by agreement with the entity or by additional requirements applicable to the engagement, for example, the standards of a national professional accountancy body.

A10 Law or regulation, an agreement with the entity or additional requirements applicable to the engagement may provide for broader communication with those charged with governance. For example, (a) an agreement with the entity may provide for particular matters to be communicated when they arise from services provided by a firm or network firm other than the financial statement audit; or (b) the mandate of a public sector auditor may provide for matters to be communicated that come to the auditor's attention as a result of other work, such as performance audits.

*Planned Scope and Timing of the Audit (Ref: Para. 15)*

A11 Communication regarding the planned scope and timing of the audit may:

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6 See paragraph 10 of SLAuS 210, *Agreeing the Terms of Audit Engagements*.

7 SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

(a) Assist those charged with governance to understand better the consequences of the auditor's work, to discuss issues of risk and the concept of materiality with the auditor, and to identify any areas in which they may request the auditor to undertake additional procedures; and

(b) Assist the auditor to understand better the entity and its environment.

A12 Communicating significant risks identified by the auditor helps those charged with governance understand those matters and why they require special audit consideration. The communication about significant risks may assist those charged with governance in fulfilling their responsibility to oversee the financial reporting process.

A13 Matters communicated may include:

- How the auditor plans to address the significant risks of material misstatement, whether due to fraud or error.
- How the auditor plans to address areas of higher assessed risks of material misstatement.
- The auditor's approach to internal control relevant to the audit.
- The application of the concept of materiality in the context of an audit.[8]
- The nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results, including the use of an auditor's expert.[9]
- When SLAuS 701 applies, the auditor's preliminary views about matters that may be areas of significant auditor attention in the audit and therefore may be key audit matters.
- The auditor's planned approach to addressing the implications on the individual statements and the disclosures of any significant changes within the applicable financial reporting framework or in the entity's environment, financial condition or activities.

A14 Other planning matters that it may be appropriate to discuss with those charged with governance include:

- Where the entity has an internal audit function, how the external auditor and internal auditors can work together in a constructive and complementary manner, including any planned use of the work of the internal audit function, and the nature and extent of any planned use of internal auditors to provide direct assistance.[10]
- The views of those charged with governance about:
  - The appropriate person(s) in the entity's governance structure with whom to communicate.
  - The allocation of responsibilities between those charged with governance and management.
  - The entity's objectives and strategies, and the related business risks that may result in material misstatements.
  - Matters those charged with governance consider warrant particular attention during the audit, and any areas where they request additional procedures to be undertaken.

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[8] SLAuS 320, *Materiality in Planning and Performing an Audit*

[9] See SLAuS 620, *Using the Work of an Auditor's Expert.*

[10] *SLAuS 610* (Revised 2013), *Using the Work of Internal Auditors, paragraphs 20 and 31*

    - Significant communications between the entity and regulators.
    - Other matters those charged with governance consider may influence the audit of the financial statements.

- The attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control and its importance in the entity, including how those charged with governance oversee the effectiveness of internal control, and (b) the detection or possibility of fraud.
- The actions of those charged with governance in response to developments in accounting standards, corporate governance practices, exchange listing rules, and related matters, and the effect of such developments on, for example, the overall presentation, structure and content of the financial statements, including:
    - The relevance, reliability, comparability and understandability of the information presented in the financial statements; and
    - Considering whether the financial statements are undermined by the inclusion of information that is not relevant or that obscures a proper understanding of the matters disclosed.
- The responses of those charged with governance to previous communications with the auditor.
- The documents comprising the other information (as defined in SLAuS 720 (Revised)) and the planned manner and timing of the issuance of such documents. When the auditor expects to obtain other information after the date of the auditor's report, the discussions with those charged with governance may also include the actions that may be appropriate or necessary if the auditor concludes that a material misstatement of the other information exists in other information obtained after the date of the auditor's report.

A15 While communication with those charged with governance may assist the auditor to plan the scope and timing of the audit, it does not change the auditor's sole responsibility to establish the overall audit strategy and the audit plan, including the nature, timing and extent of procedures necessary to obtain sufficient appropriate audit evidence.

A16 Care is necessary when communicating with those charged with governance about the planned scope and timing of the audit so as not to compromise the effectiveness of the audit, particularly where some or all of those charged with governance are involved in managing the entity. For example, communicating the nature and timing of detailed audit procedures may reduce the effectiveness of those procedures by making them too predictable.

*Significant Findings from the Audit (Ref: Para. 16)*

A17 The communication of findings from the audit may include requesting further information from those charged with governance in order to complete the audit evidence obtained. For example, the auditor may confirm that those charged with governance have the same understanding of the facts and circumstances relevant to specific transactions or events.

A18 When SLAuS 701 applies, the communications with those charged with governance required by paragraph 16, as well as the communication about the significant risks identified by the auditor required by paragraph 15, are particularly relevant to the auditor's determination of matters that required significant auditor attention and which therefore may be key audit matters.[11]

*Significant Qualitative Aspects of Accounting Practices (Ref: Para. 16(a))*

A19 Financial reporting frameworks ordinarily allow for the entity to make accounting estimates, and judgments about accounting policies and financial statement disclosures, for example, in relation to the use of key assumptions in the development of accounting estimates for which there is significant measurement uncertainty. In addition, law, regulation or financial reporting frameworks may require disclosure of a summary of significant accounting policies or make reference to "critical accounting estimates" or "critical accounting policies and practices" to identify and provide additional information to users about the most difficult, subjective or complex judgments made by management in preparing the financial statements.

A20 As a result, the auditor's views on the subjective aspects of the financial statements may be particularly relevant to those charged with governance in discharging their responsibilities for oversight of the financial reporting process. For example, in relation to the matters described in paragraph A19, those charged with governance may be interested in the auditor's evaluation of the adequacy of disclosures of the estimation uncertainty relating to accounting estimates that give rise to significant risks. Open and constructive communication about significant qualitative aspects of the entity's accounting practices also may include comment on the acceptability of significant accounting practices and the quality of the disclosures. Appendix 2 identifies matters that may be included in this communication.

Significant Difficulties Encountered during the Audit (Ref: Para. 16(b))

A21 Significant difficulties encountered during the audit may include such matters as:

- Significant delays by management, the unavailability of entity personnel, or an unwillingness by management to provide information necessary for the auditor to perform the auditor's procedures.
- An unreasonably brief time within which to complete the audit.
- Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
- The unavailability of expected information.
- Restrictions imposed on the auditor by management.
- Management's unwillingness to make or extend its assessment of the entity's ability to continue as a going concern when requested.

In some circumstances, such difficulties may constitute a scope limitation that leads to a modification of the auditor's opinion.[12]

Significant Matters Discussed, or Subject to Correspondence with Management (Ref: Para. 16(c)(i))

A22 Significant matters discussed, or subject to correspondence with management may include such matters as:

- Significant events or transactions that occurred during the year.

[11] SLAuS 701, paragraphs 9–10

[12] SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

- Business conditions affecting the entity, and business plans and strategies that may affect the risks of material misstatement.
- Concerns about management's consultations with other accountants on accounting or auditing matters.
- Discussions or correspondence in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services.
- Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information.

Circumstances that Affect the Form and Content of the Auditor's Report (Ref: Para 16(d))

A23 SLAuS 210 requires the auditor to agree the terms of the audit engagement with management or those charged with governance, as appropriate.[13] The agreed terms of the audit engagement are required to be recorded in an audit engagement letter or other suitable form of written agreement and include, among other things, reference to the expected form and content of the auditor's report.[14] As explained in paragraph A9, if the terms of engagement are not agreed with those charged with governance, the auditor may provide those charged with governance with a copy of the engagement letter to communicate about matters relevant to the audit. The communication required by paragraph 16(d) is intended to inform those charged with governance about circumstances in which the auditor's report may differ from its expected form and content or may include additional information about the audit that was performed.

A24 Circumstances in which the auditor is required or may otherwise consider it necessary to include additional information in the auditor's report in accordance with the SLAuSs, and for which communication with those charged with governance is required, include when:

- The auditor expects to modify the opinion in the auditor's report in accordance with SLAuS 705 (Revised).[15]
- A material uncertainty related to going concern is reported in accordance with SLAuS 570 (Revised).[16]
- Key audit matters are communicated in accordance with SLAuS 701.[17]
- The auditor considers it necessary to include an Emphasis of Matter paragraph or Other Matter paragraph in accordance with SLAuS 706 (Revised)[18] or is required to do so by other SLAuSs.

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13 SLAuS 210, paragraph 9

14 SLAuS 210, paragraph 10

15 SLAuS 705 (Revised), paragraph 30

16 SLAuS 570 (Revised), *Going Concern*, paragraph 25(d)

17 SLAuS 701, paragraph 17

18 SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph 12

- The auditor has concluded that there is an uncorrected material misstatement of the other information in accordance with SLAuS 720 (Revised)[19]

In such circumstances, the auditor may consider it useful to provide those charged with governance with a draft of the auditor's report to facilitate a discussion of how such matters will be addressed in the auditor's report.

A25 In the rare circumstances that the auditor intends not to include the CA Sri Lanka membership number of the engagement partner in the auditor's report in accordance with SLAuS 700 (Revised), the auditor is required to discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat.[20] The auditor also may communicate with those charged with governance in circumstances when the auditor elects not to include the description of the auditor's responsibilities in the body of the auditor's report as permitted by SLAuS 700 (Revised).[21]

Other Significant Matters Relevant to the Financial Reporting Process (Ref: Para. 16(e))

A26 SLAuS 300[22] notes that, as a result of unexpected events, changes in conditions, or the audit evidence obtained from the results of audit procedures, the auditor may need to modify the overall audit strategy and audit plan and thereby the resulting planned nature, timing and extent of further audit procedures, based on the revised consideration of assessed risks. The auditor may communicate with those charged with governance about such matters, for example, as an update to initial discussions about the planned scope and timing of the audit.

A27 Other significant matters arising during the audit that are directly relevant to those charged with governance in overseeing the financial reporting process may include such matters as material misstatements of the other information that have been corrected.

A28 To the extent not already addressed by the requirements in paragraphs 16(a)–(d) and related application material, the auditor may consider communicating about other matters discussed with, or considered by, the engagement quality control reviewer, if one has been appointed, in accordance with SLAuS 220.[23]

*Auditor Independence (Ref: Para. 17)*

A29 The auditor is required to comply with relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements.[24]

A30 The relationships and other matters, and safeguards to be communicated, vary with the circumstances of the engagement, but generally address:

(a) Threats to independence, which may be categorized as: self-interest threats, self-review threats, advocacy threats, familiarity threats, and intimidation threats; and

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19 SLAuS 720 (Revised), *The Auditor's Responsiblities Relating to Other Information*, paragraph 18(a)

20 SLAuS 700 (Revised), paragraphs 46 and A63

21 SLAuS 700 (Revised), paragraph 41

22 SLAuS 300, *Planning an Audit of Financial Statements*, paragraph A15

23 See paragraphs 19–22 and A23–A33 of SLAuS 220, *Quality Control for an Audit of Financial Statements*.

24 SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 14

(b) Safeguards created by the profession, legislation or regulation, safeguards within the entity, and safeguards within the firm's own systems and procedures.

A31 Relevant ethical requirements or law or regulation may also specify particular communications to those charged with governance in circumstances where breaches of independence requirements have been identified. For example, the Code of Ethics for Professional Accountants (CA Sri Lanka Code) requires the auditor to communicate with those charged with governance in writing about any breach and the action the firm has taken or proposes to take.[25]

A32 The communication requirements relating to auditor independence that apply in the case of listed entities may also be appropriate in the case of some other entities, including those that may be of significant public interest, for example, because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities. On the other hand, there may be situations where communications regarding independence may not be relevant, for example, where all of those charged with governance have been informed of relevant facts through their management activities. This is particularly likely where the entity is owner-managed, and the auditor's firm and network firms have little involvement with the entity beyond a financial statement audit.

*Supplementary Matters (Ref: Para. 3)*

A33 The oversight of management by those charged with governance includes ensuring that the entity designs, implements and maintains appropriate internal control with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

A34 The auditor may become aware of supplementary matters that do not necessarily relate to the oversight of the financial reporting process but which are, nevertheless, likely to be significant to the responsibilities of those charged with governance in overseeing the strategic direction of the entity or the entity's obligations related to accountability. Such matters may include, for example, significant issues regarding governance structures or processes, and significant decisions or actions by senior management that lack appropriate authorization.

A35 In determining whether to communicate supplementary matters with those charged with governance, the auditor may discuss matters of this kind of which the auditor has become aware with the appropriate level of management, unless it is inappropriate to do so in the circumstances.

A36 If a supplementary matter is communicated, it may be appropriate for the auditor to make those charged with governance aware that:

(a) Identification and communication of such matters is incidental to the purpose of the audit, which is to form an opinion on the financial statements;

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25 See Section 290.39–49 of the CA Sri Lanka Code, which addresses breaches of independence.

(b) No procedures were carried out with respect to the matter other than any that were necessary to form an opinion on the financial statements; and

(c) No procedures were carried out to determine whether other such matters exist.

**The Communication Process**

*Establishing the Communication Process* (Ref: Para. 18)

A37 Clear communication of the auditor's responsibilities, the planned scope and timing of the audit, and the expected general content of communications helps establish the basis for effective two-way communication.

A38 Matters that may also contribute to effective two-way communication include discussion of:

- The purpose of communications. When the purpose is clear, the auditor and those charged with governance are better placed to have a mutual understanding of relevant issues and the expected actions arising from the communication process.
- The form in which communications will be made.
- The person(s) in the engagement team and among those charged with governance who will communicate regarding particular matters.
- The auditor's expectation that communication will be two-way, and that those charged with governance will communicate with the auditor matters they consider relevant to the audit, for example, strategic decisions that may significantly affect the nature, timing and extent of audit procedures, the suspicion or the detection of fraud, and concerns with the integrity or competence of senior management.
- The process for taking action and reporting back on matters communicated by the auditor.
- The process for taking action and reporting back on matters communicated by those charged with governance.

A39 The communication process will vary with the circumstances, including the size and governance structure of the entity, how those charged with governance operate, and the auditor's view of the significance of matters to be communicated. Difficulty in establishing effective two-way communication may indicate that the communication between the auditor and those charged with governance is not adequate for the purpose of the audit (see paragraph A52).

Considerations Specific to Smaller Entities

A40 In the case of audits of smaller entities, the auditor may communicate in a less structured manner with those charged with governance than in the case of listed or larger entities.

Communication with Management

A41 Many matters may be discussed with management in the ordinary course of an audit, including matters required by this SLAuS to be communicated with those charged with governance. Such discussions recognize management's executive responsibility for the conduct of the entity's operations and, in particular, management's responsibility for the preparation of the financial statements.

A42 Before communicating matters with those charged with governance, the auditor may discuss them with management, unless that is inappropriate. For example, it may not be appropriate to discuss questions of management's competence or integrity with management. In addition to recognizing management's executive responsibility, these initial discussions may clarify facts and issues, and give management an opportunity to provide further information and explanations. Similarly, when the entity has an internal audit function, the auditor may discuss matters with the internal auditor before communicating with those charged with governance.

Communication with Third Parties

A43 Those charged with governance may be required by law or regulation, or may wish, to provide third parties, for example, bankers or certain regulatory authorities, with copies of a written communication from the auditor. In some cases, disclosure to third parties may be illegal or otherwise inappropriate. When a written communication prepared for those charged with governance is provided to third parties, it may be important in the circumstances that the third parties be informed that the communication was not prepared with them in mind, for example, by stating in written communications with those charged with governance:

(a) That the communication has been prepared for the sole use of those charged with governance and, where applicable, the group management and the group auditor, and should not be relied upon by third parties;

(b) That no responsibility is assumed by the auditor to third parties; and

(c) Any restrictions on disclosure or distribution to third parties.

A44 In some jurisdictions the auditor may be required by law or regulation to, for example:

- Notify a regulatory or enforcement body of certain matters communicated with those charged with governance. For example, in some countries the auditor has a duty to report misstatements to authorities where management and those charged with governance fail to take corrective action;
- Submit copies of certain reports prepared for those charged with governance to relevant regulatory or funding bodies, or other bodies such as a central authority in the case of some public sector entities; or
- Make reports prepared for those charged with governance publicly available.

A45 Unless required by law or regulation to provide a third party with a copy of the auditor's written communications with those charged with governance, the auditor may need the prior consent of those charged with governance before doing so.

*Forms of Communication (Ref: Para. 19)*

A46 Effective communication may involve structured presentations and written reports as well as less structured communications, including discussions. The auditor may communicate matters other than those identified in paragraphs 19–20 either orally or in writing. Written communications may include an engagement letter that is provided to those charged with governance.

A47 In addition to the significance of a particular matter, the form of communication (e.g., whether to communicate orally or in writing, the extent of detail or summarization in the communication, and whether to communicate in a structured or unstructured manner) may be affected by such factors as:

- Whether a discussion of the matter will be included in the auditor's report. For example, when key audit matters are communicated in the auditor's report, the auditor may consider it necessary to communicate in writing about the matters determined to be key audit matters.
- Whether the matter has been satisfactorily resolved.
- Whether management has previously communicated the matter.
- The size, operating structure, control environment, and legal structure of the entity.
- In the case of an audit of special purpose financial statements, whether the auditor also audits the entity's general purpose financial statements.
- Legal requirements. In some jurisdictions, a written communication with those charged with governance is required in a prescribed form by local law.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The amount of ongoing contact and dialogue the auditor has with those charged with governance.
- Whether there have been significant changes in the membership of a governing body.

A48 When a significant matter is discussed with an individual member of those charged with governance, for example, the chair of an audit committee, it may be appropriate for the auditor to summarize the matter in later communications so that all of those charged with governance have full and balanced information.

*Timing of Communications (Ref: Para. 21)*

A49 Timely communication throughout the audit contributes to the achievement of robust two-way dialogue between those charged with governance and the auditor. However, the appropriate timing for communications will vary with the circumstances of the engagement. Relevant circumstances include the significance and nature of the matter, and the action expected to be taken by those charged with governance. For example:

- Communications regarding planning matters may often be made early in the audit engagement and, for an initial engagement, may be made as part of agreeing the terms of the engagement.
- It may be appropriate to communicate a significant difficulty encountered during the audit as soon as practicable if those charged with governance are able to assist the auditor to overcome the difficulty, or if it is likely to lead to a modified opinion. Similarly, the auditor may communicate orally to those charged with governance as soon as practicable significant deficiencies in internal control that the auditor has identified, prior to communicating these in writing as required by SLAuS 265.[26]
- When SLAuS 701 applies, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit (see paragraph A13), and the auditor also may have more frequent communications to further discuss such matters when communicating about significant audit findings.

[26] SLAuS 265, paragraphs 9 and A14

- Communications regarding independence may be appropriate whenever significant judgments are made about threats to independence and related safeguards, for example, when accepting an engagement to provide non-audit services, and at a concluding discussion.
- Communications regarding findings from the audit, including the auditor's views about the qualitative aspects of the entity's accounting practices, may also be made as part of the concluding discussion.

*Adequacy of the Communication Process (Ref: Para. 22)*

A50 Other factors that may be relevant to the timing of communications include:

- The size, operating structure, control environment, and legal structure of the entity being audited.
- Any legal obligation to communicate certain matters within a specified timeframe.
- The expectations of those charged with governance, including arrangements made for periodic meetings or communications with the auditor.
- The time at which the auditor identifies certain matters, for example, the auditor may not identify a particular matter (e.g., noncompliance with a law) in time for preventive action to be taken, but communication of the matter may enable remedial action to be taken.

A51 The auditor need not design specific procedures to support the evaluation of the two-way communication between the auditor and those charged with governance; rather, that evaluation may be based on observations resulting from audit procedures performed for other purposes. Such observations may include:

- The appropriateness and timeliness of actions taken by those charged with governance in response to matters raised by the auditor. Where significant matters raised in previous communications have not been dealt with effectively, it may be appropriate for the auditor to inquire as to why appropriate action has not been taken, and to consider raising the point again. This avoids the risk of giving an impression that the auditor is satisfied that the matter has been adequately addressed or is no longer significant.
- The apparent openness of those charged with governance in their communications with the auditor.
- The willingness and capacity of those charged with governance to meet with the auditor without management present.
- The apparent ability of those charged with governance to fully comprehend matters raised by the auditor, for example, the extent to which those charged with governance probe issues, and question recommendations made to them.
- Difficulty in establishing with those charged with governance a mutual understanding of the form, timing and expected general content of communications.
- Where all or some of those charged with governance are involved in managing the entity, their apparent awareness of how matters discussed with the auditor affect their broader governance responsibilities, as well as their management responsibilities.
- Whether the two-way communication between the auditor and those charged with governance meets applicable legal and regulatory requirements.

A52 As noted in paragraph 4, effective two-way communication assists both the auditor and those charged with governance. Further, SLAuS 315 (Revised) identifies participation by those charged with governance, including their interaction with internal audit, if any, and external auditors, as an element of the entity's control environment.[27] Inadequate two-way communication may indicate an unsatisfactory control environment and influence the auditor's assessment of the risks of material misstatement. There is also a risk that the auditor may not have obtained sufficient appropriate audit evidence to form an opinion on the financial statements.

A53 If the two-way communication between the auditor and those charged with governance is not adequate and the situation cannot be resolved, the auditor may take such actions as:

- Modifying the auditor's opinion on the basis of a scope limitation.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties (e.g., a regulator), or a higher authority in the governance structure that is outside the entity, such as the owners of a business (e.g., shareholders in a general meeting), or the responsible government minister or parliament in the public sector.
- Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation.

**Documentation (Ref: Para. 23)**

A54 Documentation of oral communication may include a copy of minutes prepared by the entity retained as part of the audit documentation where those minutes are an appropriate record of the communication.

27 SLAuS 315 (Revised), paragraph A78

**Appendix 1**
**(Ref:Para 3)**

**Specific Requirements in SLSQC 1 and Other SLAuSs that Refer to Communications with Those Charged With Governance**

This appendix identifies paragraphs in SLSQC 1[1] and other SLAuSs that require communication of specific matters with those charged with governance. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs

- SLSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* – paragraph 30(a)
- SLAuS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* – paragraphs 21, 38(c)(i) and 40-42
- SLAuS 250, *Consideration of Laws and Regulations in an Audit of Financial Statements* – paragraphs 14, 19 and 22–24
- SLAuS 265, *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management* – paragraph 9
- SLAuS 450, *Evaluation of Misstatements Identified during the Audit* – paragraphs 12-13
- SLAuS 505, *External Confirmations* – paragraph 9
- SLAuS 510, *Initial Audit Engagements—Opening Balances* – paragraph 7
- SLAuS 550, *Related Parties* – paragraph 27
- SLAuS 560, *Subsequent Events* – paragraphs 7(b)-(c), 10(a), 13(b), 14(a) and 17
- SLAuS 570 (Revised), *Going Concern* – paragraph 25
- SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)* – paragraph 49
- SLAuS 610 (Revised), *Using the Work of Internal Auditors* – paragraph 18; SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 20 and 31
- SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements* – paragraph 46
- SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report* – paragraph 17
- SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report* – paragraphs 12, 14, 23 and 30
- SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report* – paragraph 12

[1] SLSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

- SLAuS 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements* – paragraph 18
- SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 17—19

**Appendix 2**
**(Ref:Para. 16(a),A19-A20)**

## Qualitative Aspects of Accounting Practices

The communication required by paragraph 16(a), and discussed in paragraphs A19–A20, may include such matters as:

### Accounting Policies

- The appropriateness of the accounting policies to the particular circumstances of the entity, having regard to the need to balance the cost of providing information with the likely benefit to users of the entity's financial statements. Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.
- The initial selection of, and changes in, significant accounting policies, including the application of new accounting pronouncements. The communication may include: the effect of the timing and method of adoption of a change in accounting policy on the current and future earnings of the entity; and the timing of a change in accounting policies in relation to expected new accounting pronouncements.
- The effect of significant accounting policies in controversial or emerging areas (or those unique to an industry, particularly when there is a lack of authoritative guidance or consensus).

The effect of the timing of transactions in relation to the period in which they are recorded.

### Accounting Estimates

- For items for which estimates are significant, issues discussed in SLAuS 540,[1] including, for example:
    - How management identifies those transactions, events and conditions that may give rise to the need for accounting estimates to be recognized or disclosed in the financial statements.
    - Changes in circumstances that may give rise to new, or the need to revise existing, accounting estimates.
    - Whether management's decision to recognize, or to not recognize, the accounting estimates in the financial statements is in accordance with the applicable financial reporting framework.
    - Whether there has been or ought to have been a change from the prior period in the methods for making the accounting estimates and, if so, why, as well as the outcome of accounting estimates in prior periods.
    - Management's process for making accounting estimates (e.g., when management has used a model), including whether the selected measurement basis for the accounting estimate is in accordance with the applicable financial reporting framework.
    - Whether the significant assumptions used by management in developing the accounting estimate are reasonable.

[1] SLAuS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

  - Where relevant to the reasonableness of the significant assumptions used by management or the appropriate application of the applicable financial reporting framework, management's intent to carry out specific courses of action and its ability to do so.
  - Risks of material misstatement.
  - Indicators of possible management bias.
  - How management has considered alternative assumptions or outcomes and why it has rejected them, or how management has otherwise addressed estimation uncertainty in making the accounting estimate.
  - The adequacy of disclosure of estimation uncertainty in the financial statements

**Financial Statement Disclosures**

- The issues involved, and related judgments made, in formulating particularly sensitive financial statement disclosures (e.g., disclosures related to revenue recognition, remuneration, going concern, subsequent events, and contingency issues).
- The overall neutrality, consistency and clarity of the disclosures in the financial statements.

**Related Matters**

- The potential effect on the financial statements of significant risks, exposures and uncertainties, such as pending litigation, that are disclosed in the financial statements.
- The extent to which the financial statements are affected by significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual. This communication may highlight:
  - The non-recurring amounts recognized during the period.
  - The extent to which such transactions are separately disclosed in the financial statements.
  - Whether such transactions appear to have been designed to achieve a particular accounting or tax treatment, or a particular legal or regulatory objective.
  - Whether the form of such transactions appears overly complex or where extensive advice regarding the structuring of the transaction has been taken.
  - Where management is placing more emphasis on the need for a particular accounting treatment than on the underlying economics of the transaction.
- The factors affecting asset and liability carrying values, including the entity's bases for determining useful lives assigned to tangible and intangible assets. The communication may explain how factors affecting carrying values were selected and how alternative selections would have affected the financial statements.

The selective correction of misstatements, for example, correcting misstatements with the effect of increasing reported earnings, but not those that have the effect of decreasing reported earnings.

# SRI LANKA AUDITING STANDARD 570 (REVISED)

# GOING CONCERN

(Effective for audits of financial statements for periods ending on or after 31 March 2018)

## CONTENTS

Sri Lanka Auditing Standard (SLAuS) 570 (Revised), *Going Concern*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

## Introduction

## Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibilities in the audit of financial statements relating to going concern and the implications for the auditor's report. (Ref: Para. A1)

### Going Concern Basis of Accounting

2. Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in particular jurisdictions). When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business. (Ref: Para. A2)

### Responsibility for Assessment of the Entity's Ability to Continue as a Going Concern

3. Some financial reporting frameworks contain an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern, and standards regarding matters to be considered and disclosures to be made in connection with going concern. For example, Sri Lanka Accounting Standard (LKAS) 1 requires management to make an assessment of an entity's ability to continue as a going concern.[1] The detailed requirements regarding management's responsibility to assess the entity's ability to continue as a going concern and related financial statement disclosures may also be set out in law or regulation.

4. In other financial reporting frameworks, there may be no explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern. Nevertheless, where the going concern basis of accounting is a fundamental principle in the preparation of financial statements as discussed in paragraph 2, the preparation of the financial statements requires management to assess the entity's ability to continue as a going concern even if the financial reporting framework does not include an explicit requirement to do so.

5. Management's assessment of the entity's ability to continue as a going concern involves making a judgment, at a particular point in time, about inherently uncertain future outcomes of events or conditions. The following factors are relevant to that judgment:

   - The degree of uncertainty associated with the outcome of an event or condition increases significantly the further into the future an event or condition or the outcome occurs. For that reason,

[1] LKAS 1, *Presentation of Financial Statements*, paragraphs 25–26

most financial reporting frameworks that require an explicit management assessment specify the period for which management is required to take into account all available information.

- The size and complexity of the entity, the nature and condition of its business and the degree to which it is affected by external factors affect the judgment regarding the outcome of events or conditions.
- Any judgment about the future is based on information available at the time at which the judgment is made. Subsequent events may result in outcomes that are inconsistent with judgments that were reasonable at the time they were made.

*Responsibilities of the Auditor*

6 The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements, and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern. These responsibilities exist even if the financial reporting framework used in the preparation of the financial statements does not include an explicit requirement for management to make a specific assessment of the entity's ability to continue as a going concern.

7 However, as described in SLAuS 200,[2] the potential effects of inherent limitations on the auditor's ability to detect material misstatements are greater for future events or conditions that may cause an entity to cease to continue as a going concern. The auditor cannot predict such future events or conditions. Accordingly, the absence of any reference to a material uncertainty about the entity's ability to continue as a going concern in an auditor's report cannot be viewed as a guarantee as to the entity's ability to continue as a going concern.

**Effective Date**

8 This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

## Objectives

9. The objectives of the auditor are:
   (a) To obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements;
   (b) To conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern; and

   To report in accordance with this SLAuS.

[2] SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraphs A53–A54

## Requirements

### Risk Assessment Procedures and Related Activities

10 When performing risk assessment procedures as required by SLAuS 315 (Revised),[3] the auditor shall consider whether events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. In so doing, the auditor shall determine whether management has already performed a preliminary assessment of the entity's ability to continue as a going concern, and: (Ref: Para. A3–A6)

(a) If such an assessment has been performed, the auditor shall discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and, if so, management's plans to address them; or

(b) If such an assessment has not yet been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern.

11 The auditor shall remain alert throughout the audit for audit evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A7)

### Evaluating Management's Assessment

12 The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. (Ref: Para. A8–A10, A12–A13)

13 In evaluating management's assessment of the entity's ability to continue as a going concern, the auditor shall cover the same period as that used by management to make its assessment as required by the applicable financial reporting framework, or by law or regulation if it specifies a longer period. If management's assessment of the entity's ability to continue as a going concern covers less than twelve months from the date of the financial statements as defined in SLAuS 560,[4] the auditor shall request management to extend its assessment period to at least twelve months from that date. (Ref: Para. A11–A13)

14 In evaluating management's assessment, the auditor shall consider whether management's assessment includes all relevant information of which the auditor is aware as a result of the audit.

### Period beyond Management's Assessment

15. The auditor shall inquire of management as to its knowledge of events or conditions beyond the period of management's assessment that may cast significant doubt on the entity's ability to continue as a going concern. (Ref: Para. A14–A15)

### Additional Audit Procedures When Events or Conditions Are Identified

16. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine

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3 SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 5

4 SLAuS 560, *Subsequent Events*, paragraph 5(a)

whether or not a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern (hereinafter referred to as "material uncertainty") through performing additional audit procedures, including consideration of mitigating factors. These procedures shall include: (Ref: Para. A16)

(a) Where management has not yet performed an assessment of the entity's ability to continue as a going concern, requesting management to make its assessment.

(b) Evaluating management's plans for future actions in relation to its going concern assessment, whether the outcome of these plans is likely to improve the situation and whether management's plans are feasible in the circumstances. (Ref: Para. A17)

(c) Where the entity has prepared a cash flow forecast, and analysis of the forecast is a significant factor in considering the future outcome of events or conditions in the evaluation of management's plans for future actions: (Ref: Para. A18–A19)

(i) Evaluating the reliability of the underlying data generated to prepare the forecast; and

(ii) Determining whether there is adequate support for the assumptions underlying the forecast.

(d) Considering whether any additional facts or information have become available since the date on which management made its assessment.

(e) Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans. (Ref: Para. A20)

**Auditor Conclusions**

17 The auditor shall evaluate whether sufficient appropriate audit evidence has been obtained regarding, and shall conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

18 Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. A material uncertainty exists when the magnitude of its potential impact and likelihood of occurrence is such that, in the auditor's judgment, appropriate disclosure of the nature and implications of the uncertainty is necessary for: (Ref: Para. A21–A22)

(a) In the case of a fair presentation financial reporting framework, the fair presentation of the financial statements, or

(b) In the case of a compliance framework, the financial statements not to be misleading.

*Adequacy of Disclosures When Events or Conditions Have Been Identified and a Material Uncertainty Exists*

19. If the auditor concludes that management's use of the going concern basis of accounting is appropriate in the circumstances but a material uncertainty exists, the auditor shall determine whether the financial statements: (Ref: Para. A22–A23)

(a) Adequately disclose the principal events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and management's plans to deal with these events or conditions; and

(b) Disclose clearly that there is a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists*

20. If events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained the auditor concludes that no material uncertainty exists, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosures about these events or conditions. (Ref: Para. A24–A25)

**Implications for the Auditor's Report**

*Use of Going Concern Basis of Accounting Is Inappropriate*

21. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the preparation of the financial statements is inappropriate, the auditor shall express an adverse opinion. (Ref: Para. A26–A27)

*Use of Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists*

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements

22. If adequate disclosure about the material uncertainty is made in the financial statements, the auditor shall express an unmodified opinion and the auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern" to: (Ref: Para. A28–A31, A34)

    (a) Draw attention to the note in the financial statements that discloses the matters set out in paragraph 19; and

    (b) State that these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements

23 If adequate disclosure about the material uncertainty is not made in the financial statements, the auditor shall: (Ref: Para. A32–A34)

    (a) Express a qualified opinion or adverse opinion, as appropriate, in accordance with SLAuS 705 (Revised)[5]; and

    (b) In the Basis for Qualified (Adverse) Opinion section of the auditor's report, state that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the financial statements do not adequately disclose this matter.

Management Unwilling to Make or Extend Its Assessment

24 If management is unwilling to make or extend its assessment when requested to do so by the auditor, the auditor shall consider the implications for the auditor's report. (Ref: Para. A35)

[5] SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

**Communication with Those Charged with Governance**

25 Unless all those charged with governance are involved in managing the entity,[6] the auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern. Such communication with those charged with governance shall include the following:

(a) Whether the events or conditions constitute a material uncertainty;

(b) Whether management's use of the going concern basis of accounting is appropriate in the preparation of the financial statements;

(c) The adequacy of related disclosures in the financial statements; and

(d) Where applicable, the implications for the auditor's report.

**Significant Delay in the Approval of Financial Statements**

26 If there is significant delay in the approval of the financial statements by management or those charged with governance after the date of the financial statements, the auditor shall inquire as to the reasons for the delay. If the auditor believes that the delay could be related to events or conditions relating to the going concern assessment, the auditor shall perform those additional audit procedures necessary, as described in paragraph 16, as well as consider the effect on the auditor's conclusion regarding the existence of a material uncertainty, as described in paragraph 18.

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## Application and Other Explanatory Material

**Scope of this SLAuS** (Ref: Para 1)

A1. SLAuS 701[7] deals with the auditor's responsibility to communicate key audit matters in the auditor's report. That SLAuS acknowledges that, when SLAuS 701 applies, matters relating to going concern may be determined to be key audit matters, and explains that a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern is, by its nature, a key audit matter.[8]

**Going Concern Basis of Accounting** (Ref: Para. 2)

*Considerations Specific to Public Sector Entities*

A2. Management's use of the going concern basis of accounting is also relevant to public sector entities. For example, Sri Lanka Public Sector Accounting Standard (SLPSAS) 1 addresses the issue of the ability of public sector entities to continue as going concerns.[9] Going concern risks may arise, but are not limited to, situations where public sector entities operate on a for-profit basis, where government support may be reduced or withdrawn, or in the case of privatization. Events or conditions that may cast significant doubt

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6 SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

7 SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

8 See paragraphs 15 and A41 of SLAuS 701.

9 SLPSAS 1, *Presentation of Financial Statements,* paragraphs 38–41

on an entity's ability to continue as a going concern in the public sector may include situations where the public sector entity lacks funding for its continued existence or when policy decisions are made that affect the services provided by the public sector entity.

Risk Assessment Procedures and Related Activities

*Events or Conditions That May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 10)

A3. The following are examples of events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. This listing is not all-inclusive nor does the existence of one or more of the items always signify that a material uncertainty exists.

Financial

- Net liability or net current liability position.
- Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment; or excessive reliance on short-term borrowings to finance long-term assets.
- Indications of withdrawal of financial support by creditors.
- Negative operating cash flows indicated by historical or prospective financial statements.
- Adverse key financial ratios.
- Substantial operating losses or significant deterioration in the value of assets used to generate cash flows.
- Arrears or discontinuance of dividends.
- Inability to pay creditors on due dates.
- Inability to comply with the terms of loan agreements.
- Change from credit to cash-on-delivery transactions with suppliers.
- Inability to obtain financing for essential new product development or other essential investments.

Operating

- Management intentions to liquidate the entity or to cease operations.
- Loss of key management without replacement.
- Loss of a major market, key customer(s), franchise, license, or principal supplier(s).
- Labor difficulties.
- Shortages of important supplies.
- Emergence of a highly successful competitor.

Other

- Non-compliance with capital or other statutory or regulatory requirements, such as solvency or liquidity requirements for financial institutions.
- Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy.
- Changes in law or regulation or government policy expected to adversely affect the entity.

- Uninsured or underinsured catastrophes when they occur.

The significance of such events or conditions often can be mitigated by other factors. For example, the effect of an entity being unable to make its normal debt repayments may be counter-balanced by management's plans to maintain adequate cash flows by alternative means, such as by disposing of assets, rescheduling loan repayments, or obtaining additional capital. Similarly, the loss of a principal supplier may be mitigated by the availability of a suitable alternative source of supply.

A4. The risk assessment procedures required by paragraph 0 help the auditor to determine whether management's use of the going concern basis of accounting is likely to be an important issue and its impact on planning the audit. These procedures also allow for more timely discussions with management, including a discussion of management's plans and resolution of any identified going concern issues.

Considerations Specific to Smaller Entities (Ref: Para. 10)

A5. The size of an entity may affect its ability to withstand adverse conditions. Small entities may be able to respond quickly to exploit opportunities, but may lack reserves to sustain operations.

A6. Conditions of particular relevance to small entities include the risk that banks and other lenders may cease to support the entity, as well as the possible loss of a principal supplier, major customer, key employee, or the right to operate under a license, franchise or other legal agreement.

*Remaining Alert throughout the Audit for Audit Evidence about Events or Conditions* (Ref: Para. 11)

A7. SLAuS 315 (Revised) requires the auditor to revise the auditor's risk assessment and modify the further planned audit procedures accordingly when additional audit evidence is obtained during the course of the audit that affects the auditor's assessment of risk.[10] If events or conditions that may cast significant doubt on the entity's ability to continue as a going concern are identified after the auditor's risk assessments are made, in addition to performing the procedures in paragraph 16, the auditor's assessment of the risks of material misstatement may need to be revised. The existence of such events or conditions may also affect the nature, timing and extent of the auditor's further procedures in response to the assessed risks. SLAuS 330[11] establishes requirements and provides guidance on this issue.

Evaluating Management's Assessment

*Management's Assessment and Supporting Analysis and the Auditor's Evaluation* (Ref: Para. 12)

A8. Management's assessment of the entity's ability to continue as a going concern is a key part of the auditor's consideration of management's use of the going concern basis of accounting.

A9. It is not the auditor's responsibility to rectify the lack of analysis by management. In some circumstances, however, the lack of detailed analysis by management to support its assessment may not prevent the auditor from concluding whether management's use of the going concern basis of accounting is appropriate in the circumstances. For example, when there is a history of profitable operations and a ready access to financial resources, management may make its assessment without detailed analysis. In this case, the auditor's evaluation of the appropriateness of management's assessment may be made without performing detailed evaluation procedures if the auditor's other audit procedures are sufficient to enable the auditor to conclude

[10] SLAuS 315 (Revised), paragraph 31

[11] SLAuS 330, *The Auditor's Responses to Assessed Risks*

whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate in the circumstances.

A10. In other circumstances, evaluating management's assessment of the entity's ability to continue as a going concern, as required by paragraph 0, may include an evaluation of the process management followed to make its assessment, the assumptions on which the assessment is based and management's plans for future action and whether management's plans are feasible in the circumstances.

*The Period of Management's Assessment* (Ref: Para. 13)

A11. Most financial reporting frameworks requiring an explicit management assessment specify the period for which management is required to take into account all available information.[12]

*Considerations Specific to Smaller Entities* (Ref: Para. 12–13)

A12. In many cases, the management of smaller entities may not have prepared a detailed assessment of the entity's ability to continue as a going concern, but instead may rely on in-depth knowledge of the business and anticipated future prospects. Nevertheless, in accordance with the requirements of this SLAuS, the auditor needs to evaluate management's assessment of the entity's ability to continue as a going concern. For smaller entities, it may be appropriate to discuss the medium and long-term financing of the entity with management, provided that management's contentions can be corroborated by sufficient documentary evidence and are not inconsistent with the auditor's understanding of the entity. Therefore, the requirement in paragraph 0 for the auditor to request management to extend its assessment may, for example, be satisfied by discussion, inquiry and inspection of supporting documentation, for example, orders received for future supply, evaluated as to their feasibility or otherwise substantiated.

A13. Continued support by owner-managers is often important to smaller entity's ability to continue as a going concern. Where a small entity is largely financed by a loan from the owner-manager, it may be important that these funds are not withdrawn. For example, the continuance of a small entity in financial difficulty may be dependent on the owner-manager subordinating a loan to the entity in favor of banks or other creditors, or the owner-manager supporting a loan for the entity by providing a guarantee with his or her personal assets as collateral. In such circumstances, the auditor may obtain appropriate documentary evidence of the subordination of the owner-manager's loan or of the guarantee. Where an entity is dependent on additional support from the owner-manager, the auditor may evaluate the owner-manager's ability to meet the obligation under the support arrangement. In addition, the auditor may request written confirmation of the terms and conditions attaching to such support and the owner-manager's intention or understanding.

Period beyond Management's Assessment (Ref: Para. 15)

A14. As required by paragraph 0, the auditor remains alert to the possibility that there may be known events, scheduled or otherwise, or conditions that will occur beyond the period of assessment used by management that may bring into question the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements. Since the degree of uncertainty associated with the outcome of an event or condition increases as the event or condition is further into the future, in considering events or conditions further in the future, the indications of going concern issues need to be significant before the auditor needs to consider taking further action. If such events or conditions are identified, the auditor may need to request management to evaluate the potential significance of the event or condition on its assessment of the entity's ability to continue as a going concern. In these circumstances, the procedures in paragraph 16 apply.

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[12] For example, LKAS 1 defines this as a period that should be at least, but is not limited to, twelve months from the end of the reporting period.

A15. Other than inquiry of management, the auditor does not have a responsibility to perform any other audit procedures to identify events or conditions that may cast significant doubt on the entity's ability to continue as a going concern beyond the period assessed by management, which, as discussed in paragraph 0, would be at least twelve months from the date of the financial statements.

Additional Audit Procedures When Events or Conditions Are Identified (Ref: Para.16)

A16. Audit procedures that are relevant to the requirement in paragraph 16 may include the following:

- Analyzing and discussing cash flow, profit and other relevant forecasts with management.
- Analyzing and discussing the entity's latest available interim financial statements.
- Reading the terms of debentures and loan agreements and determining whether any have been breached.
- Reading minutes of the meetings of shareholders, those charged with governance and relevant committees for reference to financing difficulties.
- Inquiring of the entity's legal counsel regarding the existence of litigation and claims and the reasonableness of management's assessments of their outcome and the estimate of their financial implications.
- Confirming the existence, legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assessing the financial ability of such parties to provide additional funds.
- Evaluating the entity's plans to deal with unfilled customer orders.
- Performing audit procedures regarding subsequent events to identify those that either mitigate or otherwise affect the entity's ability to continue as a going concern.
- Confirming the existence, terms and adequacy of borrowing facilities.
- Obtaining and reviewing reports of regulatory actions.
- Determining the adequacy of support for any planned disposals of assets.

*Evaluating Management's Plans for Future Actions* (Ref: Para. 16(b))

A17. Evaluating management's plans for future actions may include inquiries of management as to its plans for future action, including, for example, its plans to liquidate assets, borrow money or restructure debt, reduce or delay expenditures, or increase capital.

*The Period of Management's Assessment* (Ref: Para. 16(c))

A18. In addition to the procedures required in paragraph 16(c), the auditor may compare:

- The prospective financial information for recent prior periods with historical results; and
- The prospective financial information for the current period with results achieved to date.

A19. Where management's assumptions include continued support by third parties, whether through the subordination of loans, commitments to maintain or provide additional funding, or guarantees, and such support is important to an entity's ability to continue as a going concern, the auditor may need to consider requesting written confirmation (including of terms and conditions) from those third parties and to obtain evidence of their ability to provide such support.

*Written Representations* (Ref: Para. 16(e))

A20. The auditor may consider it appropriate to obtain specific written representations beyond those required in paragraph 16 in support of audit evidence obtained regarding management's plans for future actions in relation to its going concern assessment and the feasibility of those plans.

Auditor Conclusions

***Material Uncertainty Related to Events or Conditions that May Cast Significant Doubt on the Entity's Ability to Continue as a Going Concern* (Ref: Para. 18)**

A21. The phrase "material uncertainty" is used in LKAS 1 in discussing the uncertainties related to events or conditions which may cast significant doubt on the entity's ability to continue as a going concern that should be disclosed in the financial statements. In some other financial reporting frameworks the phrase "significant uncertainty" is used in similar circumstances.

*Adequacy of Disclosure when Events or Conditions Have Been Identified and a Material Uncertainty Exists*

A22. Paragraph 18 explains that a material uncertainty exists when the magnitude of the potential impact of the events or conditions and the likelihood of occurrence is such that appropriate disclosure is necessary to achieve fair presentation (for fair presentation frameworks) or for the financial statements not to be misleading (for compliance frameworks). The auditor is required by paragraph 18 to conclude whether such a material uncertainty exists regardless of whether or how the applicable financial reporting framework defines a material uncertainty.

A23. Paragraph 19 requires the auditor to determine whether the financial statement disclosures address the matters set forth in that paragraph. This determination is in addition to the auditor determining whether disclosures about a material uncertainty, required by the applicable financial reporting framework, are adequate. Disclosures required by some financial reporting frameworks that are in addition to matters set forth in paragraph 19 may include disclosures about:

- Management's evaluation of the significance of the events or conditions relating to the entity's ability to meet its obligations; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

Some financial reporting frameworks may provide additional guidance regarding management's consideration of disclosures about the magnitude of the potential impact of the principal events or conditions, and the likelihood and timing of their occurrence.

*Adequacy of Disclosures When Events or Conditions Have Been Identified but No Material Uncertainty Exists* (Ref: Para. 20)

A24. Even when no material uncertainty exists, paragraph 20 requires the auditor to evaluate whether, in view of the requirements of the applicable financial reporting framework, the financial statements provide adequate disclosure about events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Some financial reporting frameworks may address disclosures about:

- Principal events or conditions;

- Management's evaluation of the significance of those events or conditions in relation to the entity's ability to meet its obligations;
- Management's plans that mitigate the effect of these events or conditions; or
- Significant judgments made by management as part of its assessment of the entity's ability to continue as a going concern.

A25. When the financial statements are prepared in accordance with a fair presentation framework, the auditor's evaluation as to whether the financial statements achieve fair presentation includes the consideration of the overall presentation, structure and content of the financial statements, and whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation.[13] Depending on the facts and circumstances, the auditor may determine that additional disclosures are necessary to achieve fair presentation. This may be the case, for example, when events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern but, based on the audit evidence obtained, the auditor concludes that no material uncertainty exists, and no disclosures are explicitly required by the applicable financial reporting framework regarding these circumstances.

Implications for the Auditor's Report

*Use of Going Concern Basis of Accounting is Inappropriate* (Ref: Para. 21)

A26. If the financial statements have been prepared using the going concern basis of accounting but, in the auditor's judgment, management's use of the going concern basis of accounting in the financial statements is inappropriate, the requirement in paragraph 21 for the auditor to express an adverse opinion applies regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting.

A27. When the use of the going concern basis of accounting is not appropriate in the circumstances, management may be required, or may elect, to prepare the financial statements on another basis (e.g., liquidation basis). The auditor may be able to perform an audit of those financial statements provided that the auditor determines that the other basis of accounting is acceptable in the circumstances. The auditor may be able to express an unmodified opinion on those financial statements, provided there is adequate disclosure therein about the basis of accounting on which the financial statements are prepared, but may consider it appropriate or necessary to include an Emphasis of Matter paragraph in accordance with SLAuS 706 (Revised)[14] in the auditor's report to draw the user's attention to that alternative basis of accounting and the reasons for its use.

*Use of the Going Concern Basis of Accounting Is Appropriate but a Material Uncertainty Exists* (Ref: Para. 22–23)

A28. The identification of a material uncertainty is a matter that is important to users' understanding of the financial statements. The use of a separate section with a heading that includes reference to the fact that a material uncertainty related to going concern exists alerts users to this circumstance.

[13] SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements,* paragraph 14

[14] SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

A29. The Appendix to this SLAuS provides illustrations of the statements that are required to be included in the auditor's report on the financial statements when Sri Lanka Accounting Standards (SLFRSs) is the applicable financial reporting framework. If an applicable financial reporting framework other than SLFRSs is used, the illustrative statements presented in the Appendix to this SLAuS may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

A30. Paragraph 22 establishes the minimum information required to be presented in the auditor's report in each of the circumstances described. The auditor may provide additional information to supplement the required statements, for example to explain:

- That the existence of a material uncertainty is fundamental to users' understanding of the financial statements;[15] or
- How the matter was addressed in the audit (see also paragraph A1).

Adequate Disclosure of a Material Uncertainty Is Made in the Financial Statements (Ref: Para. 22)

A31. Illustration 1 of the Appendix to this SLAuS is an example of an auditor's report when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of management's use of the going concern basis of accounting but a material uncertainty exists and disclosure is adequate in the financial statements. The Appendix of SLAuS 700 (Revised) also includes illustrative wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

Adequate Disclosure of a Material Uncertainty Is Not Made in the Financial Statements (Ref: Para. 23)

A32. Illustrations 2 and 3 of the Appendix to this SLAuS are examples of auditor's reports containing qualified and adverse opinions, respectively, when the auditor has obtained sufficient appropriate audit evidence regarding the appropriateness of the management's use of the going concern basis of accounting but adequate disclosure of a material uncertainty is not made in the financial statements.

A33. In situations involving multiple uncertainties that are significant to the financial statements as a whole, the auditor may consider it appropriate in extremely rare cases to express a disclaimer of opinion instead of including the statements required by paragraph 22. SLAuS 705 (Revised) provides guidance on this issue.[16]

Communication with Regulators (Ref: Para. 22–23)

A34. When the auditor of a regulated entity considers that it may be necessary to include a reference to going concern matters in the auditor's report, the auditor may have a duty to communicate with the applicable regulatory, enforcement or supervisory authorities.

Management Unwilling to Make or Extend Its Assessment (Ref: Para. 24)

A35. In certain circumstances, the auditor may believe it necessary to request management to make or extend its assessment. If management is unwilling to do so, a qualified opinion or a disclaimer of opinion in the auditor's report may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding management's use of the going concern basis of accounting in the preparation of the financial statements, such as audit evidence regarding the existence of plans management has put in place or the existence of other mitigating factors.

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[15] SLAuS 706 (Revised), paragraph A2

[16] SLAuS 705 (Revised), paragraph 10

Refer Sri Lanka Auditing Standard 700 (Revised) illustrative reports for localized report

## Appendix

(Ref: Para. A29, A31–A32)

**Illustrations of Auditor's Reports Relating to Going Concern**

- Illustration 1: An auditor's report containing an unmodified opinion when the auditor has concluded that a material uncertainty exists and disclosure in the financial statements is adequate.
- Illustration 2: An auditor's report containing a qualified opinion when the auditor has concluded that a material uncertainty exists and that the financial statements are materially misstated due to inadequate disclosure.
- Illustration 3: An auditor's report containing an adverse opinion when the auditor has concluded that a material uncertainty exists and the financial statements omit the required disclosures relating to a material uncertainty.

**Illustration 1 – Unmodified Opinion When a Material Uncertainty Exists and Disclosure in the Financial Statements Is Adequate**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600[1] does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.[2]**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit Comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. The disclosure of the material uncertainty in the financial statements is adequate.**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible**

1 SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

2 SLAuS 210, *Agreeing the Terms of Audit Engagements*

**for the preparation of the financial statements.**

- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[3]

**Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and Fair View of ( or Present fairly in all material respects) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka. (Code of Ethics)[4] and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Material Uncertainty Related to Going Concern**

We draw attention to Note XXX in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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[3] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[4] In the event, other ethical requirements for auditors are issued by any regulatory authority, reference should be made to such regulation.

[*Description of each key audit matter in accordance with SLAuS 701.*]

**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**
[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).*]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[5]
[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).[6]]

**Auditor's Responsibilities for the Audit of the Financial Statements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised)*.]

**Report on Other Legal and Regulatory Requirements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised)*.]
CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditor's report is [*number*].

[*Signature in the name of the audit firm,*]

[*Audit firm Address*]

[*Date*]

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5 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

6 Paragraphs 34 and 39 of SLAuS 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Illustration 2 – Qualified Opinion When a Material Uncertainty Exists and the Financial Statements Are Materially Misstated Due to Inadequate Disclosure**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka accounting standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The relevant ethical requirements that apply to the audit comprise the code of Ethics issued by CA Sri Lanka**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. Note yy to the financial statements discusses the magnitude of financing arrangements, the expiration and the total financing arrangements; however the financial statements do not include discussion on the impact or the availability of refinancing or characterize this situation as a material uncertainty.**
- **The financial statements are materially misstated due to the inadequate disclosure of the material uncertainty. A qualified opinion is being expressed because the auditor concluded that the effects on the financial statements of this inadequate disclosure are material but not pervasive to the financial statements.**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements[7]**

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

[7] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title " Report on Other Legal and Requirement" is not applicable.

In our opinion, except for the incomplete disclosure of the information referred to in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of (or present fairly in all material respects) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards .

**Basis for Qualified Opinion**

As discussed in Note yy, the Company's financing arrangements expire and amounts outstanding are payable on March 19, 20X2. The Company has been unable to conclude re-negotiations or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this matter.
We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (code of Ethics)[8] and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 6 in Appendix 2 of SLAuS 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.*]

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.
[*Descriptions of each key audit matter in accordance with SLAuS 701.*]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[9]

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).* [10]]

**Auditor's Responsibilities for the Audit of the Financial Statements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

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8 In the event, other ethical requirements for auditors are issued by any regulatory authorities reference should be made to such regulations.

9 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

10 Paragraphs 34 and 39 of SLAuS 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Report on Other Legal and Regulatory Requirements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]
CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditor's report is [*number*].

[*Signature in the name of the audit firm*]

[*Audit firm Address*]

[*Date*]

**Illustration 3 – Adverse Opinion When a Material Uncertainty Exists and Is Not Disclosed in the Financial Statements**

**For purposes of the illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka accounting standards. (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The relevant ethical requirements that apply to the audit Comprise the Code of Ethics issued by CA Sri Lanka**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, and the Company is considering bankruptcy. The financial statements omit the required disclosures relating to the material uncertainty. An adverse opinion is being expressed because the effects on the financial statements of such omission are material and pervasive.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[11]

**Adverse Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not give a true and fair view of (or do not present fairly in all material respects) the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Adverse Opinion**

The Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X1. The Company has been unable to conclude re-negotiations or obtain replacement financing and is considering filing for bankruptcy. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka.( Code of Ethics)[12] and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 7 in Appendix 2 of SLAuS 720 (Revised). The last paragraph of the Other Information section in Illustration 7 would be customized to describe the specific matter giving rise to the adverse opinion that also affects the other information.*]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[13]

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).* [14]]

**Auditor's Responsibilities for the Audit of the Financial Statements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 3 in SLAuS 700 (Revised).*]

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11 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

12 In the event, other ethical requirements for auditors are issued by any regulatory authority, reference should be made to such regulation.

13 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

14 Paragraphs 34 and 39 of SLAuS 700 (Revised) require wording to be included in the auditor's report for all entities in relation to going concern to describe the respective responsibilities of those responsible for the financial statements and the auditor in relation to going concern.

**Report on Other Legal and Regulatory Requirements**
*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

[*Signature in the name of the audit firm*]

[*Auditor Address*]

[*Date*]

# SRI LANKA AUDITING STANDARD 610 (REVISED)

## USING THE WORK OF INTERNAL AUDITORS

(Effective for audits of financial statements for periods
ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 610 (Revised 2013), *Using the Work of Internal Auditors*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

## Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the external auditor's responsibilities if using the work of internal auditors. This includes (a) using the work of the internal audit function in obtaining audit evidence and (b) using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

2. This SLAuS does not apply if the entity does not have an internal audit function. (Ref: Para. A2)

3. If the entity has an internal audit function, the requirements in this SLAuS relating to using the work of that function do not apply if:

   (a) The responsibilities and activities of the function are not relevant to the audit; or

   (b) Based on the auditor's preliminary understanding of the function obtained as a result of procedures performed under SLAuS 315 (Revised),[1] the external auditor does not expect to use the work of the function in obtaining audit evidence.

   Nothing in this SLAuS requires the external auditor to use the work of the internal audit function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor; it remains a decision of the external auditor in establishing the overall audit strategy.

4. Furthermore, the requirements in this SLAuS relating to direct assistance do not apply if the external auditor does not plan to use internal auditors to provide direct assistance.

5. In some jurisdictions, the external auditor may be prohibited, or restricted to some extent, by law or regulation from using the work of the internal audit function or using internal auditors to provide direct assistance. The SLAuS do not override laws or regulations that govern an audit of financial statements.[2] Such prohibitions or restrictions will therefore not prevent the external auditor from complying with the SLAuS. (Ref: Para. A31)

## Relationship between SLAuS 315 (Revised) and SLAuS 610 (Revised 2013)

6. Many entities establish internal audit functions as part of their internal control and governance structures. The objectives and scope of an internal audit function, the nature of its responsibilities and its organizational status, including the function's authority and accountability, vary widely and depend on the size and structure of the entity and the requirements of management and, where applicable, those charged with governance.

7. SLAuS 315 (Revised) addresses how the knowledge and experience of the internal audit function can inform the external auditor's understanding of the entity and its environment and identification and assessment of risks of material misstatement. SLAuS 315 (Revised)[3] also explains how effective communication between the internal and external auditors also creates an environment in which the external auditor can be informed of significant matters that may affect the external auditor's work.

8. Depending on whether the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competency of the internal audit function, and whether the function applies a systematic and disciplined approach, the

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[1] SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

[2] SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph A57

[3] SLAuS 315 (Revised), paragraph A120

external auditor may also be able to use the work of the internal audit function in a constructive and complementary manner. This SLAuS addresses the external auditor's responsibilities when, based on the external auditor's preliminary understanding of the internal audit function obtained as a result of procedures performed under SLAuS 315 (Revised), the external auditor expects to use the work of the internal audit function as part of the audit evidence obtained.[4] Such use of that work modifies the nature or timing, or reduces the extent, of audit procedures to be performed directly by the external auditor.

9. In addition, this SLAuS also addresses the external auditor's responsibilities if considering using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor.

10. There may be individuals in an entity that perform procedures similar to those performed by an internal audit function. However, unless performed by an objective and competent function that applies a systematic and disciplined approach, including quality control, such procedures would be considered internal controls and obtaining evidence regarding the effectiveness of such controls would be part of the auditor's responses to assessed risks in accordance with SLAuS 330.[5]

**The External Auditor's Responsibility for the Audit**

11. The external auditor has sole responsibility for the audit opinion expressed, and that responsibility is not reduced by the external auditor's use of the work of the internal audit function or internal auditors to provide direct assistance on the engagement. Although they may perform audit procedures similar to those performed by the external auditor, neither the internal audit function nor the internal auditors are independent of the entity as is required of the external auditor in an audit of financial statements in accordance with SLAuS 200.[6] This SLAuS, therefore, defines the conditions that are necessary for the external auditor to be able to use the work of internal auditors. It also defines the necessary work effort to obtain sufficient appropriate evidence that the work of the internal audit function, or internal auditors providing direct assistance, is adequate for the purposes of the audit. The requirements are designed to provide a framework for the external auditor's judgments regarding the use of the work of internal auditors to prevent over or undue use of such work.

**Effective Date**

12. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

**Objectives**

13. The objectives of the external auditor, where the entity has an internal audit function and the external auditor expects to use the work of the function to modify the nature or timing, or reduce the extent, of audit procedures to be performed directly by the external auditor, or to use internal auditors to provide direct assistance, are:

    (a) To determine whether the work of the internal audit function or direct assistance from internal auditors can be used, and if so, in which areas and to what extent;

    and having made that determination:

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[4] See paragraphs 15–25.

[5] SLAuS 330, *The Auditor's Responses to Assessed Risks*

[6] SLAuS 200, paragraph 14

(b) If using the work of the internal audit function, to determine whether that work is adequate for purposes of the audit; and

(c) If using internal auditors to provide direct assistance, to appropriately direct, supervise and review their work.

**Definitions**

14. For purposes of the SLAuS, the following terms have the meanings attributed below:

(a) Internal audit function – A function of an entity that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management and internal control processes. (Ref: Para. A1–A4)

(b) Direct assistance – The use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor.

## Requirements

**Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used**

*Evaluating the Internal Audit Function*

15. The external auditor shall determine whether the work of the internal audit function can be used for purposes of the audit by evaluating the following:

(a) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; (Ref: Para. A5–A9)

(b) The level of competence of the internal audit function; and (Ref: Para. A5–A9)

(c) Whether the internal audit function applies a systematic and disciplined approach, including quality control. (Ref: Para. A10–A11)

16. The external auditor shall not use the work of the internal audit function if the external auditor determines that:

(a) The function's organizational status and relevant policies and procedures do not adequately support the objectivity of internal auditors;

(b) The function lacks sufficient competence; or

(c) The function does not apply a systematic and disciplined approach, including quality control. (Ref: Para. A12–A14)

*Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used*

17. As a basis for determining the areas and the extent to which the work of the internal audit function can be used, the external auditor shall consider the nature and scope of the work that has been performed, or is planned to be performed, by the internal audit function and its relevance to the external auditor's overall audit strategy and audit plan. (Ref: Para. A15–A17)

18. The external auditor shall make all significant judgments in the audit engagement and, to prevent undue use of the work of the internal audit function, shall plan to use less of the work of the function and perform more of the work directly: (Ref: Para. A15–A17)

(a) The more judgment is involved in:

(i) Planning and performing relevant audit procedures; and

(ii) Evaluating the audit evidence gathered; (Ref: Para. A18–A19)

(b) The higher the assessed risk of material misstatement at the assertion level, with special consideration given to risks identified as significant; (Ref: Para. A20–A22)

(c) The less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors; and

(d) The lower the level of competence of the internal audit function.

19. The external auditor shall also evaluate whether, in aggregate, using the work of the internal audit function to the extent planned would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed. (Ref: Para. A15–A22)

20. The external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with SLAuS 260 (Revised),[7] communicate how the external auditor has planned to use the work of the internal audit function. (Ref: Para. A23)

**Using the Work of the Internal Audit Function**

21. If the external auditor plans to use the work of the internal audit function, the external auditor shall discuss the planned use of its work with the function as a basis for coordinating their respective activities. (Ref: Para. A24–A26)

22. The external auditor shall read the reports of the internal audit function relating to the work of the function that the external auditor plans to use to obtain an understanding of the nature and extent of audit procedures it performed and the related findings.

23. The external auditor shall perform sufficient audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use to determine its adequacy for purposes of the audit, including evaluating whether:

(a) The work of the function had been properly planned, performed, supervised, reviewed and documented;

(b) Sufficient appropriate evidence had been obtained to enable the function to draw reasonable conclusions; and

(c) Conclusions reached are appropriate in the circumstances and the reports prepared by the function are consistent with the results of the work performed. (Ref: Para. A27–A30)

24. The nature and extent of the external auditor's audit procedures shall be responsive to the external auditor's evaluation of:

(a) The amount of judgment involved;

(b) The assessed risk of material misstatement;

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[7] SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph 15

(c) The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; and

(d) The level of competence of the function;[8] (Ref: Para. A27–A29)

and shall include reperformance of some of the work. (Ref: Para. A30)

25. The external auditor shall also evaluate whether the external auditor's conclusions regarding the internal audit function in paragraph 15 of this SLAuS and the determination of the nature and extent of use of the work of the function for purposes of the audit in paragraphs 18–19 of this SLAuS remain appropriate.

**Determining Whether, in Which Areas, and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance**

*Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit*

26. The external auditor may be prohibited by law or regulation from obtaining direct assistance from internal auditors. If so, paragraphs 27–35 and 37 do not apply. (Ref: Para. A31)

27. If using internal auditors to provide direct assistance is not prohibited by law or regulation, and the external auditor plans to use internal auditors to provide direct assistance on the audit, the external auditor shall evaluate the existence and significance of threats to objectivity and the level of competence of the internal auditors who will be providing such assistance. The external auditor's evaluation of the existence and significance of threats to the internal auditors' objectivity shall include inquiry of the internal auditors regarding interests and relationships that may create a threat to their objectivity. (Ref: Para. A32–A34)

28. The external auditor shall not use an internal auditor to provide direct assistance if:

(a) There are significant threats to the objectivity of the internal auditor; or

(b) The internal auditor lacks sufficient competence to perform the proposed work. (Ref: Para. A32–A34)

*Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance*

29. In determining the nature and extent of work that may be assigned to internal auditors and the nature, timing and extent of direction, supervision and review that is appropriate in the circumstances, the external auditor shall consider:

(a) The amount of judgment involved in:

(i) Planning and performing relevant audit procedures; and

(ii) Evaluating the audit evidence gathered;

(b) The assessed risk of material misstatement; and

(c) The external auditor's evaluation of the existence and significance of threats to the objectivity and level of competence of the internal auditors who will be providing such assistance. (Ref: Para. A35–A39)

30. The external auditor shall not use internal auditors to provide direct assistance to perform procedures that:

(a) Involve making significant judgments in the audit; (Ref: Para. A19)

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[8] See paragraph 18.

(b) Relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited; (Ref: Para. A38)

(c) Relate to work with which the internal auditors have been involved and which has already been, or will be, reported to management or those charged with governance by the internal audit function; or

(d) Relate to decisions the external auditor makes in accordance with this SLAuS regarding the internal audit function and the use of its work or direct assistance. (Ref: Para. A35–A39)

31. Having appropriately evaluated whether and, if so, to what extent internal auditors can be used to provide direct assistance on the audit, the external auditor shall, in communicating with those charged with governance an overview of the planned scope and timing of the audit in accordance with SLAuS 260 (Revised),[9] communicate the nature and extent of the planned use of internal auditors to provide direct assistance so as to reach a mutual understanding that such use is not excessive in the circumstances of the engagement. (Ref: Para. A39)

32. The external auditor shall evaluate whether, in aggregate, using internal auditors to provide direct assistance to the extent planned, together with the planned use of the work of the internal audit function, would still result in the external auditor being sufficiently involved in the audit, given the external auditor's sole responsibility for the audit opinion expressed.

**Using Internal Auditors to Provide Direct Assistance**

33. Prior to using internal auditors to provide direct assistance for purposes of the audit, the external auditor shall:

(a) Obtain written agreement from an authorized representative of the entity that the internal auditors will be allowed to follow the external auditor's instructions, and that the entity will not intervene in the work the internal auditor performs for the external auditor; and

(b) Obtain written agreement from the internal auditors that they will keep confidential specific matters as instructed by the external auditor and inform the external auditor of any threat to their objectivity.

34. The external auditor shall direct, supervise and review the work performed by internal auditors on the engagement in accordance with SLAuS 220.[10] In so doing:

(a) The nature, timing and extent of direction, supervision, and review shall recognize that the internal auditors are not independent of the entity and be responsive to the outcome of the evaluation of the factors in paragraph 29 of this SLAuS; and

(b) The review procedures shall include the external auditor checking back to the underlying audit evidence for some of the work performed by the internal auditors.

The direction, supervision and review by the external auditor of the work performed by the internal auditors shall be sufficient in order for the external auditor to be satisfied that the internal auditors have obtained sufficient appropriate audit evidence to support the conclusions based on that work. (Ref: Para. A40–A41)

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9 SLAuS 260 (Revised), paragraph 15

10 SLAuS 220, *Quality Control for an Audit of Financial Statements*

35. In directing, supervising and reviewing the work performed by internal auditors, the external auditor shall remain alert for indications that the external auditor's evaluations in paragraph 27 are no longer appropriate.

**Documentation**

36. If the external auditor uses the work of the internal audit function, the external auditor shall include in the audit documentation:

(a) The evaluation of:

(i) Whether the function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors;

(ii) The level of competence of the function; and

(iii) Whether the function applies a systematic and disciplined approach, including quality control;

(b) The nature and extent of the work used and the basis for that decision; and

(c) The audit procedures performed by the external auditor to evaluate the adequacy of the work used.

37. If the external auditor uses internal auditors to provide direct assistance on the audit, the external auditor shall include in the audit documentation:

(a) The evaluation of the existence and significance of threats to the objectivity of the internal auditors, and the level of competence of the internal auditors used to provide direct assistance;

(b) The basis for the decision regarding the nature and extent of the work performed by the internal auditors;

(c) Who reviewed the work performed and the date and extent of that review in accordance with SLAuS 230;[11]

(d) The written agreements obtained from an authorized representative of the entity and the internal auditors under paragraph 33 of this SLAuS; and

(e) The working papers prepared by the internal auditors who provided direct assistance on the audit engagement.

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## Application and Other Explanatory Material

**Definition of Internal Audit Function** (Ref: Para. 2, 14(a))

A1. The objectives and scope of internal audit functions typically include assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance processes, risk management and internal control such as the following:

*Activities Relating to Governance*

- The internal audit function may assess the governance process in its accomplishment of objectives on ethics and values, performance management and accountability, communicating risk and control

[11] SLAuS 230, *Audit Documentation*

information to appropriate areas of the organization and effectiveness of communication among those charged with governance, external and internal auditors, and management.

*Activities Relating to Risk Management*

- The internal audit function may assist the entity by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and internal control (including effectiveness of the financial reporting process).
- The internal audit function may perform procedures to assist the entity in the detection of fraud.

*Activities Relating to Internal Control*

- Evaluation of internal control. The internal audit function may be assigned specific responsibility for reviewing controls, evaluating their operation and recommending improvements thereto. In doing so, the internal audit function provides assurance on the control. For example, the internal audit function might plan and perform tests or other procedures to provide assurance to management and those charged with governance regarding the design, implementation and operating effectiveness of internal control, including those controls that are relevant to the audit.
- Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, recognize, measure, classify and report financial and operating information, and to make specific inquiry into individual items, including detailed testing of transactions, balances and procedures.
- Review of operating activities. The internal audit function may be assigned to review the economy, efficiency and effectiveness of operating activities, including non-financial activities of an entity.
- Review of compliance with laws and regulations. The internal audit function may be assigned to review compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

A2. Activities similar to those performed by an internal audit function may be conducted by functions with other titles within an entity. Some or all of the activities of an internal audit function may also be outsourced to a third-party service provider. Neither the title of the function, nor whether it is performed by the entity or a third-party service provider, are sole determinants of whether or not the external auditor can use the work of the function. Rather, it is the nature of the activities; the extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors; competence; and systematic and disciplined approach of the function that are relevant. References in this SLAuS to the work of the internal audit function include relevant activities of other functions or third-party providers that have these characteristics.

A3. In addition, those in the entity with operational and managerial duties and responsibilities outside of the internal audit function would ordinarily face threats to their objectivity that would preclude them from being treated as part of an internal audit function for the purpose of this SLAuS, although they may perform control activities that can be tested in accordance with SLAuS 330.[12] For this reason, monitoring controls performed by an owner-manager would not be considered equivalent to an internal audit function.

[12] See paragraph 10.

A4. While the objectives of an entity's internal audit function and the external auditor differ, the function may perform audit procedures similar to those performed by the external auditor in an audit of financial statements. If so, the external auditor may make use of the function for purposes of the audit in one or more of the following ways:

- To obtain information that is relevant to the external auditor's assessments of the risks of material misstatement due to error or fraud. In this regard, SLAuS 315 (Revised)[13] requires the external auditor to obtain an understanding of the nature of the internal audit function's responsibilities, its status within the organization, and the activities performed, or to be performed, and make inquiries of appropriate individuals within the internal audit function (if the entity has such a function); or
- Unless prohibited, or restricted to some extent, by law or regulation, the external auditor, after appropriate evaluation, may decide to use work that has been performed by the internal audit function during the period in partial substitution for audit evidence to be obtained directly by the external auditor.[14]

In addition, unless prohibited, or restricted to some extent, by law or regulation, the external auditor may use internal auditors to perform audit procedures under the direction, supervision and review of the external auditor (referred to as "direct assistance" in this SLAuS).[15]

**Determining Whether, in Which Areas, and to What Extent the Work of the Internal Audit Function Can Be Used**

*Evaluating the Internal Audit Function*

Objectivity and Competence (Ref: Para. 15(a)–(b))

A5. The external auditor exercises professional judgment in determining whether the work of the internal audit function can be used for purposes of the audit, and the nature and extent to which the work of the internal audit function can be used in the circumstances.

A6. The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors and the level of competence of the function are particularly important in determining whether to use and, if so, the nature and extent of the use of the work of the function that is appropriate in the circumstances.

A7. Objectivity refers to the ability to perform those tasks without allowing bias, conflict of interest or undue influence of others to override professional judgments. Factors that may affect the external auditor's evaluation include the following:

- Whether the organizational status of the internal audit function, including the function's authority and accountability, supports the ability of the function to be free from bias, conflict of interest or undue influence of others to override professional judgments. For example, whether the internal audit function reports to those charged with governance or an officer with appropriate authority, or if the function reports to management, whether it has direct access to those charged with governance.
- Whether the internal audit function is free of any conflicting responsibilities, for example, having managerial or operational duties or responsibilities that are outside of the internal audit function.

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13 SLAuS 315 (Revised), paragraph 6(a)

14 See paragraphs 15–25.

15 See paragraphs 26–35.

- Whether those charged with governance oversee employment decisions related to the internal audit function, for example, determining the appropriate remuneration policy.
- Whether there are any constraints or restrictions placed on the internal audit function by management or those charged with governance, for example, in communicating the internal audit function's findings to the external auditor.
- Whether the internal auditors are members of relevant professional bodies and their memberships obligate their compliance with relevant professional standards relating to objectivity, or whether their internal policies achieve the same objectives.

A8. Competence of the internal audit function refers to the attainment and maintenance of knowledge and skills of the function as a whole at the level required to enable assigned tasks to be performed diligently and in accordance with applicable professional standards. Factors that may affect the external auditor's determination include the following:

- Whether the internal audit function is adequately and appropriately resourced relative to the size of the entity and the nature of its operations.
- Whether there are established policies for hiring, training and assigning internal auditors to internal audit engagements.
- Whether the internal auditors have adequate technical training and proficiency in auditing. Relevant criteria that may be considered by the external auditor in making the assessment may include, for example, the internal auditors' possession of a relevant professional designation and experience.
- Whether the internal auditors possess the required knowledge relating to the entity's financial reporting and the applicable financial reporting framework and whether the internal audit function possesses the necessary skills (for example, industry-specific knowledge) to perform work related to the entity's financial statements.
- Whether the internal auditors are members of relevant professional bodies that oblige them to comply with the relevant professional standards including continuing professional development requirements.

A9. Objectivity and competence may be viewed as a continuum. The more the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the higher the level of competence of the function, the more likely the external auditor may make use of the work of the function and in more areas. However, an organizational status and relevant policies and procedures that provide strong support for the objectivity of the internal auditors cannot compensate for the lack of sufficient competence of the internal audit function. Equally, a high level of competence of the internal audit function cannot compensate for an organizational status and policies and procedures that do not adequately support the objectivity of the internal auditors.

Application of a Systematic and Disciplined Approach (Ref: Para. 15(c))

A10. The application of a systematic and disciplined approach to planning, performing, supervising, reviewing and documenting its activities distinguishes the activities of the internal audit function from other monitoring control activities that may be performed within the entity.

A11. Factors that may affect the external auditor's determination of whether the internal audit function applies a systematic and disciplined approach include the following:

- The existence, adequacy and use of documented internal audit procedures or guidance covering such areas as risk assessments, work programs, documentation and reporting, the nature and extent of which is commensurate with the size and circumstances of an entity.
- Whether the internal audit function has appropriate quality control policies and procedures, for example, such as those policies and procedures in SLSQC 1[16] that would be applicable to an internal audit function (such as those relating to leadership, human resources and engagement performance) or quality control requirements in standards set by the relevant professional bodies for internal auditors. Such bodies may also establish other appropriate requirements such as conducting periodic external quality assessments.
- Circumstances When Work of the Internal Audit Function Cannot Be Used (Ref: Para. 16)

A12. The external auditor's evaluation of whether the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, the level of competence of the internal audit function, and whether it applies a systematic and disciplined approach may indicate that the risks to the quality of the work of the function are too significant and therefore it is not appropriate to use any of the work of the function as audit evidence.

A13. Consideration of the factors in paragraphs A7, A8 and A11 of this SLAuS individually and in aggregate is important because an individual factor is often not sufficient to conclude that the work of the internal audit function cannot be used for purposes of the audit. For example, the internal audit function's organizational status is particularly important in evaluating threats to the objectivity of the internal auditors. If the internal audit function reports to management, this would be considered a significant threat to the function's objectivity unless other factors such as those described in paragraph A7 of this SLAuS collectively provide sufficient safeguards to reduce the threat to an acceptable level.

A14. In addition, the CA Sri Lanka Code[17] states that a self-review threat is created when the external auditor accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the audit. This is because of the possibility that the engagement team will use the results of the internal audit service without properly evaluating those results or without exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The CA Sri Lanka Code[18] discusses the prohibitions that apply in certain circumstances and the safeguards that can be applied to reduce the threats to an acceptable level in other circumstances.

*Determining the Nature and Extent of Work of the Internal Audit Function that Can Be Used*

Factors Affecting the Determination of the Nature and Extent of the Work of the Internal Audit Function that Can Be Used (Ref: Para. 17–19)

A15. Once the external auditor has determined that the work of the internal audit function can be used for purposes of the audit, a first consideration is whether the planned nature and scope of the work of the internal audit function that has been performed, or is planned to be performed, is relevant to the

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16 Sri Lanka Standard on Quality Control (SLSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

17 The *Code of Ethics for Professional Accountants* (CA Sri Lanka Code), Section 290.194

18 CA Sri Lanka Code, Section 290.190–290.195

overall audit strategy and audit plan that the external auditor has established in accordance with SLAuS 300.[19]

A16. Examples of work of the internal audit function that can be used by the external auditor include the following:

- Testing of the operating effectiveness of controls.
- Substantive procedures involving limited judgment.
- Observations of inventory counts.
- Tracing transactions through the information system relevant to financial reporting.
- Testing of compliance with regulatory requirements.

In some circumstances, audits or reviews of the financial information of subsidiaries that are not significant components to the group (where this does not conflict with the requirements of SLAuS 600).[20]

A17. The external auditor's determination of the planned nature and extent of use of the work of the internal audit function will be influenced by the external auditor's evaluation of the extent to which the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors and the level of competence of the internal audit function in paragraph 18 of this SLAuS. In addition, the amount of judgment needed in planning, performing and evaluating such work and the assessed risk of material misstatement at the assertion level are inputs to the external auditor's determination. Further, there are circumstances in which the external auditor cannot use the work of the internal audit function for purpose of the audit as described in paragraph 16 of this SLAuS.

Judgments in planning and performing audit procedures and evaluating results (Ref: Para. 18(a), 30(a))

A18. The greater the judgment needed to be exercised in planning and performing the audit procedures and evaluating the audit evidence, the external auditor will need to perform more procedures directly in accordance with paragraph 18 of this SLAuS, because using the work of the internal audit function alone will not provide the external auditor with sufficient appropriate audit evidence.

A19. Since the external auditor has sole responsibility for the audit opinion expressed, the external auditor needs to make the significant judgments in the audit engagement in accordance with paragraph 18. Significant judgments include the following:

- Assessing the risks of material misstatement;
- Evaluating the sufficiency of tests performed;
- Evaluating the appropriateness of management's use of the going concern assumption;
- Evaluating significant accounting estimates; and
- Evaluating the adequacy of disclosures in the financial statements, and other matters affecting the auditor's report.

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19 SLAuS 300, *Planning an Audit of Financial Statements*

20 SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

Assessed risk of material misstatement (Ref: Para. 18(b))

A20. For a particular account balance, class of transaction or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In such circumstances, the external auditor will need to perform more procedures directly in accordance with paragraph 18 of this SLAuS, and accordingly, make less use of the work of the internal audit function in obtaining sufficient appropriate audit evidence. Furthermore, as explained in SLAuS 200,[21] the higher the assessed risks of material misstatement, the more persuasive the audit evidence required by the external auditor will need to be, and, therefore, the external auditor will need to perform more of the work directly.

A21. As explained in SLAuS 315 (Revised),[22] significant risks require special audit consideration and therefore the external auditor's ability to use the work of the internal audit function in relation to significant risks will be restricted to procedures that involve limited judgment. In addition, where the risks of material misstatement is other than low, the use of the work of the internal audit function alone is unlikely to reduce audit risk to an acceptably low level and eliminate the need for the external auditor to perform some tests directly.

A22. Carrying out procedures in accordance with this SLAuS may cause the external auditor to reevaluate the external auditor's assessment of the risks of material misstatement. Consequently, this may affect the external auditor's determination of whether to use the work of the internal audit function and whether further application of this SLAuS is necessary.

Communication with Those Charged with Governance (Ref: Para. 20)

A23. In accordance with SLAuS 260 (Revised),[23] the external auditor is required to communicate with those charged with governance an overview of the planned scope and timing of the audit. The planned use of the work of the internal audit function is an integral part of the external auditor's overall audit strategy and is therefore relevant to those charged with governance for their understanding of the proposed audit approach.

**Using the Work of the Internal Audit Function**

*Discussion and Coordination with the Internal Audit Function* (Ref: Para. 21)

A24. In discussing the planned use of their work with the internal audit function as a basis for coordinating the respective activities, it may be useful to address the following:

- The timing of such work.
- The nature of the work performed.
- The extent of audit coverage.
- Materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures), and performance materiality.
- Proposed methods of item selection and sample sizes.
- Documentation of the work performed.
- Review and reporting procedures.

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21 SLAuS 200, paragraph A31

22 SLAuS 315 (Revised), paragraph 4(e)

23 SLAuS 260 (Revised), paragraph 15

A25. Coordination between the external auditor and the internal audit function is effective when, for example:

- Discussions take place at appropriate intervals throughout the period.
- The external auditor informs the internal audit function of significant matters that may affect the function.
- The external auditor is advised of and has access to relevant reports of the internal audit function and is informed of any significant matters that come to the attention of the function when such matters may affect the work of the external auditor so that the external auditor is able to consider the implications of such matters for the audit engagement.

A26. SLAuS 200[24] discusses the importance of the auditor planning and performing the audit with professional skepticism, including being alert to information that brings into question the reliability of documents and responses to inquiries to be used as audit evidence. Accordingly, communication with the internal audit function throughout the engagement may provide opportunities for internal auditors to bring matters that may affect the work of the external auditor to the external auditor's attention.[25] The external auditor is then able to take such information into account in the external auditor's identification and assessment of risks of material misstatement. In addition, if such information may be indicative of a heightened risk of a material misstatement of the financial statements or may be regarding any actual, suspected or alleged fraud, the external auditor can take this into account in the external auditor's identification of risk of material misstatement due to fraud in accordance with SLAuS 240.[26]

*Procedures to Determine the Adequacy of Work of the Internal Audit Function* (Ref: Para. 23–24)

A27. The external auditor's audit procedures on the body of work of the internal audit function as a whole that the external auditor plans to use provide a basis for evaluating the overall quality of the function's work and the objectivity with which it has been performed.

A28. The procedures the external auditor may perform to evaluate the quality of the work performed and the conclusions reached by the internal audit function, in addition to reperformance in accordance with paragraph 24, include the following:

- Making inquiries of appropriate individuals within the internal audit function.
- Observing procedures performed by the internal audit function.
- Reviewing the internal audit function's work program and working papers.

A29. The more judgment involved, the higher the assessed risk of material misstatement, the less the internal audit function's organizational status and relevant policies and procedures adequately support the objectivity of the internal auditors, or the lower the level of competence of the internal audit function, the more audit procedures are needed to be performed by the external auditor on the overall body of work of the function to support the decision to use the work of the function in obtaining sufficient appropriate audit evidence on which to base the audit opinion.

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24 SLAuS 200, paragraphs 15 and A20

25 SLAuS 315 (Revised), paragraph A120

26 SLAuS 315 (Revised), paragraph A11 in relation to SLAuS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

A30. For purposes of this SLAuS, reperformance involves the external auditor's independent execution of procedures to validate the conclusions reached by the internal audit function. This objective may be accomplished by examining items already examined by the internal audit function or, where it is not possible to do so, the same objective may also be accomplished by examining sufficient other similar items not actually examined by the internal audit function. Reperformance provides more persuasive evidence regarding the adequacy of the work of the internal audit function compared to other procedures the external auditor may perform in paragraph A28. While it is not necessary for the external auditor to do reperformance in each area of work of the internal audit function that is being used, some reperformance is required on the body of work of the internal audit function as a whole that the external auditor plans to use in accordance with paragraph 24. The external auditor is more likely to focus reperformance in those areas where more judgment was exercised by the internal audit function in planning, performing and evaluating the results of the audit procedures and in areas of higher risk of material misstatement.

**Determining Whether, in Which Areas and to What Extent Internal Auditors Can Be Used to Provide Direct Assistance**

*Determining Whether Internal Auditors Can Be Used to Provide Direct Assistance for Purposes of the Audit* (Ref: Para. 5, 26–28)

A31. In jurisdictions where the external auditor is prohibited by law or regulation from using internal auditors to provide direct assistance, it is relevant for the group auditors to consider whether the prohibition also extends to component auditors and, if so, to address this in the communication to the component auditors.[27]

A32. As stated in paragraph A7 of this SLAuS, objectivity refers to the ability to perform the proposed work without allowing bias, conflict of interest or undue influence of others to override professional judgments. In evaluating the existence and significance of threats to the objectivity of an internal auditor, the following factors may be relevant:

- The extent to which the internal audit function's organizational status and relevant policies and procedures support the objectivity of the internal auditors.[28]
- Family and personal relationships with an individual working in, or responsible for, the aspect of the entity to which the work relates.
- Association with the division or department in the entity to which the work relates.
- Significant financial interests in the entity other than remuneration on terms consistent with those applicable to other employees at a similar level of seniority.

Material issued by relevant professional bodies for internal auditors may provide additional useful guidance.

A33. There may also be some circumstances in which the significance of the threats to the objectivity of an internal auditor is such that there are no safeguards that could reduce them to an acceptable level. For example, because the adequacy of safeguards is influenced by the significance of the work in the context of the audit, paragraph 30 (a) and (b) prohibits the use of internal auditors to provide direct assistance in relation to performing procedures that involve making significant judgments in the audit or that relate to higher assessed risks of material misstatement where the judgment required in performing the relevant audit procedures or evaluating the audit evidence gathered is more than limited. This would also be the case where the work involved creates a self-review threat, which is why internal auditors are prohibited from performing procedures in the circumstances described in paragraph 30 (c) and (d).

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[27] SLAuS 600, paragraph 40(b)

[28] See paragraph A7.

A34. In evaluating the level of competence of an internal auditor, many of the factors in paragraph A8 of this SLAuS may also be relevant, applied in the context of individual internal auditors and the work to which they may be assigned.

*Determining the Nature and Extent of Work that Can Be Assigned to Internal Auditors Providing Direct Assistance* (Ref: Para. 29–31)

A35. Paragraphs A15–A22 of this SLAuS provide relevant guidance in determining the nature and extent of work that may be assigned to internal auditors.

A36. In determining the nature of work that may be assigned to internal auditors, the external auditor is careful to limit such work to those areas that would be appropriate to be assigned. Examples of activities and tasks that would not be appropriate to use internal auditors to provide direct assistance include the following:

- Discussion of fraud risks. However, the external auditors may make inquiries of internal auditors about fraud risks in the organization in accordance with SLAuS 315 (Revised).[29]
- Determination of unannounced audit procedures as addressed in SLAuS 240.

A37. Similarly, since in accordance with SLAuS 505[30] the external auditor is required to maintain control over external confirmation requests and evaluate the results of external confirmation procedures, it would not be appropriate to assign these responsibilities to internal auditors. However, internal auditors may assist in assembling information necessary for the external auditor to resolve exceptions in confirmation responses.

A38. The amount of judgment involved and the risk of material misstatement are also relevant in determining the work that may be assigned to internal auditors providing direct assistance. For example, in circumstances where the valuation of accounts receivable is assessed as an area of higher risk, the external auditor could assign the checking of the accuracy of the aging to an internal auditor providing direct assistance. However, because the evaluation of the adequacy of the provision based on the aging would involve more than limited judgment, it would not be appropriate to assign that latter procedure to an internal auditor providing direct assistance.

A39. Notwithstanding the direction, supervision and review by the external auditor, excessive use of internal auditors to provide direct assistance may affect perceptions regarding the independence of the external audit engagement.

**Using Internal Auditors to Provide Direct Assistance** (Ref: Para. 34)

A40. As individuals in the internal audit function are not independent of the entity as is required of the external auditor when expressing an opinion on financial statements, the external auditor's direction, supervision and review of the work performed by internal auditors providing direct assistance will generally be of a different nature and more extensive than if members of the engagement team perform the work.

A41. In directing the internal auditors, the external auditor may, for example, remind the internal auditors to bring accounting and auditing issues identified during the audit to the attention of the external auditor. In reviewing the work performed by the internal auditors, the external auditor's considerations include whether the evidence obtained is sufficient and appropriate in the circumstances, and that it supports the conclusions reached.

[29] SLAuS 315 (Revised), paragraph 6(a)

[30] SLAuS 505, *External Confirmations*, paragraphs 7 and 16

# SRI LANKA AUDITING STANDARD 700 (REVISED)

# FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS

(Effective for audits of financial statements for periods ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

2. SLAuS 701[1] deals with the auditor's responsibility to communicate key audit matters in the auditor's report. SLAuS 705[2] (Revised) and SLAuS 706 (Revised)[3] deal with how the form and content of the auditor's report are affected when the auditor expresses a modified opinion or includes an Emphasis of Matter paragraph or an Other Matter paragraph in the auditor's report. Other SLAuSs also contain reporting requirements that are applicable when issuing an auditor's report.

3. This SLAuS applies to an audit of a complete set of general purpose financial statements and is written in that context. SLAuS 800 (Revised)[4] deals with special considerations when financial statements are prepared in accordance with a special purpose framework. SLAuS 805 (Revised)[5] deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement. This SLAuS also applies to audits for which SLAuS 800 (Revised) or SLAuS 805 (Revised) apply.

4. The requirements of this SLAuS are aimed at addressing an appropriate balance between the need for consistency and comparability in auditor reporting globally and the need to increase the value of auditor reporting by making the information provided in the auditor's report more relevant to users. This SLAuS promotes consistency in the auditor's report, but recognizes the need for flexibility to accommodate particular circumstances of individual jurisdictions. Consistency in the auditor's report, when the audit has been conducted in accordance with SLAuSs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. It also helps to promote the user's understanding and to identify unusual circumstances when they occur.

# Effective Date

5. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

# Objectives

6. The objectives of the auditor are:

    (a) To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and

    (b) To express clearly that opinion through a written report.

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1 SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
2 SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
3 SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*
4 SLAuS 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
5 SLAuS 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

## Definitions

7. For purposes of the SLAuSs, the following terms have the meanings attributed below:

   (a) General purpose financial statements – Financial statements prepared in accordance with a general purpose framework.

   (b) General purpose framework – A financial reporting framework designed to meet the common financial information needs of a wide range of users. The financial reporting framework may be a fair presentation framework or a compliance framework.

   The term "fair presentation framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

   (i) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

   (ii) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

   The term "compliance framework" is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (i) or (ii) above.[6]

   (c) Unmodified opinion – The opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.[7]

8. Reference to "financial statements" in this SLAuS means "a complete set of general purpose financial statements."[8] The requirements of the applicable financial reporting framework determine the presentation, structure and content of the financial statements, and what constitutes a complete set of financial statements.

9. Reference to "Sri Lanka Accounting Standards" in this SLAuS means the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountant of Sri Lanka, and reference to "Sri Lanka Public Sector Accounting Standards" means the Sri Lanka Public Sector Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka.

## Requirements

### Forming an Opinion on the Financial Statements

10. The auditor shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.[9,10]

6 SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 13(a)

7 Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

8 SLAuS 200, paragraph 13(f) sets out the content of financial statements.

9 SLAuS 200, paragraph 11

10 Paragraphs 25–26 deal with the phrases used to express this opinion in the case of a fair presentation framework and a compliance framework respectively.

11. In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

    (a) The auditor's conclusion, in accordance with SLAuS 330, whether sufficient appropriate audit evidence has been obtained;[11]

    (b) The auditor's conclusion, in accordance with SLAuS 450, whether uncorrected misstatements are material, individually or in aggregate;[12] and

    (c) The evaluations required by paragraphs 12–15.

12. The auditor shall evaluate whether the financial statements are prepared, in all material respects, in accordance with the requirements of the applicable financial reporting framework. This evaluation shall include consideration of the qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgments. (Ref: Para. A1–A3)

13. In particular, the auditor shall evaluate whether, in view of the requirements of the applicable financial reporting framework:

    (a) The financial statements appropriately disclose the significant accounting policies selected and applied. In making this evaluation, the auditor shall consider the relevance of the accounting policies to the entity, and whether they have been presented in an understandable manner; (Ref: Para. A4)

    (b) The accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate;

    (c) The accounting estimates made by management are reasonable;

    (d) The information presented in the financial statements is relevant, reliable, comparable, and understandable. In making this evaluation, the auditor shall consider whether:

    - The information that should have been included has been included, and whether such information is appropriately classified, aggregated or disaggregated, and characterized.

    - The overall presentation of the financial statements has been undermined by including information that is not relevant or that obscures a proper understanding of the matters disclosed. (Ref: Para. A5)

    (e) The financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements; and (Ref: Para. A6)

    (f) The terminology used in the financial statements, including the title of each financial statement, is appropriate.

14. When the financial statements are prepared in accordance with a fair presentation framework, the evaluation required by paragraphs 12–13 shall also include whether the financial statements achieve fair presentation. The auditor's evaluation as to whether the financial statements achieve fair presentation shall include consideration of: (Ref: Para A7–A9)

    (a) The overall presentation, structure and content of the financial statements; and

[11] SLAuS 330, *The Auditor's Responses to Assessed Risks*, paragraph 26

[12] SLAuS 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

(b) Whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

15. The auditor shall evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework. (Ref: Para. A10–A15)

## Form of Opinion

16. The auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

17. If the auditor:
   (a) Concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
   (b) Is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement,

   the auditor shall modify the opinion in the auditor's report in accordance with SLAuS 705 (Revised).

18. If financial statements prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor's report in accordance with SLAuS 705 (Revised). (Ref: Para. A16)

19. When the financial statements are prepared in accordance with a compliance framework, the auditor is not required to evaluate whether the financial statements achieve fair presentation. However, if in extremely rare circumstances the auditor concludes that such financial statements are misleading, the auditor shall discuss the matter with management and, depending on how it is resolved, shall determine whether, and how, to communicate it in the auditor's report. (Ref: Para. A17)

### Auditor's Report

20. The auditor's report shall be in writing. (Ref: Para. A18–A19)

***Auditor's Report for Audits Conducted in Accordance with Sri Lanka Auditing Standards***

Title

21. The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. (Ref: Para. A20)

Addressee

22. The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. (Ref: Para. A21)

Auditor's Opinion

23. The first section of the auditor's report shall include the auditor's opinion, and shall have the heading "Opinion."

24. The Opinion section of the auditor's report shall also:

(a) Identify the entity whose financial statements have been audited;

(b) State that the financial statements have been audited;

(c) Identify the title of each statement comprising the financial statements;

(d) Refer to the notes, including the summary of significant accounting policies; and

(e) Specify the date of, or period covered by, each financial statement comprising the financial statements. (Ref: Para. A22–A23)

25. When expressing an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases, which are regarded as being equivalent:

(a) In our opinion, the accompanying financial statements present fairly, in all material respects, […] in accordance with [the applicable financial reporting framework]; or

(b) In our opinion, the accompanying financial statements give a true and fair view of […] in accordance with [the applicable financial reporting framework]. (Ref: Para. A24–A31)

26. When expressing an unmodified opinion on financial statements prepared in accordance with a compliance framework, the auditor's opinion shall be that the accompanying financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework]. (Ref: Para. A26–A31)

27. If the reference to the applicable financial reporting framework in the auditor's opinion is not to Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka or Sri Lanka Public Sector Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, the auditor's opinion shall identify the jurisdiction of origin of the framework.

Basis for Opinion

28. The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that: (Ref: Para. A32)

(a) States that the audit was conducted in accordance with Sri Lanka Auditing Standards; (Ref: Para. A33)

(b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the SLAuSs;

(c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the *Code of Ethics for Professional Accountants* (CA Sri Lanka Code); and (Ref: Para. A34–A39)

(d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

Going Concern

29. Where applicable, the auditor shall report in accordance with SLAuS 570 (Revised).[13]

Key Audit Matters

30. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with SLAuS 701.

31. When the auditor is otherwise required by law or regulation or decides to communicate key audit matters in the auditor's report, the auditor shall do so in accordance with SLAuS 701. (Ref: Para. A40–A42)

Other Information

32. Where applicable, the auditor shall report in accordance with SLAuS 720 (Revised).[14]

Responsibilities for the Financial Statements

33. The auditor's report shall include a section with a heading "Responsibilities of Management for the Financial Statements." The auditor's report shall use the term that is appropriate in the context of the legal framework in the particular jurisdiction and need not refer specifically to "management". In some jurisdictions, the appropriate reference may be to those charged with governance. (Ref: Para. A44)

34. This section of the auditor's report shall describe management's responsibility for: (Ref: Para. A45–A48)

    (a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and

    (b) Assessing the entity's ability to continue as a going concern[15] and whether the use of the going concern basis of accounting is appropriate as well as disclosing, if applicable, matters relating to going concern. The explanation of management's responsibility for this assessment shall include a description of when the use of the going concern basis of accounting is appropriate. (Ref: Para. A48)

35. This section of the auditor's report shall also identify those responsible for the oversight of the financial reporting process, when those responsible for such oversight are different from those who fulfill the responsibilities described in paragraph 34 above. In this case, the heading of this section shall also refer to "Those Charged with Governance" or such term that is appropriate in the context of the legal framework in the particular jurisdiction. (Ref: Para. A49)

36. When the financial statements are prepared in accordance with a fair presentation framework, the description of responsibilities for the financial statements in the auditor's report shall refer to "the preparation and fair presentation of these financial statements" or "the preparation of financial statements that give a true and fair view," as appropriate in the circumstances.

## Auditor's Responsibilities for the Audit of the Financial Statements

37. The auditor's report shall include a section with the heading "Auditor's Responsibilities for the Audit of the Financial Statements."

38. This section of the auditor's report shall: (Ref: Para. A50)

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[13] SLAuS 570 (Revised), *Going Concern*, paragraphs 21–23
[14] SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*
[15] SLAuS 570 (Revised), paragraph 2

(a) State that the objectives of the auditor are to:

(i) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and

(ii) Issue an auditor's report that includes the auditor's opinion. (Ref: Para. A51)

(b) State that reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists; and

(c) State that misstatements can arise from fraud or error, and either:

(i) Describe that they are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements;[16] or

(ii) Provide a definition or description of materiality in accordance with the applicable financial reporting framework. (Ref: Para. A53)

39. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report shall further: (Ref: Para. A50)

(a) State that, as part of an audit in accordance with SLAuSs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit; and

(b) Describe an audit by stating that the auditor's responsibilities are:

(i) To identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; to design and perform audit procedures responsive to those risks; and to obtain audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(ii) To obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. In circumstances when the auditor also has a responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements, the auditor shall omit the phrase that the auditor's consideration of internal control is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

(iii) To evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

(iv) To conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the

[16] SLAuS 320, *Materiality in Planning and Performing an Audit,* paragraph 2

auditor is required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. The auditor's conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

(v) When the financial statements are prepared in accordance with a fair presentation framework, to evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(c) When SLAuS 600[17] applies, further describe the auditor's responsibilities in a group audit engagement by stating that:

(i) The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the group financial statements;

(ii) The auditor is responsible for the direction, supervision and performance of the group audit; and

(iii) The auditor remains solely responsible for the auditor's opinion.

40. The Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report also shall: (Ref: Para. A50)

(a) State that the auditor communicates with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that the auditor identifies during the audit;

(b) For audits of financial statements of listed entities, state that the auditor provides those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicates with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, related safeguards; and

(c) For audits of financial statements of listed entities and any other entities for which key audit matters are communicated in accordance with SLAuS 701, state that, from the matters communicated with those charged with governance, the auditor determines those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. The auditor describes these matters in the auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, the auditor determines that a matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. (Ref: Para. A53)

**Location of the description of the auditor's responsibilities for the audit of the financial statements**

41. The description of the auditor's responsibilities for the audit of the financial statements required by paragraphs 39–40 shall be included: (Ref: Para. A54)

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[17] SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

(a) Within the body of the auditor's report;

(b) Within an appendix to the auditor's report, in which case the auditor's report shall include a reference to the location of the appendix; or (Ref: Para. A55–A57)

(c) By a specific reference within the auditor's report to the location of such a description on a website of an appropriate authority, where law, regulation or Sri Lanka Auditing Standards expressly permit the auditor to do so. (Ref: Para. A54, A56–A57)

42. When the auditor refers to a description of the auditor's responsibilities on a website of an appropriate authority, the auditor shall determine that such description addresses, and is not inconsistent with, the requirements in paragraphs 39–40 of this SLAuS. (Ref: Para. A56)

## Other Reporting Responsibilities

43. If the auditor addresses other reporting responsibilities in the auditor's report on the financial statements that are in addition to the auditor's responsibilities under the SLAuSs, these other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements" or otherwise as appropriate to the content of the section, unless these other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the SLAuSs in which case the other reporting responsibilities may be presented in the same section as the related report elements required by the SLAuSs. (Ref: Para. A58–A60)

44. If other reporting responsibilities are presented in the same section as the related report elements required by the SLAuSs, the auditor's report shall clearly differentiate the other reporting responsibilities from the reporting that is required by the SLAuSs. (Ref: Para. A60)

45. If the auditor's report contains a separate section that addresses other reporting responsibilities, the requirements of paragraphs 21–40 of this SLAuS shall be included under a section with a heading "Report on the Audit of the Financial Statements." The "Report on Other Legal and Regulatory Requirements" shall follow the "Report on the Audit of the Financial Statements." (Ref: Para. A60)

### CA Sri Lanka Membership Number of the Engagement Partner

46. The CA Sri Lanka membership number of the engagement partner shall be included in the auditor's report on financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat. In the rare circumstances that the auditor intends not to include the CA Sri Lanka membership number of the engagement partner in the auditor's report, the auditor shall discuss this intention with those charged with governance to inform the auditor's assessment of the likelihood and severity of a significant personal security threat. (Ref: Para. A61–A63)

## Signature of the Auditor

47. The auditor's report shall be signed. (Ref: Para. A64–A65)

### Auditor's Address

48. The auditor's report shall name the location in the jurisdiction where the auditor practices.

## Date of the Auditor's Report

49. The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that: (Ref: Para. A66–A69)

    (i) All the statements and disclosures that comprise the financial statements have been prepared; and

    (ii) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.

### *Auditor's Report Prescribed by Law or Regulation*

50. If the auditor is required by law or regulation of a specific jurisdiction to use a specific layout, or wording of the auditor's report, the auditor's report shall refer to Sri Lanka Auditing Standards only if the auditor's report includes, at a minimum, each of the following elements: (Ref: Para. A70–A71)

    (a) A title.

    (b) An addressee, as required by the circumstances of the engagement.

    (c) An Opinion section containing an expression of opinion on the financial statements and a reference to the applicable financial reporting framework used to prepare the financial statements (including identifying the jurisdiction of origin of the financial reporting framework that is not Sri Lanka Accounting Standards or Sri Lanka Public Sector Accounting Standards, see paragraph 27).

    (d) An identification of the entity's financial statements that have been audited.

    (e) A statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements. The statement shall identify the jurisdiction of origin of the relevant ethical requirements or refer to the CA Sri Lanka Code of Ethics.

    (f) Where applicable, a section that addresses, and is not inconsistent with, the reporting requirements in paragraph 22 of SLAuS 570 (Revised).

    (g) Where applicable, a Basis for Qualified (or Adverse) Opinion section that addresses, and is not inconsistent with, the reporting requirements in paragraph 23 of SLAuS 570 (Revised).

    (h) Where applicable, a section that includes the information required by SLAuS 701, or additional information about the audit that is prescribed by law or regulation and that addresses, and is not inconsistent with, the reporting requirements in that SLAuS.[18] (Ref: Para. A72–A75)

    (i) Where applicable, a section that addresses the reporting requirements in paragraph 24 of SLAuS 720 (Revised).

    (j) A description of management's responsibilities for the preparation of the financial statements and an identification of those responsible for the oversight of the financial reporting process that addresses, and is not inconsistent with, the requirements in paragraphs 33–36.

    (k) A reference to Sri Lanka Auditing Standards and the law or regulation, and a description of the auditor's responsibilities for an audit of the financial statements that addresses, and is not inconsistent with, the requirements in paragraphs 37–40. (Ref: Para. A50–A53)

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[18] SLAuS 701, paragraphs 11–16

(l) For audits of complete sets of general purpose financial statements of listed entities, the CA Sri Lanka membership number of the engagement partner unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.

(m) The auditor's signature.

(n) The auditor's address.

(o) k. The date of the auditor's report.

## *Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and Sri Lanka Auditing Standards*

51. An auditor may be required to conduct an audit in accordance with the auditing standards of a specific jurisdiction, and has additionally complied with the SLAuSs in the conduct of the audit. If this is the case, the auditor's report may refer to Sri Lanka Auditing Standards in addition to the Standards of the specific jurisdiction, but the auditor shall do so only if: (Ref: Para. A76–A77)

    (a) There is no conflict between the requirements in the Auditing Standards of the specific jurisdiction and those in SLAuSs that would lead the auditor (i) to form a different opinion, or (ii) not to include an Emphasis of Matter paragraph or Other Matter paragraph that, in the particular circumstances, is required by SLAuSs; and

    (b) (ii) The auditor's report includes, at a minimum, each of the elements set out in paragraphs 50(a)–(o) when the auditor uses the layout or wording specified by the Auditing Standards of a specific jurisdiction. However, reference to "law or regulation" in paragraph 50(k) shall be read as reference to the Auditing Standards of the specific jurisdiction. The auditor's report shall thereby identify such Auditing Standards of the specific jurisdiction.

52. When the auditor's report refers to both the Sri Lanka Auditing Standards and Auditing Standards of the specific jurisdiction, the auditor's report shall identify the jurisdiction of origin of the Auditing Standards of the specific jurisdiction.

## Supplementary Information Presented with the Financial Statements (Ref: Para. A78–A84)

53. If supplementary information that is not required by the applicable financial reporting framework is presented with the audited financial statements, the auditor shall evaluate whether, in the auditor's professional judgment, supplementary information is nevertheless an integral part of the financial statements due to its nature or how it is presented. When it is an integral part of the financial statements, the supplementary information shall be covered by the auditor's opinion.

    If supplementary information that is not required by the applicable financial reporting framework is not considered an integral part of the audited financial statements, the auditor shall evaluate whether such supplementary information is presented in a way that sufficiently and clearly differentiates it from the audited financial statements. If this is not the case, then the auditor shall ask management to change how the unaudited supplementary information is presented. If management refuses to do so, the auditor shall identify the unaudited supplementary information and explain in the auditor's report that such supplementary information has not been audited.

## Application and Other Explanatory Material

**Qualitative Aspects of the Entity's Accounting Practices** (Ref: Para. 12)

A1. Management makes a number of judgments about the amounts and disclosures in the financial statements.

A2. SLAuS 260 (Revised) contains a discussion of the qualitative aspects of accounting practices.[19] In considering the qualitative aspects of the entity's accounting practices, the auditor may become aware of possible bias in management's judgments. The auditor may conclude that the cumulative effect of a lack of neutrality, together with the effect of uncorrected misstatements, causes the financial statements as a whole to be materially misstated. Indicators of a lack of neutrality that may affect the auditor's evaluation of whether the financial statements as a whole are materially misstated include the following:

- The selective correction of misstatements brought to management's attention during the audit (e.g., correcting misstatements with the effect of increasing reported earnings, but not correcting misstatements that have the effect of decreasing reported earnings).
- Possible management bias in the making of accounting estimates.

A3. SLAuS 540 addresses possible management bias in making accounting estimates.[20] Indicators of possible management bias do not constitute misstatements for purposes of drawing conclusions on the reasonableness of individual accounting estimates. They may, however, affect the auditor's evaluation of whether the financial statements as a whole are free from material misstatement.

## Accounting Policies Appropriately Disclosed in the Financial Statements (Ref: Para. 13(a))

A4. In evaluating whether the financial statements appropriately disclose the significant accounting policies selected and applied, the auditor's consideration includes matters such as:

- Whether all disclosures related to the significant accounting policies that are required to be included by the applicable financial reporting framework have been disclosed;
- Whether the information about the significant accounting policies that has been disclosed is relevant and therefore reflects how the recognition, measurement and presentation criteria in the applicable financial reporting framework have been applied to classes of transactions, account balances and disclosures in the financial statements in the particular circumstances of the entity's operations and its environment; and
- The clarity with which the significant accounting policies have been presented.

## Information Presented in the Financial Statements Is Relevant, Reliable, Comparable and Understandable (Ref: Para. 13(d))

A5. Evaluating the understandability of the financial statements includes consideration of such matters as whether:

- The information in the financial statements is presented in a clear and concise manner.

[19] SLAuS 260 (Revised), *Communication with Those Charged with Governance*, Appendix 2

[20] SLAuS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*, paragraph 21

- The placement of significant disclosures gives appropriate prominence to them (e.g., when there is perceived value of entity-specific information to users), and whether the disclosures are appropriately cross-referenced in a manner that would not give rise to significant challenges for users in identifying necessary information.

## Disclosures of the Effect of Material Transactions and Events on the Information Conveyed in the Financial Statements (Ref: Para. 13(e))

A6. It is common for financial statements prepared in accordance with a general purpose framework to present an entity's financial position, financial performance and cash flows. Evaluating whether, in view of the applicable financial reporting framework, the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the entity's financial position, financial performance and cash flows includes consideration of such matters as:

- The extent to which the information in the financial statements is relevant and specific to the circumstances of the entity; and
- Whether the disclosures are adequate to assist the intended users to understand:
  - The nature and extent of the entity's potential assets and liabilities arising from transactions or events that do not meet the criteria for recognition (or the criteria for derecognition) established by the applicable financial reporting framework.
  - The nature and extent of risks of material misstatement arising from transactions and events.
  - The methods used and the assumptions and judgments made, and changes to them, that affect amounts presented or otherwise disclosed, including relevant sensitivity analyses.

## Evaluating Whether the Financial Statements Achieve Fair Presentation (Ref: Para. 14)

A7. Some financial reporting frameworks acknowledge explicitly or implicitly the concept of fair presentation.[21] As noted in paragraph 7(b) of this SLAuS, a fair presentation[22] financial reporting framework not only requires compliance with the requirements of the framework, but also acknowledges explicitly or implicitly that it may be necessary for management to provide disclosures beyond those specifically required by the framework.[23]

A8. The auditor's evaluation about whether the financial statements achieve fair presentation, both in respect of presentation and disclosure, is a matter of professional judgment. This evaluation takes into account such matters as the facts and circumstances of the entity, including changes thereto, based on the auditor's understanding of the entity and the audit evidence obtained during the audit. The evaluation

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21 For example, Sri Lanka Accounting Standards note that fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses.

22 See SLAuS 200, paragraph 13(a)

23 For example, Sri Lanka Accounting Standards require an entity to provide additional disclosures when compliance with the specific requirements in Sri Lanka Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance (Sri Lanka Accounting Standard 1, *Presentation of Financial Statements,* paragraph 17(c)).

also includes consideration, for example, of the disclosures needed to achieve a fair presentation arising from matters that could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of the users taken on the basis of the financial statements as a whole), such as the effect of evolving financial reporting requirements or the changing economic environment.

A9. Evaluating whether the financial statements achieve fair presentation may include, for example, discussions with management and those charged with governance about their views on why a particular presentation was chosen, as well as alternatives that may have been considered. The discussions may include, for example:

- The degree to which the amounts in the financial statements are aggregated or disaggregated, and whether the presentation of amounts or disclosures obscures useful information, or results in misleading information.
- Consistency with appropriate industry practice, or whether any departures are relevant to the entity's circumstances and therefore warranted.

## Description of the Applicable Financial Reporting Framework (Ref: Para. 15)

A10. As explained in SLAuS 200, the preparation of the financial statements by management and, where appropriate, those charged with governance requires the inclusion of an adequate description of the applicable financial reporting framework in the financial statements.[24] That description advises users of the financial statements of the framework on which the financial statements are based.

A11. A description that the financial statements are prepared in accordance with a particular applicable financial reporting framework is appropriate only if the financial statements comply with all the requirements of that framework that are effective during the period covered by the financial statements.

A12. A description of the applicable financial reporting framework that contains imprecise qualifying or limiting language (e.g., "the financial statements are in substantial compliance with Sri Lanka Accounting Standards") is not an adequate description of that framework as it may mislead users of the financial statements.

### *Reference to More than One Financial Reporting Framework*

A13. In some cases, the financial statements may represent that they are prepared in accordance with two financial reporting frameworks (e.g., the national framework and IFRSs). This may be because management is required, or has chosen, to prepare the financial statements in accordance with both frameworks, in which case both are applicable financial reporting frameworks. Such description is appropriate only if the financial statements comply with each of the frameworks individually. To be regarded as being prepared in accordance with both frameworks, the financial statements need to comply with both frameworks simultaneously and without any need for reconciling statements. In practice, simultaneous compliance is unlikely unless the jurisdiction has adopted the other framework (e.g., IFRSs) as its own national framework, or has eliminated all barriers to compliance with it.

A14. Financial statements that are prepared in accordance with one financial reporting framework and that contain a note or supplementary statement reconciling the results to those that would be shown under

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24 SLAuS 200, paragraphs A4–A5

another framework are not prepared in accordance with that other framework. This is because the financial statements do not include all the information in the manner required by that other framework.

A15. The financial statements may, however, be prepared in accordance with one applicable financial reporting framework and, in addition, describe in the notes to the financial statements the extent to which the financial statements comply with another framework (e.g., financial statements prepared in accordance with the national framework that also describe the extent to which they comply with IFRSs). Such description may constitute supplementary financial information as discussed in paragraph 54 and is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements.

## Form of Opinion

A16. There may be cases where the financial statements, although prepared in accordance with the requirements of a fair presentation framework, do not achieve fair presentation. Where this is the case, it may be possible for management to include additional disclosures in the financial statements beyond those specifically required by the framework or, in extremely rare circumstances, to depart from a requirement in the framework in order to achieve fair presentation of the financial statements. (Ref: Para. 18)

A17. It will be extremely rare for the auditor to consider financial statements that are prepared in accordance with a compliance framework to be misleading if, in accordance with SLAuS 210, the auditor determined that the framework is acceptable.[25] (Ref: Para. 19)

## Auditor's Report (Ref: Para. 20)

A18. A written report encompasses reports issued in hard copy and those using an electronic medium.

A19. The Appendix to this SLAuS contains illustrations of auditor's reports on financial statements, incorporating the elements set out in paragraphs 21–49. With the exception of the Opinion and Basis for Opinion sections, this SLAuS does not establish requirements for ordering the elements of the auditor's report. However, this SLAuS requires the use of specific headings, which are intended to assist in making auditor's reports that refer to audits that have been conducted in accordance with SLAuSs more recognizable, particularly in situations where the elements of the auditor's report are presented in an order that differs from the illustrative auditor's reports in the Appendix to this SLAuS.

### *Auditor's Report for Audits Conducted in Accordance with Sri Lanka Auditing Standards*

## Title (Ref: Para. 21)

A20. A title indicating the report is the report of an independent auditor, for example, "Independent Auditor's Report," distinguishes the independent auditor's report from reports issued by others.

## Addressee (Ref: Para. 22)

A21. Law, regulation or the terms of the engagement may specify to whom the auditor's report is to be addressed in that particular jurisdiction. The auditor's report is normally addressed to those for whom

[25] SLAuS 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

the report is prepared, often either to the shareholders or to those charged with governance of the entity whose financial statements are being audited.

## Auditor's Opinion (Ref. Para. 24–26)

### Reference to the financial statements that have been audited

A22. The auditor's report states, for example, that the auditor has audited the financial statements of the entity, which comprise [state the title of each financial statement comprising the complete set of financial statements required by the applicable financial reporting framework, specifying the date or period covered by each financial statement] and notes to the financial statements, including a summary of significant accounting policies.

A23. When the auditor is aware that the audited financial statements will be included in a document that contains other information, such as an annual report, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial statements are presented. This helps users to identify the financial statements to which the auditor's report relates.

### "Present fairly, in all material respects" or "give a true and fair view"

A24. The phrases "present fairly, in all material respects," and "give a true and fair view" are regarded as being equivalent. Whether the phrase "present fairly, in all material respects," or the phrase "give a true and fair view" is used in any particular jurisdiction is determined by the law or regulation governing the audit of financial statements in that jurisdiction, or by generally accepted practice in that jurisdiction. Where law or regulation requires the use of different wording, this does not affect the requirement in paragraph 14 of this SLAuS for the auditor to evaluate the fair presentation of financial statements prepared in accordance with a fair presentation framework.

A25. When the auditor expresses an unmodified opinion, it is not appropriate to use phrases such as "with the foregoing explanation" or "subject to" in relation to the opinion, as these suggest a conditional opinion or a weakening or modification of opinion.

### Description of the financial statements and the matters they present

A26. The auditor's opinion covers the complete set of financial statements as defined by the applicable financial reporting framework. For example, in the case of many general purpose frameworks, the financial statements may include: a statement of financial position, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows, and related notes, which ordinarily comprise a summary of significant accounting policies and other explanatory information. In some jurisdictions, additional information may also be considered to be an integral part of the financial statements.

A27. In the case of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion states that the financial statements present fairly, in all material respects, or give a true and fair view of, the matters that the financial statements are designed to present. For example, in the case of financial statements prepared in accordance with Sri Lanka Accounting Standards, these matters are *the financial position of the entity as at the end of the period and the entity's financial performance and cash flows for the period then ended*. Consequently, the […] in paragraph 25 and elsewhere in this SLAuS is intended to be replaced by the words in italics in the preceding sentence when the applicable financial reporting framework is Sri Lanka Accounting Standards or, in the case of other applicable financial reporting frameworks, be replaced with words that describe the matters that the financial statements are designed to present.

## Description of the applicable financial reporting framework and how it may affect the auditor's opinion

A28. The identification of the applicable financial reporting framework in the auditor's opinion is intended to advise users of the auditor's report of the context in which the auditor's opinion is expressed; it is not intended to limit the evaluation required in paragraph 14. The applicable financial reporting framework is identified in such terms as:

"… in accordance with Sri Lanka Accounting Standards" or

"… in accordance with accounting principles generally accepted in Jurisdiction X …"

A29. When the applicable financial reporting framework encompasses financial reporting standards and legal or regulatory requirements, the framework is identified in such terms as "… in accordance with Sri Lanka Accounting Standards and the requirements of Jurisdiction X Corporations Act." SLAuS 210 deals with circumstances where there are conflicts between the financial reporting standards and the legislative or regulatory requirements.[26]

A30. As indicated in paragraph A13, the financial statements may be prepared in accordance with two financial reporting frameworks, which are therefore both applicable financial reporting frameworks. Accordingly, each framework is considered separately when forming the auditor's opinion on the financial statements, and the auditor's opinion in accordance with paragraphs 25–27 refers to both frameworks as follows:

(a) If the financial statements comply with each of the frameworks individually, two opinions are expressed: that is, that the financial statements are prepared in accordance with one of the applicable financial reporting frameworks (e.g., the national framework) and an opinion that the financial statements are prepared in accordance with the other applicable financial reporting framework (e.g., IFRSs). These opinions may be expressed separately or in a single sentence (e.g., the financial statements are presented fairly, in all material respects […], in accordance with accounting principles generally accepted in Jurisdiction X and with IFRSs).

(b) If the financial statements comply with one of the frameworks but fail to comply with the other framework, an unmodified opinion can be given that the financial statements are prepared in accordance with the one framework (e.g., the national framework) but a modified opinion given with regard to the other framework (e.g., IFRSs) in accordance with SLAuS 705 (Revised).

A31. As indicated in paragraph A15, the financial statements may represent compliance with the applicable financial reporting framework and, in addition, disclose the extent of compliance with another financial reporting framework. Such supplementary information is covered by the auditor's opinion if it cannot be clearly differentiated from the financial statements (see paragraphs 53–54 and related application material in paragraphs A78–A84). Accordingly,

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26 SLAuS 210, paragraph 18

(a) If the disclosure as to the compliance with the other framework is misleading, a modified opinion is expressed in accordance with SLAuS 705 (Revised).

(b) If the disclosure is not misleading, but the auditor judges it to be of such importance that it is fundamental to the users' understanding of the financial statements, an Emphasis of Matter paragraph is added in accordance with SLAuS 706 (Revised), drawing attention to the disclosure.

## Basis for Opinion (Ref: Para. 28)

A32. The Basis for Opinion section provides important context about the auditor's opinion. Accordingly, this SLAuS requires the Basis for Opinion section to directly follow the Opinion section in the auditor's report.

A33. The reference to the standards used conveys to the users of the auditor's report that the audit has been conducted in accordance with established standards.

## Relevant ethical requirements (Ref: Para. 28(c))

A34. The identification of the jurisdiction of origin of relevant ethical requirements increases transparency about those requirements relating to the particular audit engagement. SLAuS 200 explains that relevant ethical requirements ordinarily comprise Parts A and B of the CA Sri Lanka Code related to an audit of financial statements together with national requirements that are more restrictive.[27] When the relevant ethical requirements include those of the CA Sri Lanka Code, the statement may also make reference to the CA Sri Lanka Code. If the CA Sri Lanka Code constitutes all of the ethical requirements relevant to the audit, the statement need not identify a jurisdiction of origin.

A35. In some jurisdictions, relevant ethical requirements may exist in several different sources, such as the ethical code(s) and additional rules and requirements within law and regulation. When the independence and other relevant ethical requirements are contained in a limited number of sources, the auditor may choose to name the relevant source(s) (e.g., the name of the code, rule or regulation applicable in the jurisdiction), or may refer to a term that is commonly understood and that appropriately summarizes those sources (e.g., independence requirements for audits of private entities in Jurisdiction X).

A36. Law or regulation, Sri Lanka Auditing Standards or the terms of an audit engagement may require the auditor to provide in the auditor's report more specific information about the sources of the relevant ethical requirements, including those pertaining to independence, that applied to the audit of the financial statements.

A37. In determining the appropriate amount of information to include in the auditor's report when there are multiple sources of relevant ethical requirements relating to the audit of the financial statements, an important consideration is balancing transparency against the risk of obscuring other useful information in the auditor's report.

Considerations specific to group audits

A38. In group audits when there are multiple sources of relevant ethical requirements, including those pertaining to independence, the reference in the auditor's report to the jurisdiction ordinarily relates to the relevant ethical requirements that are applicable to the group engagement team. This is because, in a

[27] SLAuS 200, paragraph A16

group audit, component auditors are also subject to ethical requirements that are relevant to the group audit.[28]

A39. The SLAuSs do not establish specific independence or ethical requirements for auditors, including component auditors, and thus do not extend, or otherwise override, the independence requirements of the CA Sri Lanka Code or other ethical requirements to which the group engagement team is subject, nor do the SLAuSs require that the component auditor in all cases to be subject to the same specific independence requirements that are applicable to the group engagement team. As a result, relevant ethical requirements, including those pertaining to independence, in a group audit situation may be complex. SLAuS 600[29] provides guidance for auditors in performing work on the financial information of a component for a group audit, including those situations where the component auditor does not meet the independence requirements that are relevant to the group audit.

## Key Audit Matters (Ref: Para. 31)

A40. Law or regulation may require communication of key audit matters for audits of entities other than listed entities, for example, entities characterized in such law or regulation as public interest entities.

A41. The auditor may also decide to communicate key audit matters for other entities, including those that may be of significant public interest, for example because they have a large number and wide range of stakeholders and considering the nature and size of the business. Examples of such entities may include financial institutions (such as banks, insurance companies, and pension funds), and other entities such as charities.

A42. SLAuS 210 requires the auditor to agree the terms of the audit engagement with management and those charged with governance, as appropriate, and explains that the roles of management and those charged with governance in agreeing the terms of the audit engagement for the entity depend on the governance arrangements of the entity and relevant law or regulation.[30] SLAuS 210 also requires the audit engagement letter or other suitable form of written agreement to include reference to the expected form and content of any reports to be issued by the auditor.[31] When the auditor is not otherwise required to communicate key audit matters, SLAuS 210[32] explains that it may be helpful for the auditor to make reference in the terms of the audit engagement to the possibility of communicating key audit matters in the auditor's report and, in certain jurisdictions, it may be necessary for the auditor to include a reference to such possibility in order to retain the ability to do so.

## Considerations specific to public sector entities

A43. Listed entities are not common in the public sector. However, public sector entities may be significant due to size, complexity or public interest aspects. In such cases, an auditor of a public sector entity may be required by law or regulation or may otherwise decide to communicate key audit matters in the auditor's report.

28 SLAuS 600, paragraph A37
29 SLAuS 600, paragraphs 19–20
30 SLAuS 210, paragraphs 9 and A22
31 SLAuS 210, paragraph 10
32 SLAuS 210, paragraph A25

## Responsibilities for the Financial Statements (Ref: Para. 33–34)

A44. SLAuS 200 explains the premise, relating to the responsibilities of management and, where appropriate, those charged with governance, on which an audit in accordance with SLAuSs is conducted.[33] Management and, where appropriate, those charged with governance, accept responsibility for the preparation of the financial statements in accordance with the applicable financial reporting framework, including, where relevant, their fair presentation. Management also accepts responsibility for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The description of management's responsibilities in the auditor's report includes reference to both responsibilities as it helps to explain to users the premise on which an audit is conducted. SLAuS 260 (Revised) uses the term those charged with governance to describe the person(s) or organization(s) with responsibility for overseeing the entity, and provides a discussion about the diversity of governance structures across jurisdictions and by entity.

A45. There may be circumstances when it is appropriate for the auditor to add to the descriptions of the responsibilities of management and those charged with governance in paragraphs 34–35 to reflect additional responsibilities that are relevant to the preparation of the financial statements in the context of the particular jurisdiction or the nature of the entity.

A46. SLAuS 210 requires the auditor to agree management's responsibilities in an engagement letter or other suitable form of written agreement.[34] SLAuS 210 provides some flexibility in doing so, by explaining that, if law or regulation prescribes the responsibilities of management and, where appropriate, those charged with governance, in relation to financial reporting, the auditor may determine that the law or regulation includes responsibilities that, in the auditor's judgment, are equivalent in effect to those set out in SLAuS 210. For such responsibilities that are equivalent, the auditor may use the wording of the law or regulation to describe them in the engagement letter or other suitable form of written agreement. In such cases, this wording may also be used in the auditor's report to describe the responsibilities as required by paragraph 34(a) of this SLAuS. In other circumstances, including where the auditor decides not to use the wording of law or regulation as incorporated in the engagement letter, the wording in paragraph 34(a) of this SLAuS is used. In addition to including the description of management's responsibilities in the auditor's report as required by paragraph 34, the auditor may refer to a more detailed description of these responsibilities by including a reference to where such information may be obtained (e.g., in the annual report of the entity or a website of an appropriate authority).

A47. In some jurisdictions, law or regulation prescribing management's responsibilities may specifically refer to a responsibility for the adequacy of accounting books and records, or accounting system. As books, records and systems are an integral part of internal control (as defined in SLAuS 315 (Revised)[35]), the descriptions in SLAuS 210 and in paragraph 34 do not make specific reference to them.

A48. The Appendix to this SLAuS provides illustrations of how the requirement in paragraph 34(b) would be applied when Sri Lanka Accounting Standards is the applicable financial reporting framework. If an applicable financial reporting framework other than Sri Lanka Accounting Standards is used, the

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[33] SLAuS 200, paragraph 13(j)
[34] SLAuS 210, paragraph 6(b)(i)–(ii)
[35] SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraph 4(c)

illustrative statements featured in the Appendix to this SLAuS may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

### Oversight of the financial reporting process (Ref: Para. 35)

A49. When some, but not all, of the individuals involved in the oversight of the financial reporting process are also involved in preparing the financial statements, the description as required by paragraph 35 of this SLAuS may need to be modified to appropriately reflect the particular circumstances of the entity. When individuals responsible for the oversight of the financial reporting process are the same as those responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

## Auditor's Responsibilities for the Audit of the Financial Statements (Ref: Para. 37–40)

A50. The description of the auditor's responsibilities as required by paragraphs 37–40 of this SLAuS may be tailored to reflect the specific nature of the entity, for example, when the auditor's report addresses consolidated financial statements. Illustration 2 in the Appendix to this SLAuS includes an example of how this may be done.

### Objectives of the auditor (Ref: Para. 38(a))

A51. The auditor's report explains that the objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes the auditor's opinion. These are in contrast to management's responsibilities for the preparation for the financial statements.

### Description of materiality (Ref: Para. 38(c))

A52. The Appendix to this SLAuS provides illustrations of how the requirement in paragraph 38(c), to provide a description of materiality, would be applied when Sri Lanka Accounting Standards is the applicable financial reporting framework. If an applicable financial reporting framework other than Sri Lanka Accounting Standards is used, the illustrative statements presented in the Appendix to this SLAuS may need to be adapted to reflect the application of the other financial reporting framework in the circumstances.

### Auditor's responsibilities relating to SLAuS 701 (Ref: Para. 40(c))

A53. The auditor may also consider it useful to provide additional information in the description of the auditor's responsibilities beyond what is required by paragraph 40(c). For example, the auditor may make reference to the requirement in paragraph 9 of SLAuS 701 to determine the matters that required significant auditor attention in performing the audit, taking into account areas of higher assessed risk of material misstatement or significant risks identified in accordance with SLAuS 315 (Revised); significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and the effects on the audit of significant events or transactions that occurred during the period.

### Location of the description of the auditor's responsibilities for the audit of the financial statements (Ref: Para. 41, 50(j))

A54. Including the information required by paragraphs 39–40 of this SLAuS in an appendix to the auditor's report or, when law, regulation or Sri Lanka Auditing Standards expressly permit, referring to a website of an appropriate authority containing such information may be a useful way of streamlining the content of the auditor's report. However, because the description of the auditor's responsibilities contains information that is necessary to inform users' expectations of an audit conducted in accordance with SLAuSs, a reference is required to be included in the auditor's report indicating where such information can be accessed.

### Location in an appendix (Ref: Para. 41(b), 50(j))

A55. Paragraph 41 permits the auditor to include the statements required by paragraphs 39–40 describing the auditor's responsibilities for the audit of the financial statements in an appendix to the auditor's report, provided that appropriate reference is made within the body of the auditor's report to the location of the appendix. The following is an illustration of how such a reference to an appendix could be made in the auditor's report:

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is included in appendix X of this auditor's report. This description, which is located at [*indicate page number or other specific reference to the location of the description*], forms part of our auditor's report.

### Reference to a website of an appropriate authority (Ref: Para. 41(c), 42)

A56. Paragraph 41 explains that the auditor may refer to a description of the auditor's responsibilities located on a website of an appropriate authority, only if expressly permitted by law, regulation or Sri Lanka Auditing Standards. The information on the website that is incorporated in the auditor's report by way of a specific reference to the website location where such information can be found may describe the auditor's work, or the audit in accordance with SLAuSs more broadly, but it cannot be inconsistent with the description required in paragraphs 39–40 of this SLAuS. This means that the wording of the description of the auditor's responsibilities on the website may be more detailed, or may address other matters relating to an audit of financial statements, provided that such wording reflects and does not contradict the matters addressed in paragraphs 39–40.

A57. An appropriate authority could be a national auditing standard setter, regulator, or an audit oversight body. Such organizations are well-placed to ensure the accuracy, completeness and continued availability of the standardized information. It would not be appropriate for the auditor to maintain such a website. The following is an illustration of how such a reference to a website could be made in the auditor's report:

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at [*Organization's*] website at: [*website address*]. This description forms part of our auditor's report.

## Other Reporting Responsibilities (Ref: Para. 43–45)

A58. In some jurisdictions, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibilities under the SLAuSs. For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial statements. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters, such as the adequacy of accounting books and records, internal control over financial reporting or other information. Auditing standards in the specific jurisdiction often provide guidance on the auditor's responsibilities with respect to specific additional reporting responsibilities in that jurisdiction.

A59. In some cases, the relevant law or regulation may require or permit the auditor to report on these other responsibilities as part of their auditor's report on the financial statements. In other cases, the auditor may be required or permitted to report on them in a separate report.

A60. Paragraphs 43–45 of this SLAuS permit combined presentation of other reporting responsibilities and the auditor's responsibilities under the SLAuSs only when they address the same topics and the wording of the auditor's report clearly differentiates the other reporting responsibilities from those under the SLAuSs. Such clear differentiation may make it necessary for the auditor's report to refer to the source of the other reporting responsibilities and to state that such responsibilities are beyond those required under the SLAuSs. Otherwise, other reporting responsibilities are required to be addressed in a separate section in the auditor's report with a heading "Report on Other Legal and Regulatory Requirements," or otherwise as appropriate to the content of the section. In such cases, paragraph 44 requires the auditor to include reporting responsibilities under the SLAuSs under a heading titled "Report on the Audit of the Financial Statements."

## CA Sri Lanka Membership Number of the Engagement Partner (Ref: Para. 46)

A61. SLSQC 1[36] requires that the firm establish policies and procedures to provide reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements. Notwithstanding these SLSQC 1 requirements, stating the CA Sri Lanka

[36] SLSQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,* paragraph 32

membership number of the engagement partner in the auditor's report is intended to provide further transparency to the users of the auditor's report on financial statements of a listed entity.

A62. Law, regulation or Sri Lanka Auditing Standards may require that the auditor's report include the CA Sri Lanka membership number of the engagement partner responsible for audit other than those of financial statements of listed entities. The auditor may also be required by law, regulation or Sri Lanka Auditing Standards, or may decide to include additional information beyond the CA Sri Lanka membership number of the engagement partner in the auditor's report to further identify the engagement partner, for example, the engagement partner's practicing certificate number that is relevant to the jurisdiction where the auditor practices.

A63. In rare circumstances, the auditor may identify information or be subject to experiences that indicate the likelihood of a personal security threat that, if the identity of the engagement partner is made public, may result in physical harm to the engagement partner, other engagement team members or other closely related individuals. However, such a threat does not include, for example, threats of legal liability or legal, regulatory or professional sanctions. Discussions with those charged with governance about circumstances that may result in physical harm may provide additional information about the likelihood or severity of the significant personal security threat. Law, regulation or Sri Lanka Auditing Standards may establish further requirements that are relevant to determining whether the disclosure of the CA Sri Lanka membership number of the engagement partner may be omitted.

## Signature of the Auditor (Ref: Para. 47)

A64. The auditor's signature is either in the name of the audit firm, the personal name of the auditor or both, as appropriate for the particular jurisdiction. In addition to the auditor's signature, in certain jurisdictions, the auditor may be required to declare in the auditor's report the auditor's professional accountancy designation or the fact that the auditor or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

A65. In some cases, law or regulation may allow for the use of electronic signatures in the auditor's report.

## Date of the Auditor's Report (Ref: Para. 49)

A66. The date of the auditor's report informs the user of the auditor's report that the auditor has considered the effect of events and transactions of which the auditor became aware and that occurred up to that date. The auditor's responsibility for events and transactions after the date of the auditor's report is addressed in SLAuS 560.[37]

A67. Since the auditor's opinion is provided on the financial statements and the financial statements are the responsibility of management, the auditor is not in a position to conclude that sufficient appropriate audit evidence has been obtained until evidence is obtained that all the statements and disclosures that comprise the financial statements have been prepared and management has accepted responsibility for them.

A68. In some jurisdictions, law or regulation identifies the individuals or bodies (e.g., the directors) that are responsible for concluding that all the statements and disclosures that comprise the financial statements have been prepared, and specifies the necessary approval process. In such cases, evidence is obtained of that approval before dating the report on the financial statements. In other jurisdictions, however, the approval process is not prescribed in law or regulation. In such cases, the procedures the entity follows

[37] SLAuS 560, *Subsequent Events,* paragraphs 10–17

in preparing and finalizing its financial statements in view of its management and governance structures are considered in order to identify the individuals or body with the authority to conclude that all the statements that comprise the financial statements, including the related notes, have been prepared. In some cases, law or regulation identifies the point in the financial statement reporting process at which the audit is expected to be complete.

A69. In some jurisdictions, final approval of the financial statements by shareholders is required before the financial statements are issued publicly. In these jurisdictions, final approval by shareholders is not necessary for the auditor to conclude that sufficient appropriate audit evidence has been obtained. The date of approval of the financial statements for purposes of SLAuSs is the earlier date on which those with the recognized authority determine that all the statements and disclosures that comprise the financial statements have been prepared and that those with the recognized authority have asserted that they have taken responsibility for them.

### *Auditor's Report Prescribed by Law or Regulation* (Ref: Para. 50)

A70. SLAuS 200 explains that the auditor may be required to comply with legal or regulatory requirements in addition to SLAuSs.[38] When the differences between the legal or regulatory requirements and SLAuSs relate only to the layout and wording of the auditor's report, the requirements in paragraph 50(a)–(o) set out the minimum elements to be included in the auditor's report to enable a reference to the Sri Lanka Auditing Standards. In those circumstances, the requirements in paragraphs 21–49 that are not included in paragraph 50(a)–(o) do not need to be applied including, for example, the required ordering of the Opinion and Basis for Opinion sections.

A71. Where specific requirements in a particular jurisdiction do not conflict with SLAuSs, the layout and wording required by paragraphs 21–49 of this SLAuS assist users of the auditor's report in more readily recognizing the auditor's report as a report of an audit conducted in accordance with SLAuSs.

## Information Required by SLAuS 701 (Ref: Para. 50(h))

A72. Law or regulation may require the auditor to provide additional information about the audit that was performed, which may include information that is consistent with the objectives of SLAuS 701, or may prescribe the nature and extent of communication about such matters.

A73. The SLAuSs do not override law or regulation that governs an audit of financial statements. When SLAuS 701 is applicable, reference can only be made to SLAuSs in the auditor's report if, in applying the law or regulation, the section required by paragraph 50(h) of this SLAuS is not inconsistent with the reporting requirements in SLAuS 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by SLAuS 701, for example by:

- Modifying the heading "Key Audit Matters", if law or regulation prescribes a specific heading;
- Explaining why the information required by law or regulation is being provided in the auditor's report, for example by making a reference to the relevant law or regulation and describing how that information relates to the key audit matters;

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[38] SLAuS 200, paragraph A57

- Where law or regulation prescribes the nature and extent of the description, supplementing the prescribed information to achieve an overall description of each key audit matter that is consistent with the requirement in paragraph 13 of SLAuS 701.

A74. SLAuS 210 deals with circumstances where law or regulation of the relevant jurisdiction prescribes the layout or wording of the auditor's report in terms that are significantly different from the requirements of SLAuSs, which in particular includes the auditor's opinion. In these circumstances, SLAuS 210 requires the auditor to evaluate:

(a) Whether users might misunderstand the assurance obtained from the audit of the financial statements and, if so,

(b) Whether additional explanation in the auditor's report can mitigate possible misunderstanding.

If the auditor concludes that additional explanation in the auditor's report cannot mitigate possible misunderstanding, SLAuS 210 requires the auditor not to accept the audit engagement, unless required by law or regulation to do so. In accordance with SLAuS 210, an audit conducted in accordance with such law or regulation does not comply with SLAuSs. Accordingly, the auditor does not include any reference in the auditor's report to the audit having been conducted in accordance with Sri Lanka Auditing Standards.[39]

## Considerations specific to public sector entities

A75. Auditors of public sector entities may also have the ability pursuant to law or regulation to report publicly on certain matters, either in the auditor's report or in a supplementary report, which may include information that is consistent with the objectives of SLAuS 701. In such circumstances, the auditor may need to tailor certain aspects of the communication of key audit matters in the auditor's report required by SLAuS 701 or include a reference in the auditor's report to a description of the matter in the supplementary report

## *Auditor's Report for Audits Conducted in Accordance with Both Auditing Standards of a Specific Jurisdiction and Sri Lanka Auditing Standards* (Ref: Para. 51)

A76. The auditor may refer in the auditor's report to the audit having been conducted in accordance with both Sri Lanka Auditing Standards as well as the Auditing Standards of the specific jurisdiction when, in addition to complying with the relevant Auditing Standards of the specific jurisdiction, the auditor complies with each of the SLAuSs relevant to the audit.[40]

A77. A reference to both Sri Lanka Auditing Standards and the Auditing Standards of the specific jurisdiction is not appropriate if there is a conflict between the requirements in SLAuSs and those in the Auditing Standards of the specific jurisdiction that would lead the auditor to form a different opinion or not to include an Emphasis of Matter or Other Matter paragraph that, in the particular circumstances, is required by SLAuSs. In such a case, the auditor's report refers only to the auditing standards (either Sri Lanka Auditing Standards or the Auditing standards of the specific jurisdictions.) in accordance with which the auditor's report has been prepared.

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39 SLAuS 210, paragraph 21
40 SLAuS 200, paragraph A58

***Supplementary Information Presented with the Financial Statements (Ref: Para. 53–54)***

A78. In some circumstances, the entity may be required by law, regulation or standards, or may voluntarily choose, to present together with the financial statements supplementary information that is not required by the applicable financial reporting framework. For example, supplementary information might be presented to enhance a user's understanding of the applicable financial reporting framework or to provide further explanation of specific financial statement items. Such information is normally presented in either supplementary schedules or as additional notes.

A79. Paragraph 53 of this SLAuS explains that the auditor's opinion covers supplementary information that is an integral part of the financial statements because of its nature or how it is presented. This evaluation is a matter of professional judgment. To illustrate:

- When the notes to the financial statements include an explanation or the reconciliation of the extent to which the financial statements comply with another financial reporting framework, the auditor may consider this to be supplementary information that cannot be clearly differentiated from the financial statements. The auditor's opinion would also cover notes or supplementary schedules that are cross-referenced from the financial statements.
- When an additional profit and loss account that discloses specific items of expenditure is disclosed as a separate schedule included as an Appendix to the financial statements, the auditor may consider this to be supplementary information that can be clearly differentiated from the financial statements.

A80. Supplementary information that is covered by the auditor's opinion does not need to be specifically referred to in the auditor's report when the reference to the notes in the description of the statements that comprise the financial statements in the auditor's report is sufficient.

A81. Law or regulation may not require that the supplementary information be audited, and management may decide to ask the auditor not to include the supplementary information within the scope of the audit of the financial statements.

A82. The auditor's evaluation whether unaudited supplementary information is presented in a manner that could be construed as being covered by the auditor's opinion includes, for example, where that information is presented in relation to the financial statements and any audited supplementary information, and whether it is clearly labeled as "unaudited."

A83. Management could change the presentation of unaudited supplementary information that could be construed as being covered by the auditor's opinion, for example, by:

- Removing any cross-references from the financial statements to unaudited supplementary schedules or unaudited notes so that the demarcation between the audited and unaudited information is sufficiently clear.
- Placing the unaudited supplementary information outside of the financial statements or, if that is not possible in the circumstances, at a minimum placing the unaudited notes together at the end of the required notes to the financial statements and clearly labeling them as unaudited. Unaudited notes that are intermingled with the audited notes can be misinterpreted as being audited.

A84. The fact that supplementary information is unaudited does not relieve the auditor of the responsibilities described in SLAuS 720 (Revised).

**Illustrations of Independent Auditor's Reports on Financial Statements**

- Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework.

- Illustration 2 – Auditor's Report on the financial statements o f a listed entity and its Consolidated Financial Statements Prepared in Accordance with a Fair Presentation Framework

- Illustration 3 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a Fair Presentation Framework. (Where reference is made to material that is located on a web site of an appropriate authority)

- Illustration 4 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity and Its Consolidated Financial Statements Prepared in Accordance with a Fair Presentation Framework. (Where reference is made to material that is located on a web site of an appropriate authority)

- Illustration 5 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework

**Illustration 1 – Auditor's Report on Financial Statements of a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not yet identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

## Report on the Audit of the Financial Statements[1]

### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of *(or present fairly, in all material respects)* the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

[1] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

## Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[2] and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SLAuS 701.*]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).*]

## Responsibilities of Management and Those Charged with Governance for the Financial Statements[3]

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards,[4] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our

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2 In the event, other ethical requirements for auditors are issued by any regulatory authority, reference should be made to such regulation.

3 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

4 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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| Paragraph 41(b) of this SLAuS explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or Sri Lanka Auditing Standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below. |
| As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also: |

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.[5]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public

[5] This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is [*number*].

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

**Illustration 2 – Auditor's Report on the financial statements of a listed entity and its Consolidated Financial Statements Prepared in Accordance with a Fair Presentation Framework**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity and its consolidated financial statements using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SLAuS 600 applies).**
- **The consolidated and the entity's financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated and the entity's financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The Code of Ethics issued by CA Sri Lanka comprises all of the relevant ethical requirements that apply to the audit.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the consolidated and the entity's financial statements differ from those responsible for the preparation of the consolidated and the entity's financial statements.**
- **In addition to the audit of the consolidated and the entity's financial statements, the auditor has other reporting responsibilities required under local law.**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

## Report on the Audit of the Financial Statements[6]

### Opinion

We have audited the financial statements of ABC Company ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of *(or present fairly, in all material respects)* the financial position of the Company and the Group as at December 31, 20X1, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[7], and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SLAuS 701.*]

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).*]

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6 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

7 In the event, other ethical requirements for auditors are issued by any regulatory authority, reference should be made to such regulation.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[8]**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards,[9] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of this SLAuS explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or Sri Lanka Auditing Standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control.[10]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based

[8] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

[9] Where management's responsibility is for the preparation of financial statements that give a fair presentation, this may read: "Management is responsible for the preparation and fair presentation of financial statements in accordance with Sri Lanka Accounting Standards, and for such ..."

[10] This sentence would be modified, as appropriate, in circumstances when the auditor also has a responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is [*number*].

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

**Illustration 3 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a Fair Presentation Framework**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[11]

## Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of *(or present fairly, in all material respects)* the financial position of the Company as at December 31, 20X1, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[12] that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[13]

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards,[14] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to

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11 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

12 In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

13 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

14 Where management's responsibility is for the preparation of financial statements that give a fair presentation, this may read: "Management is responsible for the preparation and fair presentation of financial statements in accordance with Sri Lanka Accounting Standards, and for such ..."

continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing website at: www.slaasc.com/auditingstandards/auditorsresponsibility. This description forms part of our auditor's report.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

**Illustration 4 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity and Its Consolidated Financial Statements Prepared in Accordance with a Fair Presentation Framework**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity and its consolidated financial statements using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SLAuS 600 applies).**
- **The consolidated and the entity's financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated and the entity's financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the consolidated and the entity's financial statements differ from those responsible for the preparation of the consolidated and the entity's financial statements.**
- **The auditor elects to refer to the description of the auditor's responsibility included on a website of an appropriate authority.**
- **In addition to the audit of the consolidated and the entity's financial statements, the auditor has other reporting responsibilities required under local law.**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[15]

## Opinion

We have audited the financial statements of ABC Company ("the Company") and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company and the Group give a true and fair view of *(or present fairly, in all material respects)* the financial position of the Company and the Group as at December 31, 20X1, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

## Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements of the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[16] that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).*]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[17]

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards,[18] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue

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15 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

16 In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

17 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

18 Where management's responsibility is for the preparation of financial statements that give a fair presentation, this may read: "Management is responsible for the preparation and fair presentation of financial statements in accordance with Sri Lanka Accounting Standards, and for such ..."

as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the company's and Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: www.slaasc.com/technical/auditingstandards/auditorsresponsibility. This description forms part of our auditor's report.

### Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

**Illustration 5 – Auditor's Report on Financial Statements of an Entity Other than a Listed Entity Prepared in Accordance with a General Purpose Compliance Framework**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity required by law or regulation. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with the Financial Reporting Framework (XYZ Law) of Jurisdiction X (that is, a financial reporting framework, encompassing law or regulation, designed to meet the common financial information needs of a wide range of users, but which is not a fair presentation framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **The auditor has no other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

## Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company are prepared, in all material respects, in accordance with XYZ Law of Jurisdiction X.

## Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial*

*Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[19], and we have fulfilled our other responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

[*Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).*].

## Responsibilities of Management and Those Charged with Governance for the Financial Statements[20]

Management is responsible for the preparation of the financial statements in accordance with XYZ Law of Jurisdiction X,[21] and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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[19] In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation

[20] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

[21] Where management's responsibility is for the preparation of financial statements that give true and fair view , this may read: "Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such ..."

Paragraph 41(b) of this SLAuS explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) explains that when law, regulation or Sri Lanka Auditing Standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.[22]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

[22] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

# SRI LANKA AUDITING STANDARD 701

# COMMUNICATING KEY AUDIT MATTERS IN THE INDEPENDENT AUDITOR'S REPORT

(Effective for audits of financial statements for periods ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 701, *Communicating Key Audit Matters in the Independent Auditor's Report,* should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

## Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibility to communicate key audit matters in the auditor's report. It is intended to address both the auditor's judgment as to what to communicate in the auditor's report and the form and content of such communication.

2. The purpose of communicating key audit matters is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating key audit matters provides additional information to intended users of the financial statements ("intended users") to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgment in the audited financial statements. (Ref: Para. A1–A4)

3. The communication of key audit matters in the auditor's report may also provide intended users a basis to further engage with management and those charged with governance about certain matters relating to the entity, the audited financial statements, or the audit that was performed.

4. Communicating key audit matters in the auditor's report is in the context of the auditor having formed an opinion on the financial statements as a whole. Communicating key audit matters in the auditor's report is not:

   (a) A substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation;

   (b) A substitute for the auditor expressing a modified opinion when required by the circumstances of a specific audit engagement in accordance with SLAuS 705 (Revised);[1]

   (c) A substitute for reporting in accordance with SLAuS 570 (Revised)[2] when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern; or

   (d) A separate opinion on individual matters. (Ref: Para. A5–A8)

5. This SLAuS applies to audits of complete sets of general purpose financial statements of listed entities and circumstances when the auditor otherwise decides to communicate key audit matters in the auditor's report. This SLAuS also applies when the auditor is required by law or regulation to communicate key audit matters in the auditor's report.[3] However, SLAuS 705 (Revised) prohibits the auditor from communicating key audit matters when the auditor disclaims an opinion on the financial statements, unless such reporting is required by law or regulation.[4]

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[1] SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

[2] SLAuS 570 (Revised), *Going Concern*, paragraphs 22–23

[3] SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 30–31

[4] SLAuS 705 (Revised), paragraph 29

### Effective Date

6. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

## Objectives

7. The objectives of the auditor are to determine key audit matters and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.

## Definition

8. For purposes of the SLAuSs, the following term has the meaning attributed below:

   Key audit matters—Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.

## Requirements

### Determining Key Audit Matters

9. The auditor shall determine, from the matters communicated with those charged with governance, those matters that required significant auditor attention in performing the audit. In making this determination, the auditor shall take into account the following: (Ref: Para. A9–A18)

   (a) Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with SLAuS 315 (Revised).[5] (Ref: Para. A19–A22)

   (b) Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty. (Ref: Para. A23–A24)

   (c) The effect on the audit of significant events or transactions that occurred during the period. (Ref: Para. A25–A26)

10. The auditor shall determine which of the matters determined in accordance with paragraph 9 were of most significance in the audit of the financial statements of the current period and therefore are the key audit matters. (Ref: Para. A9–A11, A27–A30)

### Communicating Key Audit Matters

11. The auditor shall describe each key audit matter, using an appropriate subheading, in a separate section of the auditor's report under the heading "Key Audit Matters," unless the circumstances in paragraphs 14 or 15 apply. The introductory language in this section of the auditor's report shall state that:

(a) Key audit matters are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period]; and

(b) These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: Para. A31–A33)

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5 SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

*Key Audit Matters Not a Substitute for Expressing a Modified Opinion*

12. The auditor shall not communicate a matter in the Key Audit Matters section of the auditor's report when the auditor would be required to modify the opinion in accordance with SLAuS 705 (Revised) as a result of the matter. (Ref: Para. A5)

*Descriptions of Individual Key Audit Matters*

13. The description of each key audit matter in the Key Audit Matters section of the auditor's report shall include a reference to the related disclosure(s), if any, in the financial statements and shall address: (Ref: Para. A34–A41)

    (a) Why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter; and (Ref: Para. A42–A45)

    (b) How the matter was addressed in the audit. (Ref: Para. A46–A51)

*Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report*

14. The auditor shall describe each key audit matter in the auditor's report unless: (Ref: Para. A53–A56)

    (a) Law or regulation precludes public disclosure about the matter; or (Ref: Para. A52)

    (b) In extremely rare circumstances, the auditor determines that the matter should not be communicated in the auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. This shall not apply if the entity has publicly disclosed information about the matter.

*Interaction between Descriptions of Key Audit Matters and Other Elements Required to Be Included in the Auditor's Report*

15. A matter giving rise to a modified opinion in accordance with SLAuS 705 (Revised), or a material uncertainty related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised), are by their nature key audit matters. However, in such circumstances, these matters shall not be described in the Key Audit Matters section of the auditor's report and the requirements in paragraphs 13–14 do not apply. Rather, the auditor shall:

    (a) Report on these matter(s) in accordance with the applicable SLAuS(s); and

    (b) Include a reference to the Basis for Qualified (Adverse) Opinion or the Material Uncertainty Related to Going Concern section(s) in the Key Audit Matters section. (Ref: Para. A6–A7)

*Form and Content of the Key Audit Matters Section in Other Circumstances*

16. If the auditor determines, depending on the facts and circumstances of the entity and the audit, that there are no key audit matters to communicate or that the only key audit matters communicated are those matters addressed by paragraph 15, the auditor shall include a statement to this effect in a separate section of the auditor's report under the heading "Key Audit Matters." (Ref: Para. A57–A59)

**Communication with Those Charged with Governance**

17. The auditor shall communicate with those charged with governance:

(a) Those matters the auditor has determined to be the key audit matters; or

(b) If applicable, depending on the facts and circumstances of the entity and the audit, the auditor's determination that there are no key audit matters to communicate in the auditor's report. (Ref: Para. A60–A63)

**Documentation**

18. The auditor shall include in the audit documentation:[6] (Ref: Para. A64)

(a) The matters that required significant auditor attention as determined in accordance with paragraph 9, and the rationale for the auditor's determination as to whether or not each of these matters is a key audit matter in accordance with paragraph 10;

(b) Where applicable, the rationale for the auditor's determination that there are no key audit matters to communicate in the auditor's report or that the only key audit matters to communicate are those matters addressed by paragraph 15; and

(c) Where applicable, the rationale for the auditor's determination not to communicate in the auditor's report a matter determined to be a key audit matter.

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## Application and Other Explanatory Material

**Scope of this SLAuS** (Ref: Para. 2)

A1. Significance can be described as the relative importance of a matter, taken in context. The significance of a matter is judged by the auditor in the context in which it is being considered. Significance can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and effect on the subject matter and the expressed interests of intended users or recipients. This involves an objective analysis of the facts and circumstances, including the nature and extent of communication with those charged with governance.

A2. Users of financial statements have expressed an interest in those matters about which the auditor had the most robust dialogue with those charged with governance as part of the two-way communication required by SLAuS 260 (Revised)[7] and have called for additional transparency about those communications. For example, users have expressed particular interest in understanding significant judgments made by the auditor in forming the opinion on the financial statements as a whole, because they are often related to the areas of significant management judgment in preparing the financial statements.

A3. Requiring auditors to communicate key audit matters in the auditor's report may also enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance to the disclosures in the financial statements to which reference is made in the auditor's report.

A4. SLAuS 320[8] explains that it is reasonable for the auditor to assume that users of the financial statements:

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6 SLAuS 230, *Audit Documentation*, paragraphs 8–11 and A6

7 SLAuS 260 (Revised), *Communication with Those Charged with Governance*

8 SLAuS 320, *Materiality in Planning and Performing the Audit*, paragraph 4

(a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;

(b) Understand that the financial statements are prepared, presented and audited to levels of materiality;

(c) Recognize the uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and the consideration of future events; and

(d) Make reasonable economic decisions on the basis of the information in the financial statements.

Because the auditor's report accompanies the audited financial statements, the users of the auditor's report are considered to be the same as the intended users of the financial statements.

*Relationship between Key Audit Matters, the Auditor's Opinion and Other Elements of the Auditor's Report* (Ref: Para. 4, 12, 15)

A5. SLAuS 700 (Revised) establishes requirements and provides guidance on forming an opinion on the financial statements.[9] Communicating key audit matters is not a substitute for disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation. SLAuS 705 (Revised) addresses circumstances in which the auditor concludes that there is a material misstatement relating to the appropriateness or adequacy of disclosures in the financial statements.[10]

A6. When the auditor expresses a qualified or adverse opinion in accordance with SLAuS 705 (Revised), presenting the description of a matter giving rise to a modified opinion in the Basis for Qualified (Adverse) Opinion section helps to promote intended users' understanding and to identify such circumstances when they occur. Separating the communication of this matter from other key audit matters described in the Key Audit Matters section therefore gives it the appropriate prominence in the auditor's report (see paragraph 15). The Appendix in SLAuS 705 (Revised) includes illustrative examples of how the introductory language in the Key Audit Matters section is affected when the auditor expresses a qualified or adverse opinion and other key audit matters are communicated in the auditor's report. Paragraph A58 of this SLAuS illustrates how the Key Audit Matters section is presented when the auditor has determined that there are no other key audit matters to be communicated in the auditor's report beyond matters addressed in the Basis for Qualified (Adverse) Opinion section or Material Uncertainty Related to Going Concern section of the auditor's report.

A7. When the auditor expresses a qualified or adverse opinion, communicating other key audit matters would still be relevant to enhancing intended users' understanding of the audit, and therefore the requirements to determine key audit matters apply. However, as an adverse opinion is expressed in circumstances when the auditor has concluded that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements:[11]

(a) Depending on the significance of the matter(s) giving rise to an adverse opinion, the auditor may determine that no other matters are key audit matters. In such circumstances, the requirement in paragraph 15 applies (see paragraph A58).

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9 SLAuS 700 (Revised), paragraphs 10–15 and A1–A15

10 See paragraph A7 of SLAuS 705 (Revised).

11 SLAuS 705 (Revised), paragraph 8

(b) If one or more matters other than the matter(s) giving rise to an adverse opinion are determined to be key audit matters, it is particularly important that the descriptions of such other key audit matters do not imply that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, in view of the adverse opinion (see paragraph A47).

A8. SLAuS 706 (Revised)[12] establishes mechanisms for auditors of financial statements of all entities to include additional communication in the auditor's report through the use of Emphasis of Matter paragraphs and Other Matter paragraphs when the auditor considers it necessary to do so. In such cases, these paragraphs are presented separately from the Key Audit Matters section in the auditor's report. When a matter has been determined to be a key audit matter, the use of such paragraphs is not a substitute for the description of the individual key audit matter in accordance with paragraph 13.[13] SLAuS 706 (Revised) provides further guidance on the relationship between key audit matters and Emphasis of Matter paragraphs in accordance with that SLAuS.[14]

**Determining Key Audit Matters** (Ref: Para. 9–10)

A9. The auditor's decision-making process in determining key audit matters is designed to select a smaller number of matters from the matters communicated with those charged with governance, based on the auditor's judgment about which matters were of most significance in the audit of the financial statements of the current period.

A10. The auditor's determination of key audit matters is limited to those matters of most significance in the audit of the financial statements of the current period, even when comparative financial statements are presented (i.e., even when the auditor's opinion refers to each period for which financial statements are presented).[15]

A11. Notwithstanding that the auditor's determination of key audit matters is for the audit of the financial statements of the current period and this SLAuS does not require the auditor to update key audit matters included in the prior period's auditor's report, it may nevertheless be useful for the auditor to consider whether a matter that was a key audit matter in the audit of the financial statements of the prior period continues to be a key audit matter in the audit of the financial statements of the current period.

*Matters that Required Significant Auditor Attention* (Ref: Para. 9)

A12. The concept of significant auditor attention recognizes that an audit is risk-based and focuses on identifying and assessing the risks of material misstatement of the financial statements, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for the auditor's opinion. For a particular account balance, class of transactions or disclosure, the higher an assessed risk of material misstatement at the assertion level, the more judgment is often involved in planning and performing the audit procedures and evaluating the results thereof. In designing further audit procedures, the auditor is required to obtain more persuasive audit evidence the higher the auditor's assessment of risk.[16] When obtaining more persuasive audit evidence because of a

[12] SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

[13] See paragraphs 8(b) and 10(b) of SLAuS 706 (Revised).

[14] SLAuS 706 (Revised), paragraphs A1–A3

[15] See SLAuS 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*.

[16] SLAuS 330, *The Auditor's Responses to Assessed Risks*, paragraph 7(b)

higher assessment of risk, the auditor may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by placing more emphasis on obtaining third party evidence or by obtaining corroborating evidence from a number of independent sources.[17]

A13. Accordingly, matters that pose challenges to the auditor in obtaining sufficient appropriate audit evidence or pose challenges to the auditor in forming an opinion on the financial statements may be particularly relevant in the auditor's determination of key audit matters.

A14. Areas of significant auditor attention often relate to areas of complexity and significant management judgment in the financial statements, and therefore often involve difficult or complex auditor judgments. In turn, this often affects the auditor's overall audit strategy, the allocation of resources and extent of audit effort in relation to such matters. These effects may include, for example, the extent of involvement of senior personnel on the audit engagement or the involvement of an auditor's expert or individuals with expertise in a specialized area of accounting or auditing, whether engaged or employed by the firm to address these areas.

A15. Various SLAuSs require specific communications with those charged with governance and others that may relate to areas of significant auditor attention. For example:

- SLAuS 260 (Revised) requires the auditor to communicate significant difficulties, if any, encountered during the audit with those charged with governance.[18] The SLAuSs acknowledge potential difficulties in relation to, for example:
  - Related party transactions,[19] in particular limitations on the auditor's ability to obtain audit evidence that all other aspects of a related party transaction (other than price) are equivalent to those of a similar arm's length transaction.
  - Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted.[20]
- SLAuS 220 establishes requirements for the engagement partner in relation to undertaking appropriate consultation on difficult or contentious matters.[21] For example, the auditor may have consulted with others within the firm or outside the firm on a significant technical matter, which may be an indicator that it is a key audit matter. The engagement partner is also required to discuss, among other things, significant matters arising during the audit engagement with the engagement quality control reviewer.[22]

*Considerations in Determining Those Matters that Required Significant Auditor Attention* (Ref: Para. 9)

A16. The auditor may develop a preliminary view at the planning stage about matters that are likely to be areas of significant auditor attention in the audit and therefore may be key audit matters. The auditor may communicate this with those charged with governance when discussing the planned scope and

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[17] SLAuS 330, paragraph A19

[18] SLAuS 260 (Revised), paragraphs 16(b) and A21

[19] SLAuS 550, *Related Parties*, paragraph A42

[20] SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraph 49(d)

[21] SLAuS 220, *Quality Control for an Audit of Financial Statements*, paragraph 18

[22] SLAuS 220, paragraph 19

timing of the audit in accordance with SLAuS 260 (Revised). However, the auditor's determination of key audit matters is based on the results of the audit or evidence obtained throughout the audit.

A17. Paragraph 9 includes specific required considerations in the auditor's determination of those matters that required significant auditor attention. These considerations focus on the nature of matters communicated with those charged with governance that are often linked to matters disclosed in the financial statements, and are intended to reflect areas of the audit of the financial statements that may be of particular interest to intended users. The fact that these considerations are required is not intended to imply that matters related to them are always key audit matters; rather, matters related to such specific considerations are key audit matters only if they are determined to be of most significance in the audit in accordance with paragraph 10. As the considerations may be interrelated (e.g., matters relating to the circumstances described in paragraphs 9(b)-(c) may also be identified as significant risks), the applicability of more than one of the considerations to a particular matter communicated with those charged with governance may increase the likelihood of the auditor identifying that matter as a key audit matter.

A18. In addition to matters that relate to the specific required considerations in paragraph 9, there may be other matters communicated with those charged with governance that required significant auditor attention and that therefore may be determined to be key audit matters in accordance with paragraph 10. Such matters may include, for example, matters relevant to the audit that was performed that may not be required to be disclosed in the financial statements. For example, the implementation of a new IT system (or significant changes to an existing IT system) during the period may be an area of significant auditor attention, in particular if such a change had a significant effect on the auditor's overall audit strategy or related to a significant risk (e.g., changes to a system affecting revenue recognition).

Areas of Higher Assessed Risk of Material Misstatement, or Significant Risks Identified in Accordance with SLAuS 315 (Revised) (Ref: Para. 9(a))

A19. SLAuS 260 (Revised) requires the auditor to communicate with those charged with governance about the significant risks identified by the auditor.[23] Paragraph A13 of SLAuS 260 (Revised) explains that the auditor may also communicate with those charged with governance about how the auditor plans to address areas of higher assessed risks of material misstatement.

A20. SLAuS 315 (Revised) defines a significant risk as an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration. Areas of significant management judgment and significant unusual transactions may often be identified as significant risks. Significant risks are therefore often areas that require significant auditor attention.

A21. However, this may not be the case for all significant risks. For example, SLAuS 240 presumes that there are risks of fraud in revenue recognition and requires the auditor to treat those assessed risks of material misstatement due to fraud as significant risks.[24] In addition, SLAuS 240 indicates that, due to the unpredictable way in which management override of controls could occur, it is a risk of material misstatement due to fraud and thus a significant risk.[25] Depending on their nature, these risks may not require significant auditor attention, and therefore would not be considered in the auditor's determination of key audit matters in accordance with paragraph 10.

[23] SLAuS 260 (Revised), paragraph 15

[24] SLAuS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 26–27

[25] SLAuS 240, paragraph 31

A22. SLAuS 315 (Revised) explains that the auditor's assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained.[26] Revision to the auditor's risk assessment and reevaluation of the planned audit procedures with respect to a particular area of the financial statements (i.e., a significant change in the audit approach, for example, if the auditor's risk assessment was based on an expectation that certain controls were operating effectively and the auditor has obtained audit evidence that they were not operating effectively throughout the audit period, particularly in an area with higher assessed risk of material misstatement) may result in an area being determined as one requiring significant auditor attention.

Significant Auditor Judgments Relating to Areas in the Financial Statements that Involved Significant Management Judgment, Including Accounting Estimates that Have Been Identified as Having High Estimation Uncertainty (Ref: Para. 9(b))

A23. SLAuS 260 (Revised) requires the auditor to communicate with those charged with governance the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.[27] In many cases, this relates to critical accounting estimates and related disclosures, which are likely to be areas of significant auditor attention, and also may be identified as significant risks.

A24. However, users of the financial statements have highlighted their interest in accounting estimates that have been identified as having high estimation uncertainty in accordance with SLAuS 540[28] that may have not been determined to be significant risks. Among other things, such estimates are highly dependent on management judgment and are often the most complex areas of the financial statements, and may require the involvement of both a management's expert and an auditor's expert. Users have also highlighted that accounting policies that have a significant effect on the financial statements (and significant changes to those policies) are relevant to their understanding of the financial statements, especially in circumstances where an entity's practices are not consistent with others in its industry.

The Effect on the Audit of Significant Events or Transactions that Occurred during the Period (Ref: Para. 9(c))

A25. Events or transactions that had a significant effect on the financial statements or the audit may be areas of significant auditor attention and may be identified as significant risks. For example, the auditor may have had extensive discussions with management and those charged with governance at various stages throughout the audit about the effect on the financial statements of significant transactions with related parties or significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual.[29] Management may have made difficult or complex judgments in relation to recognition, measurement, presentation or disclosure of such transactions, which may have had a significant effect on the auditor's overall strategy.

A26. Significant economic, accounting, regulatory, industry, or other developments that affected management's assumptions or judgments may also affect the auditor's overall approach to the audit and result in a matter requiring significant auditor attention.

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[26] SLAuS 315 (Revised), paragraph 31

[27] SLAuS 260 (Revised), paragraph 16(a)

[28] See paragraphs 10–11 of SLAuS 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*.

[29] See paragraphs 16(a), 16(c) and A22, and Appendix 2, of SLAuS 260 (Revised).

*Matters of Most Significance* (Ref: Para. 10)

A27. Matters that required significant auditor attention also may have resulted in significant interaction with those charged with governance. The nature and extent of communication about such matters with those charged with governance often provides an indication of which matters are of most significance in the audit. For example, the auditor may have had more in-depth, frequent or robust interactions with those charged with governance on more difficult and complex matters, such as the application of significant accounting policies that were the subject of significant auditor or management judgment.

A28. The concept of matters of most significance is applicable in the context of the entity and the audit that was performed. As such, the auditor's determination and communication of key audit matters is intended to identify matters specific to the audit and to involve making a judgment about their importance relative to other matters in the audit.

A29. Other considerations that may be relevant to determining the relative significance of a matter communicated with those charged with governance and whether such a matter is a key audit matter include:

- The importance of the matter to intended users' understanding of the financial statements as a whole, in particular, its materiality to the financial statements.
- The nature of the underlying accounting policy relating to the matter or the complexity or subjectivity involved in management's selection of an appropriate policy compared to other entities within its industry.
- The nature and materiality, quantitatively or qualitatively, of corrected and accumulated uncorrected misstatements due to fraud or error related to the matter, if any.
- The nature and extent of audit effort needed to address the matter, including:
  - The extent of specialized skill or knowledge needed to apply audit procedures to address the matter or evaluate the results of those procedures, if any.
  - The nature of consultations outside the engagement team regarding the matter.
- The nature and severity of difficulties in applying audit procedures, evaluating the results of those procedures, and obtaining relevant and reliable evidence on which to base the auditor's opinion, in particular as the auditor's judgments become more subjective.
- The severity of any control deficiencies identified relevant to the matter.
- Whether the matter involved a number of separate, but related, auditing considerations. For example, long-term contracts may involve significant auditor attention with respect to revenue recognition, litigation or other contingencies, and may have an effect on other accounting estimates.

A30. Determining which, and how many, of those matters that required significant auditor attention were of most significance in the audit of the financial statements of the current period is a matter of professional judgment. The number of key audit matters to be included in the auditor's report may be affected by the size and complexity of the entity, the nature of its business and environment, and the facts and circumstances of the audit engagement. In general, the greater the number of matters initially determined to be key audit matters, the more the auditor may need to reconsider whether each of these matters meets the definition of a key audit matter. Lengthy lists of key audit matters may be contrary to the notion of such matters being those of most significance in the audit.

**Communicating Key Audit Matters**

*Separate Key Audit Matters Section in the Auditor's Report* (Ref: Para. 11)

A31. Placing the separate Key Audit Matters section in close proximity to the auditor's opinion may give prominence to such information and acknowledge the perceived value of engagement-specific information to intended users.

A32. The order of presentation of individual matters within the Key Audit Matters section is a matter of professional judgment. For example, such information may be organized in order of relative importance, based on the auditor's judgment, or may correspond to the manner in which matters are disclosed in the financial statements. The requirement in paragraph 11 to include subheadings is intended to further differentiate the matters.

A33. When comparative financial information is presented, the introductory language of the Key Audit Matters section is tailored to draw attention to the fact that the key audit matters described relate to only the audit of the financial statements of the current period, and may include reference to the specific period covered by those financial statements (e.g., "for the year ended December 31, 20X1").

Descriptions of Individual Key Audit Matters (Ref: Para. 13)

A34. The adequacy of the description of a key audit matter is a matter of professional judgment. The description of a key audit matter is intended to provide a succinct and balanced explanation to enable intended users to understand why the matter was one of most significance in the audit and how the matter was addressed in the audit. Limiting the use of highly technical auditing terms also helps to enable intended users who do not have a reasonable knowledge of auditing to understand the basis for the auditor's focus on particular matters during the audit. The nature and extent of information provided by the auditor is intended to be balanced in the context of the responsibilities of the respective parties (i.e., for the auditor to provide useful information in a concise and understandable form, while not inappropriately being the provider of original information about the entity).

A35. Original information is any information about the entity that has not otherwise been made publicly available by the entity (e.g., has not been included in the financial statements or other information available at the date of the auditor's report, or addressed in other oral or written communications by management or those charged with governance, such as a preliminary announcement of financial information or investor briefings). Such information is the responsibility of the entity's management and those charged with governance.

A36. It is appropriate for the auditor to seek to avoid the description of a key audit matter inappropriately providing original information about the entity. The description of a key audit matter is not usually of itself original information about the entity, as it describes the matter in the context of the audit. However, the auditor may consider it necessary to include additional information to explain why the matter was considered to be one of most significance in the audit and therefore determined to be a key audit matter, and how the matter was addressed in the audit, provided that disclosure of such information is not precluded by law or regulation. When such information is determined to be necessary by the auditor, the auditor may encourage management or those charged with governance to disclose additional information, rather than the auditor providing original information in the auditor's report.

A37. Management or those charged with governance may decide to include new or enhanced disclosures in the financial statements or elsewhere in the annual report relating to a key audit matter in light of the fact that the matter will be communicated in the auditor's report. Such new or enhanced disclosures, for example, may be included to provide more robust information about the sensitivity of key assumptions used in accounting estimates or the entity's rationale for a particular accounting practice or policy when acceptable alternatives exist under the applicable financial reporting framework.

A38. SLAuS 720 (Revised) defines the term annual report and explains that documents such as a management report, management commentary, or operating and financial review or similar reports by those charged with governance (e.g., a directors' report), a Chairman's statement, corporate governance statement, or internal control and risk assessment reports may form part of the annual report.[30] SLAuS 720 (Revised) addresses the auditor's responsibilities relating to other information included in the annual report. Although the auditor's opinion on the financial statements does not cover the other information, the auditor may consider this information, as well as other publicly available communications by the entity or other credible sources, in formulating the description of a key audit matter.

A39. Audit documentation prepared during the audit can also be useful to the auditor in formulating the description of a key audit matter. For example, written communications, or the auditor's documentation of oral communications, with those charged with governance and other audit documentation provides a useful basis for the auditor's communication in the auditor's report. This is because audit documentation in accordance with SLAuS 230 is intended to address the significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions, and serves as a record of the nature, timing and extent of the audit procedures performed, the results of those procedures, and the audit evidence obtained. Such documentation may assist the auditor in developing a description of key audit matters that explains the significance of the matter and also in applying the requirement in paragraph 18.

Reference to Where the Matter Is Disclosed in the Financial Statements (Ref: Para. 13)

A40. Paragraphs 13(a)-(b) requires the description of each key audit matter to address why the auditor considered the matter to be one of most significance in the audit and how the matter was addressed in the audit. Accordingly, the description of key audit matters is not a mere reiteration of what is disclosed in the financial statements. However, a reference to any related disclosures enables intended users to further understand how management has addressed the matter in preparing the financial statements.

A41. In addition to referring to related disclosure(s), the auditor may draw attention to key aspects of them. The extent of disclosure by management about specific aspects or factors in relation to how a particular matter is affecting the financial statements of the current period may help the auditor in pinpointing particular aspects of how the matter was addressed in the audit such that intended users can understand why the matter is a key audit matter. For example:

- When an entity includes robust disclosure about accounting estimates, the auditor may draw attention to the disclosure of key assumptions, the disclosure of the range of possible outcomes, and other qualitative and quantitative disclosures relating to key sources of estimation uncertainty or critical accounting estimates, as part of addressing why the matter was one of most significance in the audit and how the matter was addressed in the audit.

[30] SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, paragraphs 12(a) and A1–A3

- When the auditor concludes in accordance with SLAuS 570 (Revised) that no material uncertainty exists relating to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern, the auditor may nevertheless determine that one or more matters relating to this conclusion arising from the auditor's work effort under SLAuS 570 (Revised) are key audit matters. In such circumstances, the auditor's description of such key audit matters in the auditor's report could include aspects of the identified events or conditions disclosed in the financial statements, such as substantial operating losses, available borrowing facilities and possible debt refinancing, or non-compliance with loan agreements, and related mitigating factors.[31]

Why the Auditor Considered the Matter to Be One of Most Significance in the Audit (Ref: Para. 13(a))

A42. The description of a key audit matter in the auditor's report is intended to provide insight as to why the matter was determined to be a key audit matter. Accordingly, the requirements in paragraphs 9–10 and the application material in paragraphs A12–A29 related to determining key audit matters may also be helpful for the auditor in considering how such matters are to be communicated in the auditor's report. For example, explaining the factors that led the auditor to conclude that a particular matter required significant auditor attention and was of most significance in the audit is likely to be of interest to intended users.

A43. The relevance of the information for intended users is a consideration for the auditor in determining what to include in the description of a key audit matter. This may include whether the description would enable a better understanding of the audit and the auditor's judgments.

A44. Relating a matter directly to the specific circumstances of the entity may also help to minimize the potential that such descriptions become overly standardized and less useful over time. For example, certain matters may be determined as key audit matters in a particular industry across a number of entities due to the circumstances of the industry or the underlying complexity in financial reporting. In describing why the auditor considered the matter to be one of most significance, it may be useful for the auditor to highlight aspects specific to the entity (e.g., circumstances that affected the underlying judgments made in the financial statements of the current period) in order to make the description more relevant for intended users. This also may be important in describing a key audit matter that recurs over periods.

A45. The description may also make reference to the principal considerations that led the auditor, in the circumstances of the audit, to determine the matter to be one of most significance, for example:

- Economic conditions that affected the auditor's ability to obtain audit evidence, for example illiquid markets for certain financial instruments.
- New or emerging accounting policies, for example entity-specific or industry-specific matters on which the engagement team consulted within the firm.
- Changes in the entity's strategy or business model that had a material effect on the financial statements.

[31] See paragraph A3 of SLAuS 570 (Revised).

How the Matter Was Addressed in the Audit (Ref: Para. 13(b))

A46. The amount of detail to be provided in the auditor's report to describe how a key audit matter was addressed in the audit is a matter of professional judgment. In accordance with paragraph 13(b), the auditor may describe:

- Aspects of the auditor's response or approach that were most relevant to the matter or specific to the assessed risk of material misstatement;
- A brief overview of procedures performed;
- An indication of the outcome of the auditor's procedures; or
- Key observations with respect to the matter,

or some combination of these elements.

Law or regulation or Sri Lanka Auditing Standards may prescribe a specific form or content for the description of a key audit matter, or may specify the inclusion of one or more of these elements.

A47. In order for intended users to understand the significance of a key audit matter in the context of the audit of the financial statements as a whole, as well as the relationship between key audit matters and other elements of the auditor's report, including the auditor's opinion, care may be necessary so that language used in the description of a key audit matter:

- Does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements.
- Relates the matter directly to the specific circumstances of the entity, while avoiding generic or standardized language.
- Takes into account how the matter is addressed in the related disclosure(s) in the financial statements, if any.
- Does not contain or imply discrete opinions on separate elements of the financial statements.

A48. Describing aspects of the auditor's response or approach to a matter, in particular when the audit approach required significant tailoring to the facts and circumstances of the entity, may assist intended users in understanding unusual circumstances and significant auditor judgments required to address the risk of material misstatement. In addition, the audit approach in a particular period may have been influenced by entity-specific circumstances, economic conditions, or industry developments. It may also be useful for the auditor to make reference to the nature and extent of communications with those charged with governance about the matter.

A49. For example, in describing the auditor's approach to an accounting estimate that has been identified as having high estimation uncertainty, such as the valuation of complex financial instruments, the auditor may wish to highlight that the auditor employed or engaged an auditor's expert. Such a reference to the use of an auditor's expert does not reduce the auditor's responsibility for the opinion on the financial statements and is therefore not inconsistent with paragraphs 14–15 of SLAuS 620.[32]

A50. There may be challenges in describing the auditor's procedures, particularly in complex, judgmental areas of the audit. In particular, it may be difficult to summarize the procedures performed in a succinct

[32] SLAuS 620, *Using the Work of an Auditor's Expert*

way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgments involved. Nonetheless, the auditor may consider it necessary to describe certain procedures performed to communicate how the matter was addressed in the audit. Such description may typically be at a high level, rather than include a detailed description of procedures.

A51. As noted in paragraph A46, the auditor may also provide an indication of the outcome of the auditor's response in the description of the key audit matter in the auditor's report. However, if this is done, care is needed to avoid the auditor giving the impression that the description is conveying a separate opinion on an individual key audit matter or that in any way may call into question the auditor's opinion on the financial statements as a whole.

*Circumstances in Which a Matter Determined to Be a Key Audit Matter Is Not Communicated in the Auditor's Report* (Ref: Para. 14)

A52. Law or regulation may preclude public disclosure by either management or the auditor about a specific matter determined to be a key audit matter. For example, law or regulation may specifically prohibit any public communication that might prejudice an investigation by an appropriate authority into an actual, or suspected, illegal act (e.g., matters that are or appear to be related to money laundering).

A53. As indicated by paragraph 14(b), it will be extremely rare for a matter determined to be a key audit matter not to be communicated in the auditor's report. This is because there is presumed to be a public interest benefit in providing greater transparency about the audit for intended users. Accordingly, the judgment not to communicate a key audit matter is appropriate only in cases when the adverse consequences to the entity or the public as a result of such communication are viewed as so significant that they would reasonably be expected to outweigh the public interest benefits of communicating about the matter.

A54. The determination not to communicate a key audit matter takes into account the facts and circumstances related to the matter. Communication with management and those charged with governance helps the auditor understand management's views about the significance of the adverse consequences that may arise as a result of communicating about a matter. In particular, communication with management and those charged with governance helps to inform the auditor's judgment in determining whether to communicate the matter by:

- Assisting the auditor in understanding why the matter has not been publicly disclosed by the entity (e.g., if law, regulation or certain financial reporting frameworks permit delayed disclosure or non-disclosure of the matter) and management's views as to the adverse consequences, if any, of disclosure. Management may draw attention to certain aspects in law or regulation or other authoritative sources that may be relevant to the consideration of adverse consequences (e.g., such aspects may include harm to the entity's commercial negotiations or competitive position). However, management's views about the adverse consequences alone do not alleviate the need for the auditor to determine whether the adverse consequences would reasonably be expected to outweigh the public interest benefits of communication in accordance with paragraph 14(b).

- Highlighting whether there have been any communications with applicable regulatory, enforcement or supervisory authorities in relation to the matter, in particular whether such discussions would appear to support management's assertion as to why public disclosure about the matter is not appropriate.

- Enabling the auditor, where appropriate, to encourage management and those charged with governance to make public disclosure of relevant information about the matter. In particular, this may be possible if the concerns of management and those charged with governance about communicating are limited to specific aspects relating to the matter, such that certain information about the matter may be less sensitive and could be communicated.

The auditor also may consider it necessary to obtain a written representation from management as to why public disclosure about the matter is not appropriate, including management's view about the significance of the adverse consequences that may arise as a result of such communication.

A55. It may also be necessary for the auditor to consider the implications of communicating about a matter determined to be a key audit matter in light of relevant ethical requirements. In addition, the auditor may be required by law or regulation to communicate with applicable regulatory, enforcement or supervisory authorities in relation to the matter, regardless of whether the matter is communicated in the auditor's report. Such communication may also be useful to inform the auditor's consideration of the adverse consequences that may arise from communicating about the matter.

A56. The issues considered by the auditor regarding a decision to not communicate a matter are complex and involve significant auditor judgment. Accordingly, the auditor may consider it appropriate to obtain legal advice.

*Form and Content of the Key Audit Matters Section in Other Circumstances* (Ref: Para. 16)

A57. The requirement in paragraph 16 applies in three circumstances:

(a) The auditor determines in accordance with paragraph 10 that there are no key audit matters (see paragraph A59).

(b) The auditor determines in accordance with paragraph 14 that a key audit matter will not be communicated in the auditor's report and no other matters have been determined to be key audit matters.

(c) The only matters determined to be key audit matters are those communicated in accordance with paragraph 15.

A58. The following illustrates the presentation in the auditor's report if the auditor has determined there are no key audit matters to communicate:

**Key Audit Matters**

[Except for the matter described in the *Basis for Qualified (Adverse) Opinion* section or *Material Uncertainty Related to Going Concern* section,] We have determined that there are no [other] key audit matters to communicate in our report.

A59. The determination of key audit matters involves making a judgment about the relative importance of matters that required significant auditor attention. Therefore, it may be rare that the auditor of a complete set of general purpose financial statements of a listed entity would not determine at least one key audit matter from the matters communicated with those charged with governance to be communicated in the auditor's report. However, in certain limited circumstances (e.g., for a listed entity that has very limited operations), the auditor may determine that there are no key audit matters in accordance with paragraph 10 because there are no matters that required significant auditor attention.

**Communication with Those Charged with Governance** (Ref: Para. 17)

A60. SLAuS 260 (Revised) requires the auditor to communicate with those charged with governance on a timely basis.[33] The appropriate timing for communications about key audit matters will vary with the circumstances of the engagement. However, the auditor may communicate preliminary views about key audit matters when discussing the planned scope and timing of the audit, and may further discuss such matters when communicating about audit findings. Doing so may help to alleviate the practical challenges of attempting to have a robust two-way dialogue about key audit matters at the time the financial statements are being finalized for issuance.

A61. Communication with those charged with governance enables them to be made aware of the key audit matters that the auditor intends to communicate in the auditor’s report, and provides them with an opportunity to obtain further clarification where necessary. The auditor may consider it useful to provide those charged with governance with a draft of the auditor’s report to facilitate this discussion. Communication with those charged with governance recognizes their important role in overseeing the financial reporting process, and provides the opportunity for those charged with governance to understand the basis for the auditor’s decisions in relation to key audit matters and how these matters will be described in the auditor’s report. It also enables those charged with governance to consider whether new or enhanced disclosures may be useful in light of the fact that these matters will be communicated in the auditor’s report.

A62. The communication with those charged with governance required by paragraph 17(a) also addresses the extremely rare circumstances in which a matter determined to be a key audit matter is not communicated in the auditor’s report (see paragraphs 14 and A54).

A63. The requirement in paragraph 17(b) to communicate with those charged with governance when the auditor has determined there are no key audit matters to communicate in the auditor’s report may provide an opportunity for the auditor to have further discussion with others who are familiar with the audit and the significant matters that may have arisen (including the engagement quality control reviewer, where one has been appointed). These discussions may cause the auditor to re-evaluate the auditor’s determination that there are no key audit matters.

**Documentation** (Ref: Para. 18)

A64. Paragraph 8 of SLAuS 230 requires the auditor to prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand, among other things, significant professional judgments. In the context of key audit matters, these professional judgments include the determination, from the matters communicated with those charged with governance, of the matters that required significant auditor attention, as well as whether or not each of those matters is a key audit matter. The auditor’s judgments in this regard are likely to be supported by the documentation of the auditor’s communications with those charged with governance and the audit documentation relating to each individual matter (see paragraph A39), as well as certain other audit documentation of the significant matters arising during the audit (e.g., a completion memorandum). However, this SLAuS does not require the auditor to document why other matters communicated with those charged with governance were not matters that required significant auditor attention.

[33] SLAuS 260 (Revised), paragraph 21

# SRI LANKA AUDITING STANDARD 705 (REVISED)

# MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT

(Effective for audits of financial statements for periods ending on or after 31 March 2018)

**CONTENTS**



Sri Lanka Auditing Standard (SLAuS) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1 This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SLAuS 700 (Revised),[1] the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary. This SLAuS also deals with how the form and content of the auditor's report is affected when the auditor expresses a modified opinion. In all cases, the reporting requirements in SLAuS 700 (Revised) apply, and are not repeated in this SLAuS unless they are explicitly addressed or amended by the requirements of this SLAuS.

### Types of Modified Opinions

2 This SLAuS establishes three types of modified opinions, namely, a qualified opinion, an adverse opinion, and a disclaimer of opinion. The decision regarding which type of modified opinion is appropriate depends upon:

(a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

(b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements. (Ref: Para. A1)

### Effective Date

3. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

# Objective

4 The objective of the auditor is to express clearly an appropriately modified opinion on the financial statements that is necessary when:

(a) The auditor concludes, based on the audit evidence obtained, that the financial statements as a whole are not free from material misstatement; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

# Definitions

5 For purposes of the SLAuSs, the following terms have the meanings attributed below:

(a) Pervasive – A term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:

(i) Are not confined to specific elements, accounts or items of the financial statements;

(ii) If so confined, represent or could represent a substantial proportion of the financial statements; or

[1] SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

(iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

(b) Modified opinion – A qualified opinion, an adverse opinion or a disclaimer of opinion on the financial statements.

# Requirements

## Circumstances When a Modification to the Auditor's Opinion Is Required

6 The auditor shall modify the opinion in the auditor's report when:

(a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or (Ref: Para. A2–A7)

(b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement. (Ref: Para. A8–A12)

## Determining the Type of Modification to the Auditor's Opinion

*Qualified Opinion*

7 The auditor shall express a qualified opinion when:

(a) The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or

(b) The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive

*Adverse Opinion*

8. The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

*Disclaimer of Opinion*

9 The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

10 The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

*Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement*

11 If, after accepting the engagement, the auditor becomes aware that management has imposed a limitation on the scope of the audit that the auditor considers likely to result in the need to express a qualified opinion or to disclaim an opinion on the financial statements, the auditor shall request that management remove the limitation.

12 If management refuses to remove the limitation referred to in paragraph 11 of this SLAuS, the auditor shall communicate the matter to those charged with governance, unless all of those charged with governance are involved in managing the entity,[2] and determine whether it is possible to perform alternative procedures to obtain sufficient appropriate audit evidence.

13 If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall determine the implications as follows:
- (a) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive, the auditor shall qualify the opinion; or
- (b) If the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive so that a qualification of the opinion would be inadequate to communicate the gravity of the situation, the auditor shall:
  - (i) Withdraw from the audit, where practicable and possible under applicable law or regulation; or (Ref: Para. A13)
  - (ii) If withdrawal from the audit before issuing the auditor's report is not practicable or possible, disclaim an opinion on the financial statements. (Ref. Para. A14)

14 If the auditor withdraws as contemplated by paragraph 13(b)(i), before withdrawing, the auditor shall communicate to those charged with governance any matters regarding misstatements identified during the audit that would have given rise to a modification of the opinion. (Ref: Para. A15)

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion*

15 When the auditor considers it necessary to express an adverse opinion or disclaim an opinion on the financial statements as a whole, the auditor's report shall not also include an unmodified opinion with respect to the same financial reporting framework on a single financial statement or one or more specific elements, accounts or items of a financial statement. To include such an unmodified opinion in the same report3 in these circumstances would contradict the auditor's adverse opinion or disclaimer of opinion on the financial statements as a whole. (Ref: Para. A16)

**Form and Content of the Auditor's Report When the Opinion Is Modified**

*Auditor's Opinion*

16 When the auditor modifies the audit opinion, the auditor shall use the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section. (Ref: Para. A17–A19)

*Qualified Opinion*

17 When the auditor expresses a qualified opinion due to a material misstatement in the financial statements, the auditor shall state that, in the auditor's opinion, except for the effects of the matter(s) described in the Basis for Qualified Opinion section:
- (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements give a true and fair view of (or present fairly, in all material respects) […] in accordance with [the applicable financial reporting framework]; or
- (b) When reporting in accordance with a compliance framework, the accompanying financial statements have been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

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[2] SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph 13

[3] SLAuS 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, deals with circumstances where the auditor is engaged to express a separate opinion on one or more specific elements, accounts or items of a financial statement.

When the modification arises from an inability to obtain sufficient appropriate audit evidence, the auditor shall use the corresponding phrase "except for the possible effects of the matter(s) ..." for the modified opinion. (Ref: Para. A20)

Adverse Opinion

18 When the auditor expresses an adverse opinion, the auditor shall state that, in the auditor's opinion, because of the significance of the matter(s) described in the Basis for Adverse Opinion section:
- (a) When reporting in accordance with a fair presentation framework, the accompanying financial statements do not give a true and fair view of (or present fairly) […] in accordance with [the applicable financial reporting framework]; or
- (b) When reporting in accordance with a compliance framework, the accompanying financial statements have not been prepared, in all material respects, in accordance with [the applicable financial reporting framework].

Disclaimer of Opinion

19 When the auditor disclaims an opinion due to an inability to obtain sufficient appropriate audit evidence, the auditor shall:
- (a) State that the auditor does not express an opinion on the accompanying financial statements;
- (b) State that, because of the significance of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and
- (c) Amend the statement required by paragraph 24(b) of SLAuS 700 (Revised), which indicates that the financial statements have been audited, to state that the auditor was engaged to audit the financial statements.

Basis for Opinion

20 When the auditor modifies the opinion on the financial statements, the auditor shall, in addition to the specific elements required by SLAuS 700 (Revised): (Ref: Para. A21)
- (a) Amend the heading "Basis for Opinion" required by paragraph 28 of SLAuS 700 (Revised) to "Basis for Qualified Opinion," "Basis for Adverse Opinion," or "Basis for Disclaimer of Opinion," as appropriate; and
- (b) Within this section, include a description of the matter giving rise to the modification.

21 If there is a material misstatement of the financial statements that relates to specific amounts in the financial statements (including quantitative disclosures), the auditor shall include in the Basis for Opinion section a description and quantification of the financial effects of the misstatement, unless impracticable. If it is not practicable to quantify the financial effects, the auditor shall so state in this section. (Ref: Para. A22)

22 If there is a material misstatement of the financial statements that relates to qualitative disclosures, the auditor shall include in the Basis for Opinion section an explanation of how the disclosures are misstated.

23 If there is a material misstatement of the financial statements that relates to the non-disclosure of information required to be disclosed, the auditor shall:
- (a) Discuss the non-disclosure with those charged with governance;
- (b) Describe in the Basis for Opinion section the nature of the omitted information; and
- (c) Unless prohibited by law or regulation, include the omitted disclosures, provided it is practicable to do so and the auditor has obtained sufficient appropriate audit evidence about the omitted information. (Ref: Para. A23)

24 If the modification results from an inability to obtain sufficient appropriate audit evidence, the auditor shall include in the Basis for Opinion section the reasons for that inability.

25 When the auditor expresses a qualified or adverse opinion, the auditor shall amend the statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion required by paragraph 28(d) of SLAuS 700 (Revised) to include the word "qualified" or "adverse", as appropriate.

26 When the auditor disclaims an opinion on the financial statements, the auditor's report shall not include the elements required by paragraphs 28(b) and 28(d) of SLAuS 700 (Revised). Those elements are:

(a) A reference to the section of the auditor's report where the auditor's responsibilities are described; and

(b) A statement about whether the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

27 Even if the auditor has expressed an adverse opinion or disclaimed an opinion on the financial statements, the auditor shall describe in the Basis for Opinion section the reasons for any other matters of which the auditor is aware that would have required a modification to the opinion, and the effects thereof. (Ref: Para. A24)

*Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements*

28 When the auditor disclaims an opinion on the financial statements due to an inability to obtain sufficient appropriate audit evidence, the auditor shall amend the description of the auditor's responsibilities required by paragraphs 39–41 of SLAuS 700 (Revised) to include only the following: (Ref: Para. A25)

(a) A statement that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report;

(b) A statement that, however, because of the matter(s) described in the Basis for Disclaimer of Opinion section, the auditor was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements; and

(c) The statement about auditor independence and other ethical responsibilities required by paragraph 28(c) of SLAuS 700 (Revised).

*Considerations When the Auditor Disclaims an Opinion on the Financial Statements*

29 Unless required by law or regulation, when the auditor disclaims an opinion on the financial statements, the auditor's report shall not include a Key Audit Matters section in accordance with SLAuS 701 or an Other Information section in accordance with SLAuS 720 (Revised).4,5 (Ref: Para. A26

**Communication with Those Charged with Governance**

30 When the auditor expects to modify the opinion in the auditor's report, the auditor shall communicate with those charged with governance the circumstances that led to the expected modification and the wording of the modification. (Ref: Para. A27)

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[4] SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report,* paragraphs 11–13

[5] SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information,* paragraph A54

## Application and Other Explanatory Material

**Types of Modified Opinions** (Ref: Para. 2)

A1 The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

| *Nature of Matter Giving Rise to the Modification* | ***Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements*** | |
|---|---|---|
| | ***Material but Not Pervasive*** | ***Material and Pervasive*** |
| **Financial statements are materially misstated** | Qualified opinion | Adverse opinion |
| **Inability to obtain sufficient appropriate audit evidence** | Qualified opinion | Disclaimer of opinion |

**Circumstances When a Modification to the Auditor's Opinion Is Required**

*Nature of Material Misstatements* (Ref: Para. 6(a))

A2 SLAuS 700 (Revised) requires the auditor, in order to form an opinion on the financial statements, to conclude as to whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement.6 This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements in accordance with SLAuS 450.7

A3 SLAuS 450 defines a misstatement as a difference between the reported amount, classification, presentation, or disclosure of a financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the applicable financial reporting framework. Accordingly, a material misstatement of the financial statements may arise in relation to:

(a) The appropriateness of the selected accounting policies;

(b) The application of the selected accounting policies; or

(c) The appropriateness or adequacy of disclosures in the financial statements

Appropriateness of the Selected Accounting Policies

A4 In relation to the appropriateness of the accounting policies management has selected, material misstatements of the financial statements may arise for example when:

(a) The selected accounting policies are not consistent with the applicable financial reporting framework;

[6] SLAuS 700 (Revised), paragraph 11
[7] SLAuS 450, *Evaluation of Misstatements Identified during the Audit*, paragraph 11

(b) The financial statements do not correctly describe an accounting policy relating to a significant item in the statement of financial position, the statement of comprehensive income, the statement of changes in equity or the statement of cash flows; or

(c) The financial statements do not represent or disclose the underlying transactions and events in a manner that achieves fair presentation.

A5 Financial reporting frameworks often contain requirements for the accounting for, and disclosure of, changes in accounting policies. Where the entity has changed its selection of significant accounting policies, a material misstatement of the financial statements may arise when the entity has not complied with these requirements

Application of the Selected Accounting Policies

A6 In relation to the application of the selected accounting policies, material misstatements of the financial statements may arise:

(a) When management has not applied the selected accounting policies consistently with the financial reporting framework, including when management has not applied the selected accounting policies consistently between periods or to similar transactions and events (consistency in application); or

(b) Due to the method of application of the selected accounting policies (such as an unintentional error in application).

Appropriateness or Adequacy of Disclosures in the Financial Statements

A7 In relation to the appropriateness or adequacy of disclosures in the financial statements, material misstatements of the financial statements may arise when:

(a) The financial statements do not include all of the disclosures required by the applicable financial reporting framework;

(b) The disclosures in the financial statements are not presented in accordance with the applicable financial reporting framework; or

(c) The financial statements do not provide the additional disclosures necessary to achieve fair presentation beyond disclosures specifically required by the applicable financial reporting framework.

Paragraph A13a of SLAuS 450 provides further examples of material misstatements in qualitative disclosures that may arise.

Nature of an Inability to Obtain Sufficient Appropriate Audit Evidence (Ref: Para. 6(b))

A8 The auditor’s inability to obtain sufficient appropriate audit evidence (also referred to as a limitation on the scope of the audit) may arise from:

(a) Circumstances beyond the control of the entity;

(b) Circumstances relating to the nature or timing of the auditor’s work; or

(c) Limitations imposed by management.

A9 An inability to perform a specific procedure does not constitute a limitation on the scope of the audit if the auditor is able to obtain sufficient appropriate audit evidence by performing alternative procedures. If this is not possible, the requirements of paragraphs 7(b) and 9–10 apply as appropriate. Limitations imposed by management may have other implications for the audit, such as for the auditor's assessment of fraud risks and consideration of engagement continuance.

A10 Examples of circumstances beyond the control of the entity include when:

- The entity's accounting records have been destroyed.
- The accounting records of a significant component have been seized indefinitely by governmental authorities.

A11 Examples of circumstances relating to the nature or timing of the auditor's work include when:

- The entity is required to use the equity method of accounting for an associated entity, and the auditor is unable to obtain sufficient appropriate audit evidence about the latter's financial information to evaluate whether the equity method has been appropriately applied.
- The timing of the auditor's appointment is such that the auditor is unable to observe the counting of the physical inventories.
- The auditor determines that performing substantive procedures alone is not sufficient, but the entity's controls are not effective.

A12 Examples of an inability to obtain sufficient appropriate audit evidence arising from a limitation on the scope of the audit imposed by management include when:

- Management prevents the auditor from observing the counting of the physical inventory.
- Management prevents the auditor from requesting external confirmation of specific account balances.

**Determining the Type of Modification to the Auditor's Opinion**

*Consequence of an Inability to Obtain Sufficient Appropriate Audit Evidence Due to a Management-Imposed Limitation after the Auditor Has Accepted the Engagement* (Ref: Para. 13(b)(i)–14)

A13 The practicality of withdrawing from the audit may depend on the stage of completion of the engagement at the time that management imposes the scope limitation. If the auditor has substantially completed the audit, the auditor may decide to complete the audit to the extent possible, disclaim an opinion and explain the scope limitation within the Basis for Disclaimer of Opinion section prior to withdrawing.

A14 In certain circumstances, withdrawal from the audit may not be possible if the auditor is required by law or regulation to continue the audit engagement. This may be the case for an auditor that is appointed to audit the financial statements of public sector entities. It may also be the case in jurisdictions where the auditor is appointed to audit the financial statements covering a specific period, or appointed for a specific period and is prohibited from withdrawing before the completion of the audit of those financial statements or before the end of that period, respectively. The auditor may also consider it necessary to include an Other Matter paragraph in the auditor's report.[8]

A15 When the auditor concludes that withdrawal from the audit is necessary because of a scope limitation, there may be a professional, legal or regulatory requirement for the auditor to communicate matters relating to the withdrawal from the engagement to regulators or the entity's owners.

*Other Considerations Relating to an Adverse Opinion or Disclaimer of Opinion (Ref: Para. 15)*

A16 The following are examples of reporting circumstances that would not contradict the auditor's adverse opinion or disclaimer of opinion:

- The expression of an unmodified opinion on financial statements prepared under a given financial reporting framework and, within the same report, the expression of an adverse opinion on the same financial statements under a different financial reporting framework.[9]
- The expression of a disclaimer of opinion regarding the results of operations, and cash flows, where relevant, and an unmodified opinion regarding the financial position (see SLAuS 510[10]). In this case, the auditor has not expressed a disclaimer of opinion on the financial statements as a whole.

**Form and Content of the Auditor's Report When the Opinion Is Modified**

*Illustrative Auditor's Reports* (Ref: Para. 16)

A17 Illustrations 1 and 2 in the Appendix contain auditor's reports with qualified and adverse opinions, respectively, as the financial statements are materially misstated.

A18 Illustration 3 in the Appendix contains an auditor's report with a qualified opinion as the auditor is unable to obtain sufficient appropriate audit evidence. Illustration 4 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about a single element of the financial statements. Illustration 5 contains a disclaimer of opinion due to an inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements. In each of the latter two cases, the possible effects on the financial statements of the inability are both material and pervasive. The Appendices to other SLAuSs that include reporting requirements, including SLAuS 570 (Revised),11 also include illustrations of auditor's reports with modified opinions.

Auditor's Opinion (Ref: Para. 16)

A19 Amending this heading makes it clear to the user that the auditor's opinion is modified and indicates the type of modification.

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8 SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, paragraph A10

9 See paragraph A31 of SLAuS 700 (Revised) for a description of this circumstance.

10 SLAuS 510, *Initial Audit Engagements—Opening Balances*, paragraph 10

11 SLAuS 570 (Revised), *Going Concern*

Qualified Opinion (Ref: Para. 17)

A20 When the auditor expresses a qualified opinion, it would not be appropriate to use phrases such as "with the foregoing explanation" or "subject to" in the Opinion section as these are not sufficiently clear or forceful.

Basis for Opinion (Ref: Para. 20, 21, 23, 27)

A21 Consistency in the auditor's report helps to promote users' understanding and to identify unusual circumstances when they occur. Accordingly, although uniformity in the wording of a modified opinion and in the description of the reasons for the modification may not be possible, consistency in both the form and content of the auditor's report is desirable.

A22 An example of the financial effects of material misstatements that the auditor may describe within the Basis for Opinion section in the auditor's report is the quantification of the effects on income tax, income before taxes, net income and equity if inventory is overstated.

A23 Disclosing the omitted information within the Basis for Opinion section would not be practicable if:

(a) The disclosures have not been prepared by management or the disclosures are otherwise not readily available to the auditor; or

(b) In the auditor's judgment, the disclosures would be unduly voluminous in relation to the auditor's report.

A24 An adverse opinion or a disclaimer of opinion relating to a specific matter described within the Basis for Opinion section does not justify the omission of a description of other identified matters that would have otherwise required a modification of the auditor's opinion. In such cases, the disclosure of such other matters of which the auditor is aware may be relevant to users of the financial statements.

*Description of Auditor's Responsibilities for the Audit of the Financial Statements When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 28)*

A25 When the auditor disclaims an opinion on the financial statements, the following statements are better positioned within the Auditor's Responsibilities for the Audit of the Financial Statements section of the auditor's report, as illustrated in Illustrations 4–5 of the Appendix to this SLAuS:

- The statement required by paragraph 28(a) of SLAuS 700 (Revised), amended to state that the auditor's responsibility is to conduct an audit of the entity's financial statements in accordance with SLAuSs; and
- The statement required by paragraph 28(c) of SLAuS 700 (Revised) about independence and other ethical responsibilities.

*Considerations When the Auditor Disclaims an Opinion on the Financial Statements (Ref: Para. 29)*

A26 Providing the reasons for the auditor's inability to obtain sufficient appropriate audit evidence within the Basis for Disclaimer of Opinion section of the auditor's report provides useful information to users in understanding why the auditor has disclaimed an opinion on the financial statements and may further guard against inappropriate reliance on them. However, communication of any key audit matters other than the matter(s) giving rise to the disclaimer of opinion may suggest that the financial statements as a whole are more credible in relation to those matters than would be appropriate in the circumstances, and would be inconsistent with the disclaimer of opinion on the financial statements as a whole. Similarly, it would not be appropriate to include an Other Information section in accordance with SLAuS 720 (Revised) addressing the auditor's consideration of the consistency of the other information with the financial statements. Accordingly, paragraph 29 of this SLAuS prohibits a Key Audit Matters section or an Other Information section from being included in the auditor's report when the auditor disclaims an opinion on the financial statements, unless the auditor is otherwise required by law or regulation to communicate key audit matters or to report on other information.

**Communication with Those Charged with Governance (Ref: Para. 30)**

A27 Communicating with those charged with governance the circumstances that lead to an expected modification to the auditor's opinion and the wording of the modification enables:

(a) The auditor to give notice to those charged with governance of the intended modification(s) and the reasons (or circumstances) for the modification(s);

(b) The auditor to seek the concurrence of those charged with governance regarding the facts of the matter(s) giving rise to the expected modification(s), or to confirm matters of disagreement with management as such; and

**(c)** Those charged with governance to have an opportunity, where appropriate, to provide the auditor with further information and explanations in respect of the matter(s) giving rise to the expected modification(s).

## Appendix

(Ref:Para A17-A18,A25)

**Illustrations of Independent Auditor's Reports with Modifications to the Opinion**

- Illustration 1: An auditor's report containing a qualified opinion due to a material misstatement of the financial statements.
- Illustration 2: An auditor's report containing an adverse opinion due to a material misstatement of the consolidated financial statements.
- Illustration 3: An auditor's report containing a qualified opinion due to the auditor's inability to obtain sufficient appropriate audit evidence regarding a foreign associate.
- Illustration 4: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements.
- Illustration 5: An auditor's report containing a disclaimer of opinion due to the auditor's inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements.

**<u>Illustration 1 – Qualified Opinion due to a Material Misstatement of the Financial Statements</u>**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600[12] does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.[13]**
- **Inventories are misstated. The misstatement is deemed to be material but not pervasive to the financial statements (i.e., a qualified opinion is appropriate).**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

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[12] SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

[13] SLAuS 210, *Agreeing the Terms of Audit Engagements*

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[14]

**Qualified Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements give a true and fair view of, (or present fairly in all material respects) the financial position of the Company as at December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Qualified Opinion**

The Company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from Sri Lanka Accounting Standards. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Other Information [or other title if appropriate such as "Information Other that the Financial Statements and Auditor's Report Thereon"]**

[*Reporting in accordance with the reporting requirements of SLAuS 720 (Revised) – see Illustration 6 in Appendix 2 of SLAuS 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.*]

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate

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14 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.
*[Description of each key audit matter in accordance with SLAuS 701.]*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[15]**
*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

**Auditor's Responsibilities for the Audit of the Financial Statements**
*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**
*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is [*number*].

[*Signature in the name of the audit firm] [audit firm address]*

[*Date*]

## <u>Illustration 2 – Adverse Opinion due to a Material Misstatement of the Consolidated Financial Statements</u>

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SLAuS 600 applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SLAuS 210.**
- **The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **SLAuS 701 applies; however, the auditor has determined that there are no key audit matters other than the matter described in the Basis for Adverse Opinion section.**

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15 Throughout the illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

**INDEPENDENT AUDITOR'S REPORT**
To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Consolidated Financial Statements**[16]
Adverse Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not give a true and fair view of, (*or do not present fairly*) the consolidated financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Adverse Opinion**

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Sri Lanka Accounting Standards, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

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[16] The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 7 in Appendix 2 of SLAuS 720 (Revised). The last paragraph of the other information section in Illustration 7 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

**Key Audit Matters**

Except for the matter described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**[17]

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]*

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]*
CA Sri Lanka membership number of the engagement partner responsible for the independent auditor's report is [number]

*[Signature in the name of the audit firm] [Audit Firm Address]*

*[Date]*

**<u>Illustration 3 – Qualified Opinion due to the Auditor's Inability to Obtain Sufficient Audit Evidence Regarding a Foreign Associate</u>**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SLAuS 600 applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SLAuS 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit**

17 Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

**evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).**

- **The relevant ethical requirements that apply to the audit comprise the code of ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information.**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Consolidated Financial Statements[18]

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements give a true and fair view of, (*or present fairly, in all material respects*) the financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Qualified Opinion

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under

[18] The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements of SLAuS 720 (Revised) – see Illustration 6 in Appendix 2 of SLAuS 720 (Revised). The last paragraph of the other information section in Illustration 6 would be customized to describe the specific matter giving rise to the qualified opinion that also affects the other information.]*

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

*[Description of each key audit matter in accordance with SLAuS 701.]*

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**[19]

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]*

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]*
CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditor's report is [*number*].

[*Signature in the name of the audit firm] [audit firm address]*

[*Date*]

[19] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

**Illustration 4 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about a Single Element of the Consolidated Financial Statements**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of an entity other than a listed entity using a fair presentation framework. The audit is a group audit of an entity with subsidiaries (i.e., SLAuS 600 applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SLAuS 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence about a single element of the consolidated financial statements. That is, the auditor was also unable to obtain audit evidence about the financial information of a joint venture investment that represents over 90% of the entity's net assets. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the consolidated financial statements (i.e., a disclaimer of opinion is appropriate).**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **A more limited description of the auditor's responsibilities section is required.**
- **In addition to the audit of the consolidated financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Consolidated Financial Statements[20]

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

[20] The sub-title "Report on the Audit of the Consolidated Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

**Basis for Disclaimer of Opinion**

The Group's investment in its joint venture XYZ Company is carried at xxx on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X1. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

**Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**[21]

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 4 in SLAuS 700 (Revised).]*

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 4 in SLAuS 700 (Revised).]*
*[Signature in the name of the audit firm] [Audit firm address]*

*[Date]*

**Illustration 5 – Disclaimer of Opinion due to the Auditor's Inability to Obtain Sufficient Appropriate Audit Evidence about Multiple Elements of the Financial Statements**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600, does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**

[21] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

- **The auditor was unable to obtain sufficient appropriate audit evidence about multiple elements of the financial statements, that is, the auditor was also unable to obtain audit evidence about the entity's inventories and accounts receivable. The possible effects of this inability to obtain sufficient appropriate audit evidence are deemed to be both material and pervasive to the financial statements.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **A more limited description of the auditor's responsibilities section is required.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[22]

Disclaimer of Opinion

We were engaged to audit the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

**Basis for Disclaimer of Opinion**

We were not appointed as auditors of the Company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1, which are stated in the statements of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of comprehensive income, statement of changes in equity and statement of cash flows.

[22] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[23]**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our responsibility is to conduct an audit of the Company's financial statements in accordance with Sri Lanka Auditing Standards and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

**Report on Other Legal and Regulatory Requirements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

*[Signature in the name of the audit firm] [Audit firm address]*

*[Date]*

23 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

# SRI LANKA AUDITING STANDARD 706 (REVISED)

# EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT

(Effective for audits of financial statements for periods ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with additional communication in the auditor's report when the auditor considers it necessary to:
   Draw users' attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to users' understanding of the financial statements; or
   Draw users' attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

2. SLAuS 701[1] establishes requirements and provides guidance when the auditor determines key audit matters and communicates them in the auditor's report. When the auditor includes a Key Audit Matters section in the auditor's report, this SLAuS addresses the relationship between key audit matters and any additional communication in the auditor's report in accordance with this SLAuS. (Ref: Para. A1–A3)

3. SLAuS 570 (Revised)[2] and SLAuS 720 (Revised)[3] establishes requirements and provides guidance about communication in the auditor's report relating to going concern and other information respectively.

4. Appendices 1 and 2 identify SLAuSs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs or Other Matter paragraphs in the auditor's report. In those circumstances, the requirements in this SLAuS regarding the form of such paragraphs apply. (Ref: Para. A4)

### Effective Date

5. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

# Objective

6. The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

   (a) A matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or

   (b) As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

# Definitions

7. For purposes of the SLAuSs, the following terms have the meanings attributed below:

   (a) Emphasis of Matter paragraph – A paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

   (b) Other Matter paragraph – A paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is

[1] SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
[2] SLAuS 570 (Revised), *Going Concern*
[3] SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

## Requirements

### Emphasis of Matter Paragraphs in the Auditor's Report

8. If the auditor considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements, the auditor shall include an Emphasis of Matter paragraph in the auditor's report provided: (Ref: Para. A5–A6)

   (a) The auditor would not be required to modify the opinion in accordance with SLAuS 705 (Revised)[4] as a result of the matter; and

   (b) When SLAuS 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A1–A3)

9. When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor shall:

   (a) Include the paragraph within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter";

   (b) Include in the paragraph a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements. The paragraph shall refer only to information presented or disclosed in the financial statements; and

   (c) Indicate that the auditor's opinion is not modified in respect of the matter emphasized. (Ref: Para. A7–A8, A16–A17)

### Other Matter Paragraphs in the Auditor's Report

10. If the auditor considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, the auditor shall include an Other Matter paragraph in the auditor's report, provided:

    (a) This is not prohibited by law or regulation; and

    (b) When SLAuS 701 applies, the matter has not been determined to be a key audit matter to be communicated in the auditor's report. (Ref: Para. A9–A14)

11. When the auditor includes an Other Matter paragraph in the auditor's report, the auditor shall include the paragraph within a separate section with the heading "Other Matter," or other appropriate heading. (Ref: Para. A15–A17)

### Communication with Those Charged with Governance

12. If the auditor expects to include an Emphasis of Matter or an Other Matter paragraph in the auditor's report, the auditor shall communicate with those charged with governance regarding this expectation and the wording of this paragraph. (Ref: Para. A18)

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[4] SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

## Application and Other Explanatory Material

**The Relationship between Emphasis of Matter Paragraphs and Key Audit Matters in the Auditor's Report** (Ref: Para. 2, 8(b))

A1 Key audit matters are defined in SLAuS 701 as those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance, which include significant findings from the audit of the financial statements of the current period.[5] Communicating key audit matters provides additional information to intended users of the financial statements to assist them in understanding those matters that, in the auditor's professional judgment, were of most significance in the audit and may also assist them in understanding the entity and areas of significant management judgment in the audited financial statements. When SLAuS 701 applies, the use of Emphasis of Matter paragraphs is not a substitute for a description of individual key audit matters.

A2 Matters that are determined to be key audit matters in accordance with SLAuS 701 may also be, in the auditor's judgment, fundamental to users' understanding of the financial statements. In such cases, in communicating the matter as a key audit matter in accordance with SLAuS 701, the auditor may wish to highlight or draw further attention to its relative importance. The auditor may do so by presenting the matter more prominently than other matters in the Key Audit Matters section (e.g., as the first matter) or by including additional information in the description of the key audit matter to indicate the importance of the matter to users' understanding of the financial statements.

A3. There may be a matter that is not determined to be a key audit matter in accordance with SLAuS 701 (i.e., because it did not require significant auditor attention), but which, in the auditor's judgment, is fundamental to users' understanding of the financial statements (e.g., a subsequent event). If the auditor considers it necessary to draw users' attention to such a matter, the matter is included in an Emphasis of Matter paragraph in the auditor's report in accordance with this SLAuS.

**Circumstances in Which an Emphasis of Matter Paragraph May Be Necessary (Ref: Para. 4, 8)**

A4. Appendix 1 identifies SLAuSs that contain specific requirements for the auditor to include Emphasis of Matter paragraphs in the auditor's report in certain circumstances. These circumstances include:

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.
- To alert users that the financial statements are prepared in accordance with a special purpose framework.
- When facts become known to the auditor after the date of the auditor's report and the auditor provides a new or amended auditor's report (i.e., subsequent events).[6]

A5. Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph are:

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.[7]

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5 SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph 16
6 SLAuS 560, *Subsequent Events*, paragraphs 12(b) and 16

- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

A6 However, a widespread use of Emphasis of Matter paragraphs may diminish the effectiveness of the auditor's communication about such matters.

**Including an Emphasis of Matter Paragraph in the Auditor's Report (Ref: Para. 9)**

A7 The inclusion of an Emphasis of Matter paragraph in the auditor's report does not affect the auditor's opinion. An Emphasis of Matter paragraph is not a substitute for:

(a) A modified opinion in accordance with SLAuS 705 (Revised) when required by the circumstances of a specific audit engagement;

(b) Disclosures in the financial statements that the applicable financial reporting framework requires management to make, or that are otherwise necessary to achieve fair presentation; or

(c) Reporting in accordance with SLAuS 570 (Revised)[8] when a material uncertainty exists relating to events or conditions that may cast significant doubt on an entity's ability to continue as a going concern.

A8 Paragraphs A16–A17 provide further guidance on the placement of Emphasis of Matter paragraphs in particular circumstances.

**Other Matter Paragraphs in the Auditor's Report (Ref: Para. 10–11)**

*Circumstances in Which an Other Matter Paragraph May Be Necessary*

Relevant to Users' Understanding of the Audit

A9 SLAuS 260 (Revised) requires the auditor to communicate with those charged with governance about the planned scope and timing of the audit, which includes communication about the significant risks identified by the auditor.[9] Although matters relating to significant risks may be determined to be key audit matters, other planning and scoping matters (e.g., the planned scope of the audit, or the application of materiality in the context of the audit) are unlikely to be key audit matters because of how key audit matters are defined in SLAuS 701. However, law or regulation may require the auditor to communicate about planning and scoping matters in the auditor's report, or the auditor may consider it necessary to communicate about such matters in an Other Matter paragraph.

A10 In the rare circumstance where the auditor is unable to withdraw from an engagement even though the possible effect of an inability to obtain sufficient appropriate audit evidence due to a limitation on the scope of the audit imposed by management is pervasive,[10] the auditor may consider it necessary to include an Other Matter paragraph in the auditor's report to explain why it is not possible for the auditor to withdraw from the engagement.

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7 SLAuS 560, paragraph 6
8 SLAuS 570 (Revised), paragraphs 22–23
9 SLAuS 260 (Revised), paragraph 15
10 See paragraph 13(b)(ii) of SLAuS 705 (Revised) for a discussion of this circumstance.

Relevant to Users' Understanding of the Auditor's Responsibilities or the Auditor's Report

A11 Law, regulation or generally accepted practice in a jurisdiction may require or permit the auditor to elaborate on matters that provide further explanation of the auditor's responsibilities in the audit of the financial statements or of the auditor's report thereon. When the Other Matter section includes more than one matter that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report, it may be helpful to use different sub-headings for each matter.

A12 An Other Matter paragraph does not deal with circumstances where the auditor has other reporting responsibilities that are in addition to the auditor's responsibility under the SLAuSs (see Other Reporting Responsibilities section in SLAuS 700 (Revised)[11]), or where the auditor has been asked to perform and report on additional specified procedures, or to express an opinion on specific matters.

Reporting on more than one set of financial statements

A13 An entity may prepare one set of financial statements in accordance with a general purpose framework (e.g., Sri Lanka Accounting Standards) and another set of financial statements in accordance with another general purpose framework (e.g., International Financial Reporting Standards), and engage the auditor to report on both sets of financial statements. If the auditor has determined that the frameworks are acceptable in the respective circumstances, the auditor may include an Other Matter paragraph in the auditor's report, referring to the fact that another set of financial statements has been prepared by the same entity in accordance with another general purpose framework and that the auditor has issued a report on those financial statements.

Restriction on distribution or use of the auditor's report

A14 Financial statements prepared for a specific purpose may be prepared in accordance with a general purpose framework because the intended users have determined that such general purpose financial statements meet their financial information needs. Since the auditor's report is intended for specific users, the auditor may consider it necessary in the circumstances to include an Other Matter paragraph, stating that the auditor's report is intended solely for the intended users, and should not be distributed to or used by other parties.

*Including an Other Matter Paragraph in the Auditor's Report*

A15 The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the financial statements. An Other Matter paragraph does not include information that the auditor is prohibited from providing by law, regulation or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

**Placement of Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Auditor's Report (Ref: Para. 9, 11)**

A16 The placement of an Emphasis of Matter paragraph or Other Matter paragraph in the auditor's report depends on the nature of the information to be communicated, and the auditor's judgment as to the relative significance of such information to intended users compared to other elements required to be reported in accordance with SLAuS 700 (Revised). For example:

[11] SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 43–44

*Emphasis of Matter Paragraphs*

- When the Emphasis of Matter paragraph relates to the applicable financial reporting framework, including circumstances where the auditor determines that the financial reporting framework prescribed by law or regulation would otherwise be unacceptable,[12] the auditor may consider it necessary to place the paragraph immediately following the Basis for Opinion section to provide appropriate context to the auditor's opinion.
- When a Key Audit Matters section is presented in the auditor's report, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section, based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph. The auditor may also add further context to the heading "Emphasis of Matter", such as "Emphasis of Matter – Subsequent Event", to differentiate the Emphasis of Matter paragraph from the individual matters described in the Key Audit Matters section.

*Other Matter Paragraphs*

- When a Key Audit Matters section is presented in the auditor's report and an Other Matter paragraph is also considered necessary, the auditor may add further context to the heading "Other Matter", such as "Other Matter – Scope of the Audit", to differentiate the Other Matter paragraph from the individual matters described in the Key Audit Matters section.
- When an Other Matter paragraph is included to draw users' attention to a matter relating to Other Reporting Responsibilities addressed in the auditor's report, the paragraph may be included in the Report on Other Legal and Regulatory Requirements section.
- When relevant to all the auditor's responsibilities or users' understanding of the auditor's report, the Other Matter paragraph may be included as a separate section following the Report on the Audit of the Financial Statements and the Report on Other Legal and Regulatory Requirements.

A17 Appendix 3 is an illustration of the interaction between the Key Audit Matters section, an Emphasis of Matter paragraph and an Other Matter paragraph when all are presented in the auditor's report. The illustrative report in Appendix 4 includes an Emphasis of Matter paragraph in an auditor's report for an entity other than a listed entity that contains a qualified opinion and for which key audit matters have not been communicated.

**Communication with Those Charged with Governance (Ref. Para. 12)**

The communication required by paragraph 12 enables those charged with governance to be made aware of the nature of any specific matters that the auditor intends to highlight in the auditor's report, and provides them with an opportunity to obtain further clarification from the auditor where necessary. Where the inclusion of an Other Matter paragraph on a particular matter in the auditor's report recurs on each successive engagement, the auditor may determine that it is unnecessary to repeat the communication on each engagement, unless otherwise required to do so by law or regulation.

12 For example, as required by SLAuS 210, *Agreeing the Terms of Audit Engagements*, paragraph 19 and SLAuS 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, paragraph 14

## Appendix 1

(Ref:Para 4, A4)

**List of SLAuSs Containing Requirements for Emphasis of Matter Paragraphs**

This appendix identifies paragraphs in other SLAuSs that require the auditor to include an Emphasis of Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs.

- SLAuS 210, *Agreeing the Terms of Audit Engagements* – paragraph 19(b)
- SLAuS 560, *Subsequent Events* – paragraphs 12(b) and 16
- SLAuS 800 (Revised), Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks – paragraph 14

## Appendix 2

(Ref: Para. 4)

**List of SLAuSs Containing Requirements for Other Matter Paragraphs**

This appendix identifies paragraphs in other SLAuSs that require the auditor to include an Other Matter paragraph in the auditor's report in certain circumstances. The list is not a substitute for considering the requirements and related application and other explanatory material in SLAuSs.

- SLAuS 560, *Subsequent Events* – paragraphs 12(b) and 16
- SLAuS 710, Comparative Information—Corresponding Figures and Comparative Financial Statements – paragraphs 13–14, 16–17 and 19

## Appendix 3

(Ref: Para A17)

**Refer the Sri Lanka Auditing Standard 700 (Revised) illustrative reports for the localized reports**

Illustration of an Independent Auditor's Report that Includes a Key Audit Matters Section, an Emphasis of Matter Paragraph, and an Other Matter Paragraph

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600[1] does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**

[1] SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Corresponding figures are presented, and the prior period's financial statements were audited by a predecessor auditor. The auditor is not prohibited by law or regulation from referring to the predecessor auditor's report on the corresponding figures and has decided to do so.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Financial Statements[2]

### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of ,(*or present fairly in all material respects*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial*

[2] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

*Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter[3]**

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*[Description of each key audit matter in accordance with SLAuS 701.]*

**Other Matter**

The financial statements of ABC Company for the year ended December 31, 20X0, were audited by another auditor who expressed an unmodified opinion on those statements on March 31, 20X1.

**Other Information [or another title if appropriate such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

*[Reporting in accordance with the reporting requirements in SLAuS 720 (Revised) – see Illustration 1 in Appendix 2 of SLAuS 720 (Revised).]*

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[4]**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

**Auditor's Responsibilities for the Audit of the Financial Statements**

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

**Report on Other Legal and Regulatory Requirements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700* (*Revised*).]
CA Sri Lanka Membership number of the engagement partner responsible for signing the independent auditor's report is [number].

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

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3 As noted in paragraph A16, an Emphasis of Matter paragraph may be presented either directly before or after the Key Audit Matters section based on the auditor's judgment as to the relative significance of the information included in the Emphasis of Matter paragraph.

4 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

# Appendix 4

(Ref:Para.A8)

**Refer the Sri Lanka Auditing Standard 700 (Revised) illustrative reports for the localized reports**

**Illustration of an Independent Auditor's Report Containing a Qualified Opinion Due to a Departure from the Applicable Financial Reporting Framework and that Includes an Emphasis of Matter Paragraph**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **A departure from the applicable financial reporting framework resulted in a qualified opinion.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Between the date of the financial statements and the date of the auditor's report, there was a fire in the entity's production facilities, which was disclosed by the entity as a subsequent event. In the auditor's judgment, the matter is of such importance that it is fundamental to users' understanding of the financial statements. The matter did not require significant auditor attention in the audit of the financial statements in the current period.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.**
- **The auditor has not obtained any other information prior to the date of the auditor's report.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements[1]

### Qualified Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards

### Basis for Qualified Opinion

The Company's short-term marketable securities are carried in the statement of financial position at xxx. Management has not marked these securities to market but has instead stated them at cost, which constitutes a departure from Sri Lanka Accounting Standards. The Company's records indicate that had management marked the marketable securities to market, the Company would have recognized an unrealized loss of xxx in the statement of comprehensive income for the year. The carrying amount of the securities in the statement of financial position would have been reduced by the same amount at December 31, 20X1, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

### Emphasis of Matter – Effects of a Fire

We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements[2]

*[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).]*

### Auditor's Responsibilities for the Audit of the Financial Statements

*[Reporting in accordance with SLAuS 700 (Revised – see Illustration 1 in SLAuS 700 (Revised).]*

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[1] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[2] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

**Report on Other Legal and Regulatory Requirements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700* (*Revised*).]

[*Signature in the name of the audit firm] [audit firm address]*

[*Date*]

# SRI LANKA AUDITING STANDARD 720 (REVISED)
# THE AUDITOR'S RESPONSIBILITIES RELATING TO OTHER INFORMATION

(Effective for audits of financial statements for periods ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibilities relating to other information, whether financial or non-financial information (other than financial statements and the auditor's report thereon), included in an entity's annual report. An entity's annual report may be a single document or a combination of documents that serve the same purpose.

2. This SLAuS is written in the context of an audit of financial statements by an independent auditor. Accordingly, the objectives of the auditor in this SLAuS are to be understood in the context of the overall objectives of the auditor as stated in paragraph 11 of SLAuS 200.[1] The requirements in the SLAuS are designed to enable the auditor to achieve the objectives specified in the SLAuSs, and thereby the overall objectives of the auditor. The auditor's opinion on the financial statements does not cover the other information, nor does this SLAuS require the auditor to obtain audit evidence beyond that required to form an opinion on the financial statements.

3. This SLAuS requires the auditor to read and consider the other information because other information that is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit may indicate that there is a material misstatement of the financial statements or that a material misstatement of the other information exists, either of which may undermine the credibility of the financial statements and the auditor's report thereon. Such material misstatements may also inappropriately influence the economic decisions of the users for whom the auditor's report is prepared.

4. This SLAuS may also assist the auditor in complying with relevant ethical requirements[2] that require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.

5. Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail, about amounts or other items in the financial statements, and other amounts or other items about which the auditor has obtained knowledge in the audit. Other information may also include other matters.

6. The auditor's responsibilities relating to other information (other than applicable reporting responsibilities) apply regardless of whether the other information is obtained by the auditor prior to, or after, the date of the auditor's report.

7. This SLAuS does not apply to:

   (a) Preliminary announcements of financial information; or

   (b) Securities offering documents, including prospectuses.

8. The auditor's responsibilities under this SLAuS do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.

9. Law or regulation may impose additional obligations on the auditor in relation to other information that are beyond the scope of this SLAuS.

### Effective Date

10. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

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[1] SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Standards on Auditing*

[2] *Code of Ethics for Professional Accountants* (CA Sri Lanka Code), paragraph 110.2

## Objectives

11. The objectives of the auditor, having read the other information, are:
    To consider whether there is a material inconsistency between the other information and the financial statements;
    (a) To consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit;
    (b) To respond appropriately when the auditor identifies that such material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated; and
    (c) To report in accordance with this SLAuS.

## Definitions

12. For purposes of the SLAuSs, the following terms have the meanings attributed below:
    (a) Annual report – A document, or combination of documents, prepared typically on an annual basis by management or those charged with governance in accordance with law, regulation or custom, the purpose of which is to provide owners (or similar stakeholders) with information on the entity's operations and the entity's financial results and financial position as set out in the financial statements. An annual report contains or accompanies the financial statements and the auditor's report thereon and usually includes information about the entity's developments, its future outlook and risks and uncertainties, a statement by the entity's governing body, and reports covering governance matters. (Ref: Para. A1–A5)
    (b) Misstatement of the other information – A misstatement of the other information exists when the other information is incorrectly stated or otherwise misleading (including because it omits or obscures information necessary for a proper understanding of a matter disclosed in the other information). (Ref: Para. A6–A7)
    (c) Other information – Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. (Ref: Para. A8–A10)

## Requirements

### Obtaining the Other Information

13. The auditor shall: (Ref: Para. A11–A22)
    (a) Determine, through discussion with management, which document(s) comprises the annual report, and the entity's planned manner and timing of the issuance of such document(s);
    (b) Make appropriate arrangements with management to obtain in a timely manner and, if possible, prior to the date of the auditor's report, the final version of the document(s) comprising the annual report; and
    (c) When some or all of the document(s) determined in (a) will not be available until after the date of the auditor's report, request management to provide a written representation that the final version of the document(s) will be provided to the auditor when available, and prior to its issuance by the entity, such that the auditor can complete the procedures required by this SLAuS. (Ref: Para. A22)

**Reading and Considering the Other Information**

14. The auditor shall read the other information and, in doing so shall: (Ref: Para. A23–A24)

    (a) Consider whether there is a material inconsistency between the other information and the financial statements. As the basis for this consideration, the auditor shall, to evaluate their consistency, compare selected amounts or other items in the other information (that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements) with such amounts or other items in the financial statements; and (Ref: Para. A25–A29)

    (b) Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit. (Ref: Para. A30–A36)

15. While reading the other information in accordance with paragraph 14, the auditor shall remain alert for indications that the other information not related to the financial statements or the auditor's knowledge obtained in the audit appears to be materially misstated. (Ref: Para. A24, A37–A38)

**Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated**

16. If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether: (Ref: Para. A39–A43)

    (a) A material misstatement of the other information exists;

    (b) A material misstatement of the financial statements exists; or

    (c) The auditor's understanding of the entity and its environment needs to be updated.

**Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists**

17. If the auditor concludes that a material misstatement of the other information exists, the auditor shall request management to correct the other information. If management:

    (a) Agrees to make the correction, the auditor shall determine that the correction has been made; or

    (b) Refuses to make the correction, the auditor shall communicate the matter with those charged with governance and request that the correction be made.

18. If the auditor concludes that a material misstatement exists in other information obtained prior to the date of the auditor's report, and the other information is not corrected after communicating with those charged with governance, the auditor shall take appropriate action, including: (Ref: Para. A44)

    (a) Considering the implications for the auditor's report and communicating with those charged with governance about how the auditor plans to address the material misstatement in the auditor's report (see paragraph 22(e)(ii)); or (Ref: Para. A45)

    (b) Withdrawing from the engagement, where withdrawal is possible under applicable law or regulation. (Ref: Para. A46–A47)

19. If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, the auditor shall:

    (a) If the other information is corrected, perform the procedures necessary in the circumstances; or (Ref: Para. A48)

(b) If the other information is not corrected after communicating with those charged with governance, take appropriate action considering the auditor's legal rights and obligations, to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared. (Ref: Para. A49–A50)

**Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated**

20 If, as a result of performing the procedures in paragraphs 14–15, the auditor concludes that a material misstatement in the financial statements exists or the auditor's understanding of the entity and its environment needs to be updated, the auditor shall respond appropriately in accordance with the other SLAuSs. (Ref: Para. A51)

**Reporting**

21. The auditor's report shall include a separate section with a heading "Other Information", or other appropriate heading, when, at the date of the auditor's report:
    (a) For an audit of financial statements of a listed entity, the auditor has obtained, or expects to obtain, the other information; or
    (b) For an audit of financial statements of an entity other than a listed entity, the auditor has obtained some or all of the other information. (Ref: Para. A52)

22. When the auditor's report is required to include an Other Information section in accordance with paragraph 21, this section shall include: (Ref: Para. A53)
    (a) A statement that management is responsible for the other information;
    (b) An identification of:
        i. Other information, if any, obtained by the auditor prior to the date of the auditor's report; and
        ii. For an audit of financial statements of a listed entity, other information, if any, expected to be obtained after the date of the auditor's report;
    (c) A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon;
    (d) A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this SLAuS; and
    (e) When other information has been obtained prior to the date of the auditor's report, either:
        i. A statement that the auditor has nothing to report; or
        ii. If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information.

23. When the auditor expresses a qualified or adverse opinion in accordance with SLAuS 705 (Revised),[3] the auditor shall consider the implications of the matter giving rise to the modification of opinion for the statement required in paragraph 22(e). (Ref: Para. A54–A58)

[3] SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

*Reporting Prescribed by Law or Regulation*

24. If the auditor is required by law or regulation of a specific jurisdiction to refer to the other information in the auditor's report using a specific layout or wording, the auditor's report shall refer to Sri Lanka Auditing Standards only if the auditor's report includes, at a minimum: (Ref: Para. A59)

    (a) Identification of the other information obtained by the auditor prior to the date of the auditor's report;

    (b) A description of the auditor's responsibilities with respect to the other information; and

    (c) An explicit statement addressing the outcome of the auditor's work for this purpose.

**Documentation**

25. In addressing the requirements of SLAuS 230[4] as it applies to this SLAuS, the auditor shall include in the audit documentation:

    (a) Documentation of the procedures performed under this SLAuS; and

    (b) The final version of the other information on which the auditor has performed the work required under this SLAuS.

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## Application and Other Explanatory Material

### Definitions

*Annual Report* (Ref: Para. 12(a))

A1. Law, regulation or custom may define the content of an annual report, and the name by which it is to be referred, for entities in a particular jurisdiction; however, the content and the name may vary within a jurisdiction and from one jurisdiction to another.

A2. An annual report is typically prepared on an annual basis. However, when the financial statements being audited are prepared for a period less than or more than a year, an annual report may also be prepared that covers the same period as the financial statements.

A3. In some cases, an entity's annual report may be a single document and referred to by the title "annual report" or by some other title. In other cases, law, regulation or custom may require the entity to report to owners (or similar stakeholders) information on the entity's operations and the entity's financial results and financial position as set out in the financial statements (i.e., an annual report) by way of a single document, or by way of two or more separate documents that in combination serve the same purpose. For example, depending on law, regulation or custom in a particular jurisdiction, one or more of the following documents may form part of the annual report:

- Management report, management commentary, or operating and financial review or similar reports by those charged with governance (for example, a directors' report).
- Chairman's statement.
- Corporate governance statement.
- Internal control and risk assessment reports.

4 SLAuS 230, *Audit Documentation,* paragraphs 8–11

A4. An annual report may be made available to users in printed form, or electronically, including on the entity's website. A document (or combination of documents) may meet the definition of an annual report, irrespective of the manner in which it is made available to users.

A5. An annual report is different in nature, purpose and content from other reports, such as a report prepared to meet the information needs of a specific stakeholder group or a report prepared to comply with a specific regulatory reporting objective (even when such a report is required to be publicly available). Examples of reports that, when issued as standalone documents, are not typically part of the combination of documents that comprise an annual report (subject to law, regulation or custom), and that, therefore, are not other information within the scope of this SLAuS, include:

- Separate industry or regulatory reports (for example, capital adequacy reports), such as may be prepared in the banking, insurance, and pension industries.
- Corporate social responsibility reports.
- Sustainability reports.
- Diversity and equal opportunity reports.
- Product responsibility reports.
- Labor practices and working conditions reports.
- Human rights reports.

*Misstatement of the Other Information* (Ref: Para. 12(b))

A6. When a particular matter is disclosed in the other information, the other information may omit or obscure information that is necessary for a proper understanding of that matter. For example, if the other information purports to address the key performance indicators used by management, then omission of a key performance indicator used by management could indicate that the other information is misleading.

A7. The concept of materiality may be discussed in a framework applicable to the other information and, if so, such a framework may provide a frame of reference for the auditor in making judgments about materiality under this SLAuS. In many cases, however, there may be no applicable framework that includes a discussion of the concept of materiality as it applies to the other information. In such circumstances, the following characteristics provide the auditor with a frame of reference in determining if a misstatement of the other information is material:

- Materiality is considered in the context of the common information needs of users as a group. The users of the other information are expected to be the same as the users of the financial statements as such users may be expected to read the other information to provide context to the financial statements.
- Judgments about materiality take into account the specific circumstances of the misstatement, considering whether users would be influenced by the effect of the uncorrected misstatement. Not all misstatements will influence the economic decisions of users.
- Judgments about materiality involve both qualitative and quantitative considerations. Accordingly, such judgments may take into account the nature or magnitude of the items that the other information addresses in the context of the entity's annual report.

*Other Information (Ref: Para. 12(c))*

A8. Appendix 1 contains examples of amounts or other items that may be included in the other information.

A9. In some cases, the applicable financial reporting framework may require specific disclosures but permit them to be located outside of the financial statements.[5] As such disclosures are required by the applicable financial reporting framework, they form part of the financial statements. Accordingly, they do not constitute other information for the purpose of this SLAuS.

A10 eXtensible Business Reporting Language (XBRL) tags do not represent other information as defined in this SLAuS.

**Obtaining the Other Information (Ref: Para. 13)**

A11. Determining the document(s) that is or comprises the annual report is often clear based on law, regulation or custom. In many cases, management or those charged with governance may have customarily issued a package of documents that together comprise the annual report, or may have committed to do so. In some cases, however, it may not be clear which document(s) is or comprises the annual report. In such cases, the timing and purpose of the documents (and for whom they are intended) are matters that may be relevant to the auditor's determination of which document(s) is or comprises the annual report.

A12. When the annual report is translated into other languages pursuant to law or regulation (such as may occur when a jurisdiction has more than one official language), or when multiple "annual reports" are prepared under different legislation (for example, when an entity is listed in more than one jurisdiction), consideration may need to be given as to whether one, or more than one of the "annual reports" form part of the other information. Local law or regulation may provide further guidance in this respect.

A13. Management, or those charged with governance, is responsible for preparing the annual report. The auditor may communicate with management or those charged with governance:

- The auditor's expectations in relation to obtaining the final version of the annual report (including a combination of documents that together comprise the annual report) in a timely manner prior to the date of the auditor's report such that the auditor can complete the procedures required by this SLAuS before the date of the auditor's report, or if that is not possible, as soon as practicable and in any case prior to the entity's issuance of such information.
- The possible implications when the other information is obtained after the date of the auditor's report

A14 The communications referred to in paragraph A13 may be particularly appropriate for example:

- In an initial audit engagement.
- When there has been a change in management or those charged with governance.

[5] For example, Sri Lanka Accounting Standards (SLFRS) 7, *Financial Instruments: Disclosures*, permits certain disclosures required by the SLFRSs to either be given in the financial statements or incorporated by cross-reference from the financial statements to some other statement, such as a management commentary or risk report, that is available to users of the financial statements on the same terms as the financial statements and at the same time.

- When other information is expected to be obtained after the date of the auditor's report.

A15 Where those charged with governance are to approve the other information prior to its issuance by the entity, the final version of such other information is the one that has been approved by those charged with governance for issuance.

A16 In some cases, the entity's annual report may be a single document to be released, in accordance with law or regulation or the entity's reporting practice, shortly after the entity's financial reporting period such that it is available to the auditor prior to the date of the auditor's report. In other cases, such a document may not be required to be released until a later time, or at a time of the entity's choosing. There may also be circumstances when the entity's annual report is a combination of documents, each subject to different requirements or reporting practice by the entity with respect to the timing of their release.

A17 There may be circumstances when, at the date of the auditor's report, the entity is considering the development of a document that may be part of the entity's annual report (for example, a voluntary report to stakeholders) but management is unable to confirm to the auditor the purpose or timing of such a document. If the auditor is unable to ascertain the purpose or timing of such a document, the document is not considered other information for purposes of this SLAuS.

A18 Obtaining the other information in a timely manner prior to the date of the auditor's report enables any revisions that are found to be necessary to be made to the financial statements, the auditor's report, or the other information prior to their issuance. The audit engagement letter[6] may make reference to an agreement with management to make available to the auditor the other information in a timely manner, and if possible prior to the date of the auditor's report.

A19 When other information is only made available to users via the entity's website, the version of the other information obtained from the entity, rather than directly from the entity's website, is the relevant document on which the auditor would perform procedures in accordance with this SLAuS. The auditor has no responsibility under this SLAuS to search for other information, including other information that may be on the entity's website, nor to perform any procedures to confirm that other information is appropriately displayed on the entity's website o

A20 The auditor is not precluded from dating or issuing the auditor's report if the auditor has not obtained some or all of the other information.

A21 When the other information is obtained after the date of the auditor's report, the auditor is not required to update the procedures performed in accordance with paragraphs 6 and 7 of SLAuS 560.[7]

A22 SLAuS 580[8] establishes requirements and provides guidance on the use of written representations. The written representation required to be requested by paragraph 13(c) regarding other information that will be available only after the date of the auditor's report is intended to support the auditor's ability to complete the procedures required by this SLAuS with respect to such information. In addition, the auditor may find it useful to request other written representations, for example, that:

- Management has informed the auditor of all the documents that it expects to issue that may comprise other information;

6 SLAuS 210, *Agreeing the Terms of Audit Engagements*, paragraph A24
7 SLAuS 560, *Subsequent Events*
8 SLAuS 580, *Written Representations*

- The financial statements and any other information obtained by the auditor prior to the date of the auditor's report are consistent with one another, and the other information does not contain any material misstatements; and
- With regard to other information that has not been obtained by the auditor prior to the date of the auditor's report, that management intends to prepare and issue such other information and the expected timing of such issuance.

**Reading and Considering the Other Information (Ref: Para. 14–15)**

A23 The auditor is required by SLAuS 200[9] to plan and perform the audit with professional skepticism. Maintaining professional skepticism when reading and considering the other information includes, for example, recognizing that management may be overly optimistic about the success of its plans, and being alert to information that may be inconsistent with:

(a) The financial statements; or

(b) The auditor's knowledge obtained in the audit.

A24 In accordance with SLAuS 220,[10] the engagement partner is required to take responsibility for the direction, supervision and performance of the audit engagement in compliance with professional standards and applicable legal and regulatory requirements. In the context of this SLAuS, factors that may be taken into account when determining the appropriate engagement team members to address the requirements of paragraphs 14–15, include:

- The relative experience of engagement team members.
- Whether the engagement team members to be assigned the tasks have the relevant knowledge obtained in the audit to identify inconsistencies between the other information and that knowledge.
- The degree of judgment involved in addressing the requirements of paragraph 14–15. For example, performing procedures to evaluate the consistency of amounts in the other information that are intended to be the same as amounts in the financial statements may be carried out by less experienced engagement team members.
- Whether, in the case of a group audit, it is necessary to make inquiries of a component auditor in addressing the other information related to that component.

*Considering Whether There Is a Material Inconsistency between the Other Information and the Financial Statements* (Ref: Para. 14(a))

A25 Other information may include amounts or other items that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements. Examples of such amounts or other items may include:

- Tables, charts or graphs containing extracts of the financial statements.
- A disclosure providing greater detail about a balance or account shown in the financial statements, such as "Revenue for 20X1 comprised XXX million from product X and YYY million from product Y."

9 SLAuS 200, paragraph 15
10 SLAuS 220, *Quality Control for an Audit of Financial Statements*, paragraph 15(a)

- Descriptions of the financial results, such as "Total research and development expense was XXX in 20X1."

A26 In evaluating the consistency of selected amounts or other items in the other information with the financial statements, the auditor is not required to compare all amounts or other items in the other information that are intended to be the same as, to summarize, or to provide greater detail about, the amounts or other items in the financial statements, with such amounts or other items in the financial statements.

A27 Selecting the amounts or other items to compare is a matter of professional judgment. Factors relevant to this judgment include:

- The significance of the amount or other item in the context in which it is presented, which may affect the importance that users would attach to the amount or other item (for example, a key ratio or amount).
- If quantitative, the relative size of the amount compared with accounts or items in the financial statements or the other information to which they relate.
- The sensitivity of the particular amount or other item in the other information, for example, share based payments for senior management.

A28 Determining the nature and extent of procedures to address the requirement in paragraph 14(a) is a matter of professional judgment, recognizing that the auditor's responsibilities under this SLAuS do not constitute an assurance engagement on the other information or impose an obligation to obtain assurance about the other information. Examples of such procedures include:

- For information that is intended to be the same as information in the financial statements, comparing the information to the financial statements.
- For information intended to convey the same meaning as disclosures in the financial statements, comparing the words used and considering the significance of differences in wording used and whether such differences imply different meanings.
- Obtaining a reconciliation between an amount within the other information and the financial statements from management and:
  - Comparing items in the reconciliation to the financial statements and the other information; and
  - Checking whether the calculations within the reconciliation are arithmetically accurate.

A29 Evaluating the consistency of selected amounts or other items in the other information with the financial statements includes, when relevant given the nature of the other information, the manner of their presentation compared to the financial statements.

*Considering Whether There Is a Material Inconsistency between the Other Information and the Auditor's Knowledge Obtained in the Audit* (Ref: Para. 14(b))

A30 Other information may include amounts or items that are related to the auditor's knowledge obtained in the audit (other than those in paragraph 14(a)). Examples of such amounts or items may include:

- A disclosure of the units produced, or a table summarizing such production by geographical region.

- A statement that "The company introduced product X and product Y during the year."
- A summary of the locations of the entity's major operations, such as "the entity's major center of operation is in country X, and there are also operations in countries Y and Z."

A31 The auditor's knowledge obtained in the audit includes the auditor's understanding of the entity and its environment, including the entity's internal control, obtained in accordance with SLAuS 315 (Revised).[11] SLAuS 315 (Revised) sets out the auditor's required understanding, which includes such matters as obtaining an understanding of:

(a) The relevant industry, regulatory, and other external factors;

(b) The nature of the entity;

(c) The entity's selection and application of accounting policies;

(d) The entity's objectives and strategies;

(e) The measurement and review of the entity's financial performance; and

(f) The entity's internal control.

A32 The auditor's knowledge obtained in the audit may also include matters that are prospective in nature. Such matters may include, for example, business prospects and future cash flows that the auditor considered when evaluating the assumptions used by management in performing impairment tests on intangible assets such as goodwill, or when evaluating management's assessment of the entity's ability to continue as a going concern.

A33 In considering whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, the auditor may focus on those matters in the other information that are of sufficient importance that a misstatement of the other information in relation to that matter could be material.

A34 In relation to many matters in the other information, the auditor's recollection of the audit evidence obtained and conclusions reached in the audit may be sufficient to enable the auditor to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit. The more experienced and the more familiar with the key aspects of the audit the auditor is, the more likely it is that the auditor's recollection of relevant matters will be sufficient. For example, the auditor may be able to consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit in light of the auditor's recollection of discussions held with management or those charged with governance or findings from procedures carried out during the audit such as the reading of board minutes, without the need to take further action.

A35 The auditor may determine that referring to relevant audit documentation or making inquiries of relevant members of the engagement team or relevant component auditors is appropriate as a basis for the auditor's consideration of whether a material inconsistency exists. For example:

- When the other information describes the planned cessation of a major product line and, although the auditor is aware of the planned cessation, the auditor may make inquiries of the relevant

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[11] SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, paragraphs 11–12

engagement team member who performed the audit procedures in this area to support the auditor’s consideration of whether the description is materially inconsistent with the auditor’s knowledge obtained during the audit.

- When the other information describes important details of a lawsuit addressed in the audit, but the auditor cannot recall them adequately, it may be necessary to refer to the audit documentation where such details are summarized to support the auditor’s recollection.

A36 Whether, and if so the extent to which, the auditor refers to relevant audit documentation, or makes inquiries of relevant members of the engagement team or relevant component auditors is a matter of professional judgment. However, it may not be necessary for the auditor to refer to relevant audit documentation, or to make inquiries of relevant members of the engagement team or relevant component auditors about any matter included in the other information.

*Remaining Alert for Other Indications that the Other Information Appears to Be Materially Misstated* (Ref: Para. 15)

A37 Other information may include discussion of matters that are not related to the financial statements and may also extend beyond the auditor’s knowledge obtained in the audit. For example, the other information may include statements about the entity’s greenhouse gas emissions.

A38 Remaining alert for other indications that the other information not related to the financial statements or the auditor’s knowledge obtained in the audit appears to be materially misstated assists the auditor in complying with relevant ethical requirements that require the auditor to avoid being knowingly associated with other information that the auditor believes contains a materially false or misleading statement, a statement furnished recklessly, or omits or obscures necessary information such that the other information is misleading.[12] Remaining alert for other indications that the other information appears to be materially misstated could potentially result in the auditor identifying such matters as:

- Differences between the other information and the general knowledge, apart from the knowledge obtained in the audit, of the engagement team member reading the other information that lead the auditor to believe that the other information appears to be materially misstated; or

- An internal inconsistency in the other information that leads the auditor to believe that the other information appears to be materially misstated.

Responding When a Material Inconsistency Appears to Exist or Other Information Appears to Be Materially Misstated (Ref: Para. 16)

A39 The auditor’s discussion with management about a material inconsistency (or other information that appears to be materially misstated) may include requesting management to provide support for the basis of management’s statements in the other information. Based on management’s further information or explanations, the auditor may be satisfied that the other information is not materially misstated. For example, management explanations may indicate reasonable and sufficient grounds for valid differences of judgment.

A40 Conversely, the discussion with management may provide further information that supports the auditor’s conclusion that a material misstatement of the other information exists.

[12] CA Sri Lanka Code, paragraph 110.2

A41 It may be more difficult for the auditor to challenge management on matters of judgment than on those of a more factual nature. However, there may be circumstances where the auditor concludes that the other information contains a statement that is not consistent with the financial statements or the auditor's knowledge obtained in the audit. These circumstances may raise doubt about the other information, the financial statements, or the auditor's knowledge obtained in the audit.

A42 As there is a wide range of possible material misstatements of the other information, the nature and extent of other procedures the auditor may perform to conclude whether a material misstatement of the other information exists are matters of the auditor's professional judgment in the circumstances.

A43 When a matter is unrelated to the financial statements or the auditor's knowledge obtained in the audit, the auditor may not be able to fully assess management's responses to the auditor's inquiries. Nevertheless, based on management's further information or explanations, or following changes made by management to the other information, the auditor may be satisfied that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated. When the auditor is unable to conclude that a material inconsistency no longer appears to exist or that the other information no longer appears to be materially misstated, the auditor may request management to consult with a qualified third party (for example, a management's expert or legal counsel). In certain cases, after considering the responses from management's consultation, the auditor may not be able to conclude whether or not a material misstatement of the other information exists. Actions the auditor may then take include one or more of the following:

- Obtaining advice from the auditor's legal counsel;
- Considering the implications for the auditor's report for example, whether to describe the circumstances when there is a limitation imposed by management; or
- Withdrawing from the audit, where withdrawal is possible under applicable law or regulation.

Responding When the Auditor Concludes That a Material Misstatement of the Other Information Exists

*Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained prior to the Date of the Auditor's Report* (Ref: Para. 18)

A44 The actions the auditor takes if the other information is not corrected after communicating with those charged with governance are a matter of the auditor's professional judgment. The auditor may take into account whether the rationale given by management and those charged with governance for not making the correction raises doubt about the integrity or honesty of management or those charged with governance, such as when the auditor suspects an intention to mislead. The auditor may also consider it appropriate to seek legal advice. In some cases, the auditor may be required by law, regulation or other professional standards to communicate the matter to a regulator or relevant professional body.

Reporting Implications (Ref: Para. 18(a))

A45 In rare circumstances, a disclaimer of opinion on the financial statements may be appropriate when the refusal to correct the material misstatement of the other information casts such doubt on the integrity of management and those charged with governance as to call into question the reliability of audit evidence in general.

Withdrawal from the Engagement (Ref: Para. 18(b))

A46 Withdrawal from the engagement, where withdrawal is possible under applicable law or regulation, may be appropriate when the circumstances surrounding the refusal to correct the material misstatement of the other information cast such doubt on the integrity of management and those charged with governance as to call into question the reliability of representations obtained from them during the audit.

Considerations specific to public sector entities (Ref: Para. 18(b))

A47 In the public sector, withdrawal from the engagement may not be possible. In such cases, the auditor may issue a report to the legislature providing details of the matter or may take other appropriate actions.

*Responding When the Auditor Concludes That a Material Misstatement Exists in Other Information Obtained after the Date of the Auditor's Report* (Ref: Para. 19)

A48 If the auditor concludes that a material misstatement exists in other information obtained after the date of the auditor's report, and such a material misstatement has been corrected, the auditor's procedures necessary in the circumstances include determining that the correction has been made (in accordance with paragraph 17(a)) and may include reviewing the steps taken by management to communicate with those in receipt of the other information, if previously issued, to inform them of the revision.

A49 If those charged with governance do not agree to revise the other information, taking appropriate action to seek to have the uncorrected misstatement appropriately brought to the attention of users for whom the auditor's report is prepared requires the exercise of professional judgment, and may be affected by relevant law or regulation in the jurisdiction. Accordingly, the auditor may consider it appropriate to seek legal advice about the auditor's legal rights and obligations.

A50 When a material misstatement of the other information remains uncorrected, appropriate actions that the auditor may take to seek to have the uncorrected material misstatement appropriately brought to the attention of users for whom the auditor's report is prepared, when permitted by law or regulation, include, for example:

- Providing a new or amended auditor's report to management including a modified section in accordance with paragraph 22, and requesting management to provide this new or amended auditor's report to users for whom the auditor's report is prepared. In doing so, the auditor may need to consider the effect, if any, on the date of the new or amended auditor's report, in view of the requirements of the SLAuSs or applicable law or regulation. The auditor may also review the steps taken by management to provide the new or amended auditor's report to such users;
- Bringing the material misstatement of the other information to the attention of the users for whom the auditor's report is prepared (for example, by addressing the matter in a general meeting of shareholders);
- Communicating with a regulator or relevant professional body about the uncorrected material misstatement; or
- Considering the implications for engagement continuance (see also paragraph A46).

**Responding When a Material Misstatement in the Financial Statements Exists or the Auditor's Understanding of the Entity and Its Environment Needs to Be Updated (Ref: Para. 20)**

A51 In reading the other information, the auditor may become aware of new information that has implications for:

- The auditor's understanding of the entity and its environment and, accordingly, may indicate the need to revise the auditor's risk assessment.[13]
- The auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.[14]
- The auditor's responsibilities relating to subsequent events.[15]

Reporting (Ref: Para. 21–24)

A52 For an audit of financial statements of an entity other than a listed entity, the auditor may consider that the identification in the auditor's report of other information that the auditor expects to obtain after the date of the auditor's report would be appropriate in order to provide additional transparency about the other information that is subject to the auditor's responsibilities under this SLAuS. The auditor may consider it appropriate to do so, for example, when management is able to represent to the auditor that such other information will be issued after the date of the auditor's report.

*Illustrative Statements* (Ref: Para. 21–22)

A53 Illustrative examples of the "Other Information" section of the auditor's report are included in Appendix 2.

*Reporting Implications When the Auditor's Opinion on the Financial Statements Is Qualified or Adverse* (Ref: Para. 23)

A54 A qualified or adverse auditor's opinion on the financial statements may not have an impact on the statement required by paragraph 22(e) if the matter in respect of which the auditor's opinion has been modified is not included or otherwise addressed in the other information and the matter does not affect any part of the other information. For example, a qualified opinion on the financial statements because of non-disclosure of directors' remuneration as required by the applicable financial reporting framework may have no implications for the reporting required under this SLAuS. In other circumstances, there may be implications for such reporting as described in paragraphs A55–A58.

Qualified Opinion Due to a Material Misstatement in the Financial Statements

A55 In circumstances when the auditor's opinion is qualified, consideration may be given as to whether the other information is also materially misstated for the same matter as, or a related matter to, the matter giving rise to the qualified opinion on the financial statements.

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[13] SLAuS 315 (Revised), paragraphs 11, 31, and A1
[14] SLAuS 450, *Evaluation of Misstatements Identified during the Audit*
[15] SLAuS 560, paragraphs 10 and 14

Qualified Opinion Due to Limitation of Scope

A56 When there is a limitation of scope with respect to a material item in the financial statements, the auditor will not have obtained sufficient appropriate audit evidence about that matter. In these circumstances, the auditor may be unable to conclude whether or not the amounts or other items in the other information related to this matter result in a material misstatement of the other information. Accordingly, the auditor may need to modify the statement required by paragraph 22(e) to refer to the auditor's inability to consider management's description of the matter in the other information in respect of which the auditor's opinion on the financial statements has been qualified as explained in the Basis for Qualified Opinion paragraph. The auditor is nevertheless required to report any other uncorrected material misstatements of the other information that have been identified.

Adverse Opinion

A57 An adverse opinion on the financial statements relating to a specific matter(s) described in the Basis for Adverse Opinion paragraph does not justify the omission of reporting of material misstatements of the other information that the auditor has identified in the auditor's report in accordance with paragraph 22(e)(ii). When an adverse opinion has been expressed on the financial statements, the auditor may need to appropriately modify the statement required by paragraph 22(e) for example, to indicate that amounts or items in the other information is materially misstated for the same matter as, or a related matter to, the matter giving rise to the adverse opinion on the financial statements.

Disclaimer of Opinion

A58 When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by SLAuS 705 (Revised), the auditor's report does not include a section addressing the reporting requirements under this SLAuS.

*Reporting Prescribed by Law or Regulation* (Ref: Para. 24)

A59 SLAuS 200[16] explains that the auditor may be required to comply with legal or regulatory requirements in addition to the SLAuS. Where this is the case, the auditor may be obliged to use a specific layout or wording in the auditor's report that differs from that described in this SLAuS. Consistency in the auditor's report, when the audit has been conducted in accordance with SLAuSs, promotes credibility in the global marketplace by making more readily identifiable those audits that have been conducted in accordance with globally recognized standards. When the differences between the legal or regulatory requirements to report with respect to the other information and this SLAuS relate only to the layout and wording in the auditor's report and, at a minimum, each of the elements identified in paragraph 24 is included in the auditor's report, the auditor's report may refer to Sri Lanka Auditing Standards. Accordingly, in such circumstances the auditor is considered to have complied with the requirements of this SLAuS, even when the layout and wording used in the auditor's report are specified by legal or regulatory reporting requirements.

16 SLAuS 200, paragraph A57

# Appendix 1

(Ref: Para. 14, A8)

**Examples of Amounts or Other Items that May Be Included in the Other Information**

The following are examples of amounts and other items that may be included in other information. This list is not intended to be exhaustive.

Amounts

- Items in a summary of key financial results, such as net income, earnings per share, dividends, sales and other operating revenues, and purchases and operating expenses.
- Selected operating data, such as income from continuing operations by major operating area, or sales by geographical segment or product line.
- Special items, such as asset dispositions, litigation provisions, asset impairments, tax adjustments, environmental remediation provisions, and restructuring and reorganization expenses.
- Liquidity and capital resource information, such as cash, cash equivalents and marketable securities; dividends; and debt, capital lease and minority interest obligations.
- Capital expenditures by segment or division.
- Amounts involved in, and related financial effects of, off-balance sheet arrangements.
- Amounts involved in guarantees, contractual obligations, legal or environmental claims, and other contingencies.
- Financial measures or ratios, such as gross margin, return on average capital employed, return on average shareholders' equity, current ratio, interest coverage ratio and debt

Other Items

- Explanations of critical accounting estimates and related assumptions.
- Identification of related parties and descriptions of transactions with them.
- Articulation of the entity's policies or approach to manage commodity, foreign exchange or interest rate risks, such as through the use of forward contracts, interest rate swaps, or other financial instruments.
- Descriptions of the nature of off-balance sheet arrangements.
- Descriptions of guarantees, indemnifications, contractual obligations, litigation or environmental liability cases, and other contingencies, including management's qualitative assessments of the entity's related exposures.
- Descriptions of changes in legal or regulatory requirements, such as new tax or environmental regulations, that have materially impacted the entity's operations or fiscal position, or will have a material impact on the entity's future financial prospects.
- Management's qualitative assessments of the impacts of new financial reporting standards that have come into effect during the period, or will come into effect in the following period, on the entity's financial results, financial position and cash flows.
- General descriptions of the business environment and outlook.
- Overview of strategy.
- Descriptions of trends in market prices of key commodities or raw materials.

- Contrasts of supply, demand and regulatory circumstances between geographic regions.
- Explanations of specific factors influencing the entity's profitability in specific segments.

## Appendix 2

(Ref: Para. 21–22, A53)

**Refer the Sri Lanka Auditing Standard 700 (Revised) illustrative reports for the localized reports**

**Illustrations of Independent Auditor's Reports Relating to Other Information**

- Illustration 1: An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.
- Illustration 2: An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 3: An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.
- Illustration 4: An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.
- Illustration 5: An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.
- Illustration 6: An auditor's report of any entity, whether listed or other than listed, containing a qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.
- Illustration 7: An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.

**Illustration 1 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600[17] does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit Comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).[18]**
- **Key audit matters have been communicated in accordance with SLAuS 701.[19]**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Report on the Audit of the Financial Statements[20]

### Opinion

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

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17 SLAuS 600, *Special Considerations–Audits of Group Financial Statements (Including the Work of Component Auditors)*

18 SLAuS 570 (Revised), *Going Concern*

19 SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report.* The Key Audit Matters section is required for listed entities only.

20 The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[**Key Audit Matters**[21]

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SLAuS 701.*]]

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management[22] is responsible for the other information. The other information comprises the [information included in the X report,[23] but does not include the financial statements and our auditor's report thereon.]
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[24]
[*Reporting in accordance with SLAuS 700 (Revised)*[25] *– see Illustration 1 in SLAuS 700 (Revised).*]

**Auditor's Responsibilities for the Audit of the Financial Statements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

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21 The Key Audit Matters section is required for listed entities only.

22 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

23 A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

24 Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

25 SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

**Report on Other Legal and Regulatory Requirements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700* (*Revised*).]
CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditors report is [*number*].[26]]

[*Signature in the name of the audit firm] [Audit firm address]*,

[*Date*]

**Illustration 2 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.**

[26] The name of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see SLAuS 700 (Revised), paragraph 46).

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[27]

**Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SLAuS 701.*]

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management[28] is responsible for the other information. The other information comprises the X report[29] (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report, and the Y report, which is expected to be made available to us after that date.
Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the

[27] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

[28] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

[29] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

[When we read the Y report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and [*describe actions applicable in the jurisdiction.*]][30]

Responsibilities of Management and Those Charged with Governance for the Financial Statements[31]
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

Auditor's Responsibilities for the Audit of the Financial Statements
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

**Report on Other Legal and Regulatory Requirements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700* (*Revised*).]

CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditors report is [*number*].[32]

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

**Illustration 3 – An auditor's report of an entity other than a listed entity containing an unmodified opinion when the auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of an entity other than a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**

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30 This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

31 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction.

32 CA Sri Lanka membership number of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see SLAuS 700 (Revised), paragraph 46).

- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.**
- **The auditor has obtained part of the other information prior to the date of the auditor's report, has not identified a material misstatement of the other information, and expects to obtain other information after the date of the auditor's report.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- The auditor has no other reporting responsibilities required under law or regulation.

**INDEPENDENT AUDITOR'S REPORT**
To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Opinion**
We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**
We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management[33] is responsible for the other information. The other information obtained at the date of this

[33] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

auditor's report is [information included in the X report,[34] but does not include the financial statements and our auditor's report thereon]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[35]
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

**Auditor's Responsibilities for the Audit of the Financial Statements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 3 in SLAuS 700* (*Revised*).]

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

**Illustration 4 – An auditor's report of a listed entity containing an unmodified opinion when the auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the comprise the Code of Ethics issued by CA Sri Lanka.**

[34] A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

[35] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained no other information prior to the date of the auditor's report but expects to obtain other information after the date of the auditor's report.**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under local law.

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Report on the Audit of the Financial Statements**[36]

**Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SLAuS 701.*]

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[36] The sub-title "Report on the Audit of the Financial Statements" is unnecessary in circumstances when the second sub-title "Report on Other Legal and Regulatory Requirements" is not applicable.

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management[37] is responsible for the other information. The other information comprises the [information included in the X report,[38] but does not include the financial statements and our auditor's report thereon]. The X report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

[When we read the X report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and [*describe actions applicable in the jurisdiction*].][39]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[40]**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

**Auditor's Responsibilities for the Audit of the Financial Statements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]

**Report on Other Legal and Regulatory Requirements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised).*]
CA Sri Lanka membership number of the engagement partner responsible for signing the independent Auditor's report is [*number*].

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

37 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

38 A more specific description of the other information, such as "the management report and chair's statement," may be used to identify the other information.

39 This additional paragraph may be useful when the auditor has identified an uncorrected material misstatement of the other information obtained after the date of the auditor's report and has a legal obligation to take specific action in response.

40 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

**Illustration 5 – An auditor's report of any entity, whether listed or other than listed, containing an unmodified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is not a group audit (i.e., SLAuS 600 does not apply).**
- **The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and has concluded that a material misstatement of the other information exists**
- **Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.**
- **The auditor has no other reporting responsibilities required under law or regulation.**

**INDEPENDENT AUDITOR'S REPORT**

To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the statement of financial position as at December 31, 20X1, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Company as at December 31, 20X1, and (*of*) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management[41] is responsible for the other information. The other information comprises the [information included in the X report,[42] but does not include the financial statements and our auditor's report thereon.]
Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described below, we have concluded that such a material misstatement of the other information exists.

[*Description of material misstatement of the other information*]

**[Key Audit Matters[43]**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[*Description of each key audit matter in accordance with SLAuS 701*.]]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[44]

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised)*.]

**Auditor's Responsibilities for the Audit of the Financial Statements**

[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 1 in SLAuS 700 (Revised*).]

CA Sri Lanka membership number of the engagement partner responsible for signing the independent Auditor's report is [*number*].[45]]

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

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41 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

42 A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

43 The Key Audit Matters section is required for listed entities only.

44 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

45 CA Sri Lanka membership number of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see SLAuS 700 (Revised), paragraph 46).

**Illustration 6 – An auditor's report of any entity, whether listed or other than listed, containing an qualified opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and there is a limitation of scope with respect to a material item in the consolidated financial statements which also affects the other information.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is a group audit (i.e., SLAuS 600 applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SLAuS 210.**
- **The auditor was unable to obtain sufficient appropriate audit evidence regarding an investment in a foreign associate. The possible effects of the inability to obtain sufficient appropriate audit evidence are deemed to be material but not pervasive to the consolidated financial statements (i.e., a qualified opinion is appropriate).**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the qualified opinion on the consolidated financial statements also affects the other information**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **The auditor has no other reporting responsibilities required under law or regulation.**

**INDEPENDENT AUDITOR'S REPORT**
To the Shareholders of ABC Company [or Other Appropriate Addressee]

**Qualified Opinion**
We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Basis for Qualified Opinion**

The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at xxx on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of xxx is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

**Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]**

Management[46] is responsible for the other information. The other information comprises the [information included in the X report,[47] but does not include the consolidated financial statements and our auditor's report thereon.]

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X1 and ABC's share of XYZ's net income for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

[Key Audit Matters[48]

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do

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46 Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

47 A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

48 The Key Audit Matters section is required for listed entities only.

not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.
[*Description of each key audit matter in accordance with SLAuS 701.*]]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[49]
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).*]

**Auditor's Responsibilities for the Audit of the Financial Statements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700* (*Revised*).]

CA Sri Lanka membership number of the engagement partner responsible for signing the independent Auditor's report is [*number*], [50]]

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

**<u>Illustration 7 – An auditor's report of any entity, whether listed or other than listed, containing an adverse opinion when the auditor has obtained all of the other information prior to the date of the auditor's report and the adverse opinion on the consolidated financial statements also affects the other information.</u>**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a complete set of consolidated financial statements of any entity, whether listed or other than listed, using a fair presentation framework. The audit is a group audit (i.e., SLAuS 600 applies).**
- **The consolidated financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (a general purpose framework).**
- **The terms of the audit engagement reflect the description of management's responsibility for the consolidated financial statements in SLAuS 210.**
- **The consolidated financial statements are materially misstated due to the non-consolidation of a subsidiary. The material misstatement is deemed to be pervasive to the consolidated financial statements. The effects of the misstatement on the consolidated financial statements have not been determined because it was not practicable to do so (i.e., an adverse opinion is appropriate).**
- **The relevant ethical requirements that apply to the audit comprise the Code of Ethics issued by CA Sri Lanka.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**

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[49] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

[50] CA Sri Lanka membership number of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see SLAuS 700 (Revised), paragraph 46).

- **Key audit matters have been communicated in accordance with SLAuS 701.**
- **The auditor has obtained all of the other information prior to the date of the auditor's report and the matter giving rise to the adverse opinion on the consolidated financial statements also affects the other information**
- **Those responsible for oversight of the consolidated financial statements differ from those responsible for the preparation of the consolidated financial statements.**
- **The auditor has no other reporting responsibilities required under law or regulation.**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company [or Other Appropriate Addressee]

### Adverse Opinion

We have audited the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not present fairly (or *do not give a true and fair view of*) the consolidated financial position of the Group as at December 31, 20X1, and (*of*) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Sri Lanka Accounting Standards, the Group should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics issued by CA Sri Lanka (CA Sri Lanka Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

### Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

Management[51] is responsible for the other information. The other information comprises the [information

[51] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

included in the X report,[52] but does not include the consolidated financial statements and our auditor's report thereon.]

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated XYZ Company and accounted for the acquisition based on provisional amounts. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the X report affected by the failure to consolidate XYZ Company.

**[Key Audit Matters][53]**
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

[*Description of each key audit matter in accordance with SLAuS 701.*]]

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[54]**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).*]

**Auditor's Responsibilities for the Audit of the Financial Statements**
[*Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700* (*Revised*).]

CA Sri Lanka membership number of the engagement partner responsible for signing the independent Auditor's report is [*number*].[55]]

[*Signature in the name of the audit firm] [Audit firm address]*

[*Date*]

[52] A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

[53] The Key Audit Matters section is required for listed entities only.

[54] Or other terms that are appropriate in the context of the legal framework of the particular jurisdiction

[55] CA Sri Lanka membership number of the engagement partner is included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat (see SLAuS 700 (Revised), paragraph 46).

# SRI LANKA AUDITING STANDARD 800 (REVISED) SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

(Effective for audits of financial statements for periods
ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1. The Sri Lanka Auditing Standards (SLAuSs) in the 100–700 series apply to an audit of financial statements. This SLAuS deals with special considerations in the application of those SLAuSs to an audit of financial statements prepared in accordance with a special purpose framework.

2. This SLAuS is written in the context of a complete set of financial statements prepared in accordance with a special purpose framework. SLAuS 805 (Revised)[1] deals with special considerations relevant to an audit of a single financial statement or of a specific element, account or item of a financial statement.

3. This SLAuS does not override the requirements of the other SLAuSs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

### Effective Date

4. This SLAuS is effective for audits of financial statements for periods ending on or after 31 March 2018.

# Objective

5. The objective of the auditor, when applying SLAuSs in an audit of financial statements prepared in accordance with a special purpose framework, is to address appropriately the special considerations that are relevant to:

   (a) The acceptance of the engagement;

   (b) The planning and performance of that engagement; and

   (c) Forming an opinion and reporting on the financial statements.

# Definitions

6. For purposes of the SLAuSs, the following terms have the meanings attributed below:

   (a) Special purpose financial statements – Financial statements prepared in accordance with a special purpose framework. (Ref: Para. A4)

   (b) Special purpose framework – A financial reporting framework designed to meet the financial information needs of specific users. The financial reporting framework may be a fair presentation framework or a compliance framework.[2] (Ref: Para. A1–A4)

7. Reference to “financial statements” in this SLAuS means “a complete set of special purpose financial statements. The requirements of the applicable financial reporting framework determine the presentation structure, and content of the financial statements, and what constitutes a complete set of financial statements. Reference to “special purpose financial statements” includes the related disclosures.

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[1] SLAuS 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

[2] SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 13(a)

# Requirements

## Considerations When Accepting the Engagement

*Acceptability of the Financial Reporting Framework*

8. SLAuS 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.[3] In an audit of special purpose financial statements, the auditor shall obtain an understanding of: (Ref: Para. A5–A8)

   (c) The purpose for which the financial statements are prepared;

   (d) The intended users; and

   (e) The steps taken by management to determine that the applicable financial reporting framework is acceptable in the circumstances.

## Considerations When Planning and Performing the Audit

9. SLAuS 200 requires the auditor to comply with all SLAuSs relevant to the audit.[4] In planning and performing an audit of special purpose financial statements, the auditor shall determine whether application of the SLAuSs requires special consideration in the circumstances of the engagement. (Ref: Para. A9–A12)

10. SLAuS 315 (Revised) requires the auditor to obtain an understanding of the entity's selection and application of accounting policies.[5] In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall obtain an understanding of any significant interpretations of the contract that managemsent made in the preparation of those financial statements. An interpretation is significant when adoption of another reasonable interpretation would have produced a material difference in the information presented in the financial statements.

## Forming an Opinion and Reporting Considerations

11. When forming an opinion and reporting on special purpose financial statements, the auditor shall apply the requirements in SLAuS 700 (Revised).[6] (Ref: Para. A13–A19)

*Description of the Applicable Financial Reporting Framework*

12. SLAuS 700 (Revised) requires the auditor to evaluate whether the financial statements adequately refer to or describe the applicable financial reporting framework.[7] In the case of financial statements prepared in accordance with the provisions of a contract, the auditor shall evaluate whether the financial statements adequately describe any significant interpretations of the contract on which the financial statements are based.

13. SLAuS 700 (Revised) deals with the form and content of the auditor's report, including the specific ordering for certain elements. In the case of an auditor's report on special purpose financial statements:

   (a) The auditor's report shall also describe the purpose for which the financial statements are prepared and, if necessary, the intended users, or refer to a note in the special purpose financial statements that contains that information; and

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3 SLAuS 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)
4 SLAuS 200, paragraph 18
5 SLAuS 315 (Revised), Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, paragraph 11(c)
6 SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*
7 SLAuS 700 (Revised), paragraph 15

(b) If management has a choice of financial reporting frameworks in the preparation of such financial statements, the explanation of management's[8] responsibility for the financial statements shall also make reference to its responsibility for determining that the applicable financial reporting framework is acceptable in the circumstances.

*Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework*

14. The auditor's report on special purpose financial statements shall include an Emphasis of Matter paragraph alerting users of the auditor's report that the financial statements are prepared in accordance with a special purpose framework and that, as a result, the financial statements may not be suitable for another purpose. (Ref: Para. A20–A21)

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## Application and Other Explanatory Material

### Definition of Special Purpose Framework (Ref: Para. 6)

A1. Examples of special purpose frameworks are:

- A tax basis of accounting for a set of financial statements that accompany an entity's tax return;
- The cash receipts and disbursements basis of accounting for cash flow information that an entity may be requested to prepare for creditors;
- The financial reporting provisions established by a regulator to meet the requirements of that regulator; or
- The financial reporting provisions of a contract, such as a bond indenture, a loan agreement, or a project grant.

A2. There may be circumstances where a special purpose framework is based on a financial reporting framework established by an authorized or recognized standards setting organization or by law or regulation, but does not comply with all the requirements of that framework. An example is a contract that requires financial statements to be prepared in accordance with most, but not all, of the Financial Reporting Standards of Jurisdiction X. When this is acceptable in the circumstances of the engagement, it is inappropriate for the description of the applicable financial reporting framework in the special purpose financial statements to imply full compliance with the financial reporting framework established by the authorized or recognized standards setting organization or by law or regulation. In the above example of the contract, the description of the applicable financial reporting framework may refer to the financial reporting provisions of the contract, rather than make any reference to the Financial Reporting Standards of Jurisdiction X.

A3. In the circumstances described in paragraph A2, the special purpose framework may not be a fair presentation framework even if the financial reporting framework on which it is based is a fair presentation framework. This is because the special purpose framework may not comply with all the requirements of the financial reporting framework established by the authorized or recognized standards setting organization or by law or regulation that are necessary to achieve fair presentation of the financial statements.

A4 Financial statements prepared in accordance with a special purpose framework may be the only financial statements an entity prepares. In such circumstances, those financial statements may be used by users

[8] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

other than those for whom the financial reporting framework is designed. Despite the broad distribution of the financial statements in those circumstances, the financial statements are still considered to be special purpose financial statements for purposes of the SLAuSs. The requirements in paragraphs 13–14 are designed to avoid misunderstandings about the purpose for which the financial statements are prepared. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of financial statements, or in the notes, or incorporated therein by cross-reference.[9]

**Considerations When Accepting the Engagement**

*Acceptability of the Financial Reporting Framework* (Ref: Para. 8)

A5. In the case of special purpose financial statements, the financial information needs of the intended users are a key factor in determining the acceptability of the financial reporting framework applied in the preparation of the financial statements.

A6. The applicable financial reporting framework may encompass the financial reporting standards established by an organization that is authorized or recognized to promulgate standards for special purpose financial statements. In that case, those standards will be presumed acceptable for that purpose if the organization follows an established and transparent process involving deliberation and consideration of the views of relevant stakeholders. In some jurisdictions, law or regulation may prescribe the financial reporting framework to be used by management in the preparation of special purpose financial statements for a certain type of entity. For example, a regulator may establish financial reporting provisions to meet the requirements of that regulator. In the absence of indications to the contrary, such a financial reporting framework is presumed acceptable for special purpose financial statements prepared by such entity.

A7. Where the financial reporting standards referred to in paragraph A6 are supplemented by legislative or regulatory requirements, SLAuS 210 requires the auditor to determine whether any conflicts between the financial reporting standards and the additional requirements exist, and prescribes actions to be taken by the auditor if such conflicts exist.[10]

A8 The applicable financial reporting framework may encompass the financial reporting provisions of a contract, or sources other than those described in paragraphs A6 and A7. In that case, the acceptability of the financial reporting framework in the circumstances of the engagement is determined by considering whether the framework exhibits attributes normally exhibited by acceptable financial reporting frameworks as described in Appendix 2 of SLAuS 210. In the case of a special purpose framework, the relative importance to a particular engagement of each of the attributes normally exhibited by acceptable financial reporting frameworks is a matter of professional judgment. For example, for purposes of establishing the value of net assets of an entity at the date of its sale, the vendor and the purchaser may have agreed that very prudent estimates of allowances for uncollectible accounts receivable are appropriate for their needs, even though such financial information is not neutral when compared with financial information prepared in accordance with a general purpose framework.

**Considerations When Planning and Performing the Audit (Ref: Para. 9)**

A9. SLAuS 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all SLAuSs relevant to the audit. It also requires the auditor to comply with each requirement of an SLAuS unless, in the circumstances of the audit, the entire SLAuS is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may

9 SLAuS 200, para graph 13(f)
10 SLAuS 210, para graph 18

judge it necessary to depart from a relevant requirement in a SLAuS by performing alternative audit procedures to achieve the aim of that requirement.[11]

A10. Application of some of the requirements of the SLAuSs in an audit of special purpose financial statements may require special consideration by the auditor. For example, in SLAuS 320, judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.[12] In the case of an audit of special purpose financial statements, however, those judgments are based on a consideration of the financial information needs of the intended users.

A11. In the case of special purpose financial statements, such as those prepared in accordance with the requirements of a contract, management may agree with the intended users on a threshold below which misstatements identified during the audit will not be corrected or otherwise adjusted. The existence of such a threshold does not relieve the auditor from the requirement to determine materiality in accordance with SLAuS 320 for purposes of planning and performing the audit of the special purpose financial statements.

A12 SLAuS 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate.[13] SLAuS 260 (Revised) notes that, in some cases, all of those charged governance are involved in managing the entity, and the application of the communication requirements is modified to recognize this position.[14] When a complete set of general purpose financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the special purpose financial statements may not be the same as those charged with governance responsible for the oversight of the preparation of those general purpose financial statements.

**Forming an Opinion and Reporting Considerations (Ref: Para. 11)**

A13. The Appendix to this SLAuS contains illustrations of independent auditor's reports on special purpose financial statements. Other illustrations of auditor's reports may be relevant to reporting on special purpose financial statements (see for example, the Appendices to SLAuS 700 (Revised), SLAuS 705 (Revised),[15] SLAuS 570 (Revised),[16] SLAuS 720 (Revised),[17] and SLAuS 706 (Revised)).[18]

*Application of SLAuS 700 (Revised) When Reporting on Special Purpose Financial Statements*

A14. Paragraph 11 of this SLAuS explains that the auditor is required to apply SLAuS 700 (Revised) when forming an opinion and reporting on special purpose financial statements. In doing so, the auditor is also required to apply the reporting requirements in other SLAuSs and may find the special considerations addressed in paragraphs A15–A19 below helpful.

Going Concern

A15. Special purpose financial statements may or may not be prepared in accordance with a financial reporting framework for which the going concern basis of accounting is relevant (e.g., the going concern basis of accounting is not relevant for some financial statements prepared on a tax basis in

[11] SLAuS 200, paragraphs 14, 18, and 22–23
[12] SLAuS 320, *Materiality in Planning and Performing an Audit*, paragraph 2
[13] SLAuS 260 (Revised), *Communication with Those Charged with Governance*
[14] SLAuS 260 (Revised), paragraph A8
[15] SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*
[16] SLAuS 570 (Revised), *Going Concern*
[17] SLAuS 720 (Revised), The Auditor's Responsibilities Relating to Other Information
[18] SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

particular jurisdictions).[19] Depending on the applicable financial reporting framework used in the preparation of the special purpose financial statements, the description in the auditor's report of management's responsibilities[20] relating to going concern may need to be adapted as necessary. The description in the auditor's report of the auditor's responsibilities[21] may also need to be adapted as necessary depending on how SLAuS 570 (Revised) applies in the circumstances of the engagement.

Key Audit Matters

A16. SLAuS 700 (Revised) requires the auditor to communicate key audit matters in accordance with SLAuS 701[22] for audits of complete sets of general purpose financial statements of listed entities. For audits of special purpose financial statements, SLAuS 701 only applies when communication of key audit matters in the auditor's report on the special purpose financial statements is required by law or regulation or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on special purpose financial statements, SLAuS 701 applies in its entirety.[23]

Other Information

A17. SLAuS 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this SLAuS, reports containing or accompanying the special purpose financial statements—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the special purpose financial statements—are considered to be annual reports for the purpose of SLAuS 720 (Revised). In the case of financial statements prepared using a special purpose framework, the term "similar stakeholders" includes the specific users whose financial information needs are met by the design of the special purpose framework used to prepare the special purpose financial statements. When the auditor determines that the entity plans to issue such a report, the requirements in SLAuS 720 (Revised) apply to the audit of the special purpose financial statements.

CA Sri Lanka Membership Number of the Engagement Partner

A18. The requirement in SLAuS 700 (Revised) for the auditor to include the CA Sri Lanka membership number of the engagement partner in the auditor's report also applies to audits of special purpose financial statements of listed entities.[24] The auditor may be required by law or regulation to include the CA Sri Lanka membership number in the auditor's report or may otherwise decide to do so when reporting on special purpose financial statements of entities other than listed entities.

*Inclusion of a Reference to the Auditor's Report on the Complete Set of General Purpose Financial Statements*

A19. The auditor may deem it appropriate to refer, in an Other Matter paragraph in the auditor's report on the special purpose financial statements, to the auditor's report on the complete set of general purpose financial statements or to matter(s) reported therein (see SLAuS 706 (Revised)).[25] For example, the auditor may consider it appropriate to refer in the auditor's report on the special purpose financial

[19] SLAuS 570 (Revised), paragraph 2
[20] See SLAuS 700 (Revised), paragraphs 34(b) and A48.
[21] See SLAuS 700 (Revised), paragraph 39(b)(iv).
[22] SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*
[23] SLAuS 700 (Revised), paragraph 31
[24] See SLAuS 700 (Revised), paragraphs 45 and A56–A58
[25] See SLAuS 706 (Revised), paragraphs 10–11.

statements to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of general purpose financial statements.

*Alerting Readers that the Financial Statements Are Prepared in Accordance with a Special Purpose Framework* (Ref: Para. 14)

A20. The special purpose financial statements may be used for purposes other than those for which they were intended. For example, a regulator may require certain entities to place the special purpose financial statements on public record. To avoid misunderstandings, the auditor alerts users of the auditor's report by including an Emphasis of Matter paragraph explaining that the financial statements are prepared in accordance with a special purpose framework and, therefore, may not be suitable for another purpose. SLAuS 706 (Revised) requires this paragraph to be included within a separate section of the auditor's report with an appropriate heading that includes the term "Emphasis of Matter".[26]

*Restriction on Distribution or Use (Ref: Para. 14)*

A21 In addition to the alert required by paragraph 14, the auditor may consider it appropriate to indicate that the auditor's report is intended solely for the specific users. Depending on the law or regulation of the particular jurisdiction, this may be achieved by restricting the distribution or use of the auditor's report. In these circumstances, the paragraph referred to in paragraph 14 may be expanded to include these other matters, and the heading modified accordingly (see illustrations in the Appendix to this SLAuS).

## Appendix

(Ref: Para. A14)

**Illustrations of Independent Auditor's Reports on Special Purpose Financial Statements**

- Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).
- Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).
- Illustration 3: An auditor's report on a complete set of financial statements of a listed entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).

**Illustration 1: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the financial reporting provisions of a contract (for purposes of this illustration, a compliance framework).**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- The financial statements have been prepared by management of the entity in accordance with the financial reporting provisions of a contract (that is, a special purpose framework). Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.

[26] See paragraph 9(a) of SLAuS 706 (Revised)

- An auditor's report on the complete set of general purpose financial statements was not issued.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).
- Distribution and use of the auditor's report are restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.
- The auditor has determined that there is no other information (i.e., the requirements of SLAuS 720 (Revised) do not apply).
- Those responsible for oversight of the financial reporting process differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

**INDEPENDENT AUDITOR'S REPORT**

[Appropriate Addressee]

**Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company for the year ended December 31, 20X1 are prepared in all material respects, in accordance with the financial reporting provisions of Section Z of the contract dated January 1, 20X1 between the Company and DEF Company ("the contract").

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[27], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use**

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract referred to above. As a result, the financial statements may not be suitable for another purpose.

[27] In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

Our report is intended solely for the Company and DEF Company and should not be distributed to or used by parties other than the Company or DEF Company. Our opinion is not modified in respect of this matter.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[28]**

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section Z of the contract and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of SLAuS 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of SLAuS 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.[29]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions

[28] Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

[29] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm*]

[*Audit Firm Address*]
[*Date*]

**Illustration 2: An auditor's report on a complete set of financial statements of an entity other than a listed entity prepared in accordance with the tax basis of accounting in Jurisdiction X (for purposes of this illustration, a compliance framework).**

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements that have been prepared by management of a partnership in accordance with the tax basis of accounting in Jurisdiction X (that is, a special purpose framework) to assist the partners in preparing their individual income tax returns. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a compliance framework.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).
- Distribution of the auditor's report is restricted.
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.
- The auditor has determined that there is no other information (i.e., the requirements of SLAuS 720 (Revised) do not apply).
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Opinion**

We have audited the financial statements of ABC Partnership (the Partnership), which comprise the balance sheet as at December 31, 20X1 and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Partnership for the year ended December 31, 20X1 are prepared, in all material respects, in accordance with [*describe the applicable income tax law*] of Jurisdiction X.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Partnership in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[30], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter – Basis of Accounting and Restriction on Distribution**

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the partners of the Partnership in preparing their individual income tax returns. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Partnership and its partners and should not be distributed to parties other than the Partnership or its partners. Our opinion is not modified in respect of this matter.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements[31]**

Management is responsible for the preparation of the financial statements in accordance with the tax basis of accounting in Jurisdiction X and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Partnership's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards (SLAuSs) will always detect a material misstatement when it

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30 In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

31 Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of SLAuS 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of SLAuS 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership's internal control.[32]
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm*]

[*Audit Firm Address*]

[*Date*]

[32] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

**Illustration 3: An auditor's report on a complete set of financial statements of a listed entity prepared in accordance with the financial reporting provisions established by a regulator (for purposes of this illustration, a fair presentation framework).**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- Audit of a complete set of financial statements of a listed entity that have been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator (that is, a special purpose framework) to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.
- The applicable financial reporting framework is a fair presentation framework.
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised). The disclosure of the material uncertainty in the financial statements is adequate.
- Distribution or use of the auditor's report is not restricted.
- The auditor is required by the regulator to communicate key audit matters in accordance with SLAuS 701.
- The Other Matter paragraph refers to the fact that the auditor has also issued an auditor's report on financial statements prepared by ABC Company for the same period in accordance with a general purpose framework.
- The auditor has determined that there is no other information (i.e., the requirements of SLAuS 720 (Revised) do not apply).
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- The auditor has no other reporting responsibilities required under local law or regulation.

**INDEPENDENT AUDITOR'S REPORT**

[To the Shareholders of ABC Company or Appropriate Addressee]

**Opinion**

We have audited the financial statements of ABC Company (the Company), which comprise the balance sheet as at December 31, 20X1, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements *give a true and fair view of*, (or present fairly, in all material respects) the financial position of the Company as at December 31, 20X1, and *of* its financial performance and its cash flows for the year then ended in accordance with the financial reporting provisions of Section Y of Regulation Z.

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[33], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Emphasis of Matter – Basis of Accounting**

We draw attention to Note X to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 6 in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section above, we have determined the matters described below to be key audit matters to be communicated in our report.

[*Description of each key audit matter in accordance with SLAuS 701 as applied to this audit.*]

**Other Matter**

The Company has prepared a separate set of financial statements for the year ended December 31, 20X1 in accordance with Sri Lanka Accounting Standards on which we issued a separate auditor's report to the shareholders of the Company dated March 31, 20X2.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**[34]

Management is responsible for the preparation of financial Statements that give a true and fair view in accordance with the financial reporting provisions of Section Y of Regulation Z[35] 9 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going

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[33] In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

[34] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

[35] Where management's responsibility is to prepare financial statements that give a fair presentation, this may read: "Management is responsible for the preparation and fair presentation of financial statements in accordance with the financial reporting provisions of section Y of Regulation Z and for such …"

concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards (SLAuSs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Paragraph 41(b) of SLAuS 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of SLAuS 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control.[36]
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

[36] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is [*number*].

[*Signature in the name of the audit firm*]

[*Audit Firm Address*]

[*Date*]

# SRI LANKA AUDITING STANDARD 805 (REVISED)

# SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

(Effective for audits for periods ending on or after 31 March 2018)

## CONTENTS



Sri Lanka Auditing Standard (SLAuS) 805 (Revised), *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1. The Sri Lanka Auditing Standards (SLAuSs) in the 100–700 series apply to an audit of financial statements and are to be adapted as necessary in the circumstances when applied to audits of other historical financial information. This SLAuS deals with special considerations in the application of those SLAuSs to an audit of a single financial statement or of a specific element, account or item of a financial statement. The single financial statement or the specific element, account or item of a financial statement may be prepared in accordance with a general or special purpose framework. If prepared in accordance with a special purpose framework, SLAuS 800 (Revised)[1] also applies to the audit. (Ref: Para. A1–A4)

2. This SLAuS does not apply to the report of a component auditor, issued as a result of work performed on the financial information of a component at the request of a group engagement team for purposes of an audit of group financial statements (see SLAuS 600).[2]

3. This SLAuS does not override the requirements of the other SLAuSs; nor does it purport to deal with all special considerations that may be relevant in the circumstances of the engagement.

### Effective Date

4. This SLAuS is effective for audits of single financial statements or of specific elements, accounts or items for periods ending on or after 31 March 2018. In the case of audits of single financial statements or of specific elements, accounts or items of a financial statement as at a specific date, this SLAuS is effective for audits of such information as at a date on or after 31 March 2018.

# Objective

5. The objective of the auditor, when applying SLAuSs in an audit of a single financial statement or of a specific element, account or item of a financial statement, is to address appropriately the special considerations that are relevant to:

   (a) The acceptance of the engagement;

   (b) The planning and performance of that engagement; and

   (c) Forming an opinion and reporting on the single financial statement or on the specific element, account or item of a financial statement.

# Definitions

6. For purposes of this SLAuS, reference to:

   (a) "Element of a financial statement" or "element" means an "element, account or item of a financial statement;"

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1 SLAuS 800 (Revised), *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

2 SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

(b) "Sri Lanka Accounting Standards" means the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka; and

(c) A single financial statement or to a specific element of a financial statement includes the related disclosures. The related disclosures ordinarily comprise explanatory or other descriptive information relevant to the financial statement or to the element. (Ref: Para. A2)

## Requirements

### Considerations When Accepting the Engagement

*Application of SLAuSs*

7. SLAuS 200 requires the auditor to comply with all SLAuSs relevant to the audit.[3] In the case of an audit of a single financial statement or of a specific element of a financial statement, this requirement applies irrespective of whether the auditor is also engaged to audit the entity's complete set of financial statements. If the auditor is not also engaged to audit the entity's complete set of financial statements, the auditor shall determine whether the audit of a single financial statement or of a specific element of those financial statements in accordance with SLAuSs is practicable. (Ref: Para. A5–A6)

*Acceptability of the Financial Reporting Framework*

8. SLAuS 210 requires the auditor to determine the acceptability of the financial reporting framework applied in the preparation of the financial statements.[4] In the case of an audit of a single financial statement or of a specific element of a financial statement, this shall include whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element. (Ref: Para. A7)

*Form of Opinion*

9. SLAuS 210 requires that the agreed terms of the audit engagement include the expected form of any reports to be issued by the auditor.[5] In the case of an audit of a single financial statement or of a specific element of a financial statement, the auditor shall consider whether the expected form of opinion is appropriate in the circumstances. (Ref: Para. A8–A9)

### Considerations When Planning and Performing the Audit

10. SLAuS 200 states that SLAuSs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to audits of other historical financial information.[6,7] In planning and performing the audit of a single financial statement or of a specific

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3 SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 18

4 SLAuS 210, *Agreeing the Terms of Audit Engagements*, paragraph 6(a)

5 SLAuS 210, paragraph 10(e)

6 SLAuS 200, paragraph 2

7 SLAuS 200, paragraph 13(f), explains that the term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework.

element of a financial statement, the auditor shall adapt all SLAuSs relevant to the audit as necessary in the circumstances of the engagement. (Ref: Para. A10–A15)

**Forming an Opinion and Reporting Considerations**

11. When forming an opinion and reporting on a single financial statement or on a specific element of a financial statement, the auditor shall apply the requirements in SLAuS 700 (Revised),[8] and, when applicable, SLAuS 800 (Revised) adapted as necessary in the circumstances of the engagement. (Ref: Para. A16–A22)

*Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of Those Financial Statements*

12. If the auditor undertakes an engagement to report on a single financial statement or on a specific element of a financial statement in conjunction with an engagement to audit the entity's complete set of financial statements, the auditor shall express a separate opinion for each engagement.

13. The audited single financial statement or the audited specific element of a financial statement may be published together with the entity's audited complete set of financial statements. If the auditor concludes that the presentation of the single financial statement or of the specific element of a financial statement does not differentiate it sufficiently from the complete set of financial statements, the auditor shall ask management to rectify the situation. Subject to paragraphs 15 and 16, the auditor shall also differentiate the opinion on the single financial statement or on the specific element of a financial statement from the opinion on the complete set of financial statements. The auditor shall not issue the auditor's report containing the opinion on the single financial statement or on the specific element of a financial statement until satisfied with the differentiation.

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon.

14. If the auditor's report on an entity's complete set of financial statements includes:

    (a) A modified opinion in accordance with SLAuS 705 (Revised);[9]

    (b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with SLAuS 706 (Revised);[10]

    (c) A Material Uncertainty Related to Going Concern section in accordance with SLAuS 570 (Revised);[11]

    (d) Communication of key audit matters in accordance with SLAuS 701;[12] or

    (e) A statement that describes an uncorrected material misstatement of the other information in accordance with SLAuS 720 (Revised);[13]

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8 SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

9 SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

10 SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

11 SLAuS 570 (Revised), *Going Concern*, paragraph 22

12 SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*, paragraph 13

the auditor shall consider the implications, if any, that these matters have for the audit of the single financial statement or of the specific element of a financial statement and for the auditor's report thereon. (Ref: Para. A23–A27)

Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements

15. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole, SLAuS 705 (Revised) does not permit the auditor to include in the same auditor's report an unmodified opinion on a single financial statement that forms part of those financial statements or on a specific element of those financial statements.[14] This is because such an unmodified opinion would contradict the adverse opinion or disclaimer of opinion on the entity's complete set of financial statements as a whole. (Ref: Para. A28)

16. If the auditor concludes that it is necessary to express an adverse opinion or disclaim an opinion on the entity's complete set of financial statements as a whole but, in the context of a separate audit of a specific element of those financial statements, the auditor nevertheless considers it appropriate to express an unmodified opinion on that element, the auditor shall only do so if:

    (a) The auditor is not prohibited by law or regulation from doing so;

    (b) That opinion is expressed in an auditor's report that is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion; and

    (c) The element does not constitute a major portion of the entity's complete set of financial statements.

17. The auditor shall not express an unmodified opinion on a single financial statement of a complete set of financial statements if the auditor has expressed an adverse opinion or disclaimed an opinion on the complete set of financial statements as a whole. This is the case even if the auditor's report on the single financial statement is not published together with the auditor's report containing the adverse opinion or disclaimer of opinion. This is because a single financial statement is deemed to constitute a major portion of those financial statements.

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## Application and Other Explanatory Material

**Scope of this SLAuS** (Ref: Para. 1, 6(c))

A1. SLAuS 200 defines the term "historical financial information" as information expressed in financial terms in relation to a particular entity, derived primarily from that entity's accounting system, about economic events occurring in past time periods or about economic conditions or circumstances at points in time in the past.[15]

A2. SLAuS 200 defines the term "financial statements" as a structured representation of historical financial information, including disclosures, intended to communicate an entity's economic resources or

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13 SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information,* paragraph 22(e)(ii)

14 SLAuS 705 (Revised), paragraph 15

15 SLAuS 200, paragraph 13(g)

obligations at a point in time or the changes therein for a period of time in accordance with a financial reporting framework. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial reporting framework, but can also refer to a single financial statement. Disclosures comprise explanatory or descriptive information, set out as required, expressly permitted or otherwise allowed by the applicable financial reporting framework, on the face of a financial statement, or in the notes, or incorporated therein by cross-reference.[16] As noted in paragraph 6(c), reference to a single financial statement or specific element of a financial statement includes the related disclosures.

A3. SLAuSs are written in the context of an audit of financial statements;[17] they are to be adapted as necessary in the circumstances when applied to an audit of other historical financial information, such as a single financial statement or a specific element of a financial statement. This SLAuS assists in this regard. (Appendix 1 lists examples of such other historical financial information.)

A4. A reasonable assurance engagement other than an audit of historical financial information is performed in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3000 (Revised).[18]

**Considerations When Accepting the Engagement**

*Application of SLAuSs* (Ref: Para. 7)

A5. SLAuS 200 requires the auditor to comply with (a) relevant ethical requirements, including those pertaining to independence, relating to financial statement audit engagements, and (b) all SLAuSs relevant to the audit. It also requires the auditor to comply with each requirement of an SLAuS unless, in the circumstances of the audit, the entire SLAuS is not relevant or the requirement is not relevant because it is conditional and the condition does not exist. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement in an SLAuS by performing alternative audit procedures to achieve the aim of that requirement.[19]

A6. Compliance with the requirements of SLAuSs relevant to the audit of a single financial statement or of a specific element of a financial statement may not be practicable when the auditor is not also engaged to audit the entity's complete set of financial statements. In such cases, the auditor often does not have the same understanding of the entity and its environment, including its internal control, as an auditor who also audits the entity's complete set of financial statements. The auditor also does not have the audit evidence about the general quality of the accounting records or other accounting information that would be acquired in an audit of the entity's complete set of financial statements. Accordingly, the auditor may need further evidence to corroborate audit evidence acquired from the accounting records. In the case of an audit of a specific element of a financial statement, certain SLAuSs require audit work that may be disproportionate to the element being audited. For example, although the requirements of SLAuS 570 (Revised) are likely to be relevant in the circumstances of an audit of a schedule of accounts receivable, complying with those requirements may not be practicable because of the audit effort required. If the auditor concludes that an audit of a single financial statement or of a specific element of a financial

16 SLAuS 200, paragraph 13(f)

17 SLAuS 200, paragraph 2

18 SLSAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

19 SLAuS 200, paragraphs 14, 18, and 22–23

statement in accordance with SLAuSs may not be practicable, the auditor may discuss with management whether another type of engagement might be more practicable.

*Acceptability of the Financial Reporting Framework* (Ref: Para. 8)

A7. A single financial statement or a specific element of a financial statement may be prepared in accordance with an applicable financial reporting framework that is based on a financial reporting framework established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (for example, SLFRSs). If this is the case, determination of the acceptability of the applicable framework may involve considering whether that framework includes all the requirements of the framework on which it is based that are relevant to the presentation of a single financial statement or of a specific element of a financial statement that provides adequate disclosures.

*Form of Opinion* (Ref: Para. 9)

A8. The form of opinion to be expressed by the auditor depends on the applicable financial reporting framework and any applicable laws or regulations.[20] In accordance with SLAuS 700 (Revised):[21]

(a) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a fair presentation framework, the auditor's opinion, unless otherwise required by law or regulation, uses one of the following phrases:

(i) the financial statements present fairly, in all material respects, in accordance with [the applicable financial reporting framework]; or

(ii) the financial statements give a true and fair view in accordance with [the applicable financial reporting framework]; and

(b) When expressing an unmodified opinion on a complete set of financial statements prepared in accordance with a compliance framework, the auditor's opinion states that the financial statements are prepared, in all material respects, in accordance with [the applicable financial reporting framework].

A9. In the case of a single financial statement or of a specific element of a financial statement, the applicable financial reporting framework may not explicitly address the presentation of the financial statement or of the specific element of the financial statement. This may be the case when the applicable financial reporting framework is based on a financial reporting framework established by an authorized or recognized standards setting organization for the preparation of a complete set of financial statements (for example, SLFRS). The auditor therefore considers whether the expected form of opinion is appropriate in the light of the applicable financial reporting framework. Factors that may affect the auditor's consideration as to whether to use the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion include:

- Whether the applicable financial reporting framework is explicitly or implicitly restricted to the preparation of a complete set of financial statements.
- Whether the single financial statement or the specific element of a financial statement will:

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[20] SLAuS 200, paragraph 8

[21] SLAuS 700 (Revised), paragraphs 25–26

- Comply fully with each of those requirements of the framework relevant to the particular financial statement or the particular element, and the presentation of the financial statement or the specific element of a financial statement include the related disclosures.
- If necessary to achieve fair presentation, provide disclosures beyond those specifically required by the framework or, in exceptional circumstances, depart from a requirement of the framework.

The auditor's decision as to the expected form of opinion is a matter of professional judgment. It may be affected by whether use of the phrases "presents fairly, in all material respects," or "gives a true and fair view" in the auditor's opinion on a single financial statement or on a specific element of a financial statement prepared in accordance with a fair presentation framework is generally accepted in the particular jurisdiction.

**Considerations When Planning and Performing the Audit** (Ref: Para. 10)

A10. The relevance of each of the SLAuSs requires careful consideration. Even when only a specific element of a financial statement is the subject of the audit, SLAuSs such as SLAuS 240,[22] SLAuS 550[23] and SLAuS 570 (Revised) are, in principle, relevant. This is because the element could be misstated as a result of fraud, the effect of related party transactions, or the incorrect application of the going concern basis of accounting under the applicable financial reporting framework.

A11. SLAuS 260 (Revised) requires the auditor to determine the appropriate person(s) within the entity's governance structure with whom to communicate.[24] SLAuS 260 (Revised) notes that, in some cases, all of those charged with governance are involved in managing the entity, and the application of communication requirements is modified to recognize this position.[25] When a complete set of financial statements is also prepared by the entity, those person(s) responsible for the oversight of the preparation of the single financial statement or the element may not be the same as those charged with governance responsible for the oversight of the preparation of the complete set of financial statements.

A12. Furthermore, SLAuSs are written in the context of an audit of financial statements; they are to be adapted as necessary in the circumstances when applied to the audit of a single financial statement[26] or of a specific element of a financial statement. For example, written representations from management about the complete set of financial statements would be replaced by written representations about the presentation of the financial statement or the element in accordance with the applicable financial reporting framework.

A13. Matters included in the auditor's report on the complete set of financial statements may have implications for the audit of a single financial statement or of an element of a financial statement (see paragraph 14). When planning and performing an audit of a single financial statement or a specific element of a financial statement in conjunction with the audit of the entity's complete set of financial statements, the auditor may be able to use audit evidence obtained as part of the audit of the entity's complete set of financial statements in the audit of the financial statement or the element. SLAuSs, however, require the auditor to plan and perform the audit of the financial statement or element to

22 SLAuS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

23 SLAuS 550, *Related Parties*

24 SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph 11

25 SLAuS 260 (Revised), paragraph 10(b), 13, A1 (third bullet), A2 and A8.

26 SLAuS 200, paragraph 2

obtain sufficient appropriate audit evidence on which to base the opinion on the financial statement or on the element.

A14. The individual financial statements that comprise a complete set of financial statements, and many of the specific elements of those financial statements, including their related disclosures, are interrelated. Accordingly, when auditing a single financial statement or a specific element of a financial statement, the auditor may not be able to consider the financial statement or the element in isolation. Consequently, the auditor may need to perform procedures in relation to the interrelated items to meet the objective of the audit.

A15. Furthermore, the materiality determined for a single financial statement or for a specific element of a financial statement may be lower than the materiality determined for the entity's complete set of financial statements; this will affect the nature, timing and extent of the audit procedures and the evaluation of uncorrected misstatements.

**Forming an Opinion and Reporting Considerations** (Ref: Para. 11)

A16. SLAuS 700 (Revised) requires the auditor, in forming an opinion, to evaluate whether the financial statements provide adequate disclosures to enable the intended users to understand the effect of material transactions and events on the information conveyed in the financial statements.[27] In the case of a single financial statement or of a specific element of a financial statement, it is important that the financial statement or the element, in view of the requirements of the applicable financial reporting framework, provides adequate disclosures to enable the intended users to understand the information conveyed in the financial statement or the element, and the effect of material transactions and events on the information conveyed in the financial statement or the element.

A17. Appendix 2 contains illustrations of independent auditor's reports on a single financial statement and on a specific element of a financial statement. Other illustrations of auditor's reports may be relevant to reporting on a single financial statement or on a specific element of a financial statement (see, for example, the Appendices to SLAuS 700 (Revised), SLAuS 705 (Revised), SLAuS 570 (Revised), SLAuS 720 (Revised), and SLAuS 706 (Revised)).

*Application of SLAuS 700 (Revised) When Reporting on a Single Financial Statement or on a Specific Element of a Financial Statement*

A18. Paragraph 11 of this SLAuS explains that the auditor is required to apply the requirements in SLAuS 700 (Revised), adapted as necessary in the circumstances of the engagement, when forming an opinion and reporting on a single financial statement or on a specific element of a financial statement. In doing so, the auditor is also required to apply the reporting requirements in other SLAuSs adapted as necessary in the circumstances of the engagement, and may find the considerations addressed in paragraphs A19–A21 below helpful.

Going Concern

A19. Depending on the applicable financial reporting framework used in the preparation of the single financial statement or the specific element of a financial statement, the description in the auditor's report of management's responsibilities[28] relating to going concern may need to be adapted as

[27] SLAuS 700 (Revised), paragraph 13(e)

[28] See SLAuS 700 (Revised), paragraphs 34(b) and A48.

necessary. The description in the auditor's report of the auditor's responsibilities[29] may also need to be adapted as necessary depending on how SLAuS 570 (Revised) applies in the circumstances of the engagement.

Key Audit Matters

A20. SLAuS 700 (Revised) requires the auditor to communicate key audit matters in accordance with SLAuS 701 for audits of complete sets of general purpose financial statements of listed entities.[30] For audits of a single financial statement or a specific element of a financial statement, SLAuS 701 only applies when communication of key audit matters in the auditor's report on such financial statements or elements is required by law or regulation, or the auditor otherwise decides to communicate key audit matters. When key audit matters are communicated in the auditor's report on a single financial statement or a specific element of a financial statement, SLAuS 701 applies in its entirety.[31]

Other Information

A21. SLAuS 720 (Revised) deals with the auditor's responsibilities relating to other information. In the context of this SLAuS, reports containing or accompanying the single financial statement or specific element of a financial statement—the purpose of which is to provide owners (or similar stakeholders) with information on matters presented in the single financial statement or the specific element of a financial statement—are considered to be annual reports for purposes of SLAuS 720 (Revised). When the auditor determines that the entity plans to issue such a report, the requirements in SLAuS 720 (Revised) apply to the audit of the single financial statement or the element.

CA Sri Lanka Membership Number of the Engagement Partner

A22. The requirement in SLAuS 700 (Revised) for the auditor to include the CA Sri Lanka membership number of the engagement partner in the auditor's report also applies to audits of single financial statements of listed entities or specific elements of financial statements of listed entities.[32] The auditor may be required by law or regulation to include the CA Sri Lanka membership number of the engagement partner in the auditor's report or may otherwise decide to do so when reporting on a single financial statement or on an element of a financial statement of entities other than listed entities.

*Reporting on the Entity's Complete Set of Financial Statements and on a Single Financial Statement or on a Specific Element of a Financial Statement* (Ref: Para. 14)

Considering the Implications of Certain Matters Included in the Auditor's Report on the Entity's Complete Set of Financial Statements for the Audit of the Single Financial Statement or the Specific Element of a Financial Statement and for the Auditor's Report Thereon

A23. Paragraph 14 requires the auditor to consider the implications, if any, of certain matters included in the auditor's report on the complete set of financial statements for the audit of the single financial statement or the specific element of a financial statement and for the auditor's report thereon. Considering whether a matter included in the auditor's report on the complete set of financial

29 See SLAuS 700 (Revised), paragraphs 39(b)(iv).

30 SLAuS 700 (Revised), paragraph 30

31 SLAuS 700 (Revised), paragraph 31

32 See SLAuS 700 (Revised), paragraphs 46 and A61–A63.

statements is relevant in the context of an engagement to report on a single financial statement or a specific element of a financial statement involves professional judgment.

A24. Factors that may be relevant in considering those implications include:

- The nature of the matter(s) being described in the auditor's report on the complete set of financial statements and the extent to which it relates to what is included in the single financial statement or a specific element of a financial statement.
- The pervasiveness of the matter(s) described in the auditor's report on the complete set of financial statements.
- The nature and extent of the differences between the applicable financial reporting frameworks.
- The extent of the difference between the period(s) covered by the complete set of the financial statements compared to the period(s) or dates of the single financial statement or the element of a financial statement.
- The time elapsed since the date of the auditor's report on the complete set of the financial statements.

A25. For example, in the case when there is a qualification of the auditor's opinion in relation to accounts receivable in the auditor's report on the complete set of financial statements, and the single financial statement includes accounts receivable, or the specific element of a financial statement relates to accounts receivable, it is likely that there would be implications for the audit. On the other hand, if the qualification of the auditor's opinion on the complete set of financial statements relates to classification of long-term debt, then it is less likely that there would be implications for an audit of the single financial statement that is the income statement, or if the specific element of the financial statement relates to accounts receivable.

A26. Key audit matters that are communicated in the auditor's report on the complete set of financial statements may have implications for an audit of a single financial statement or the specific element of the financial statement. The information included in the Key Audit Matters section about how the matter was addressed in the audit of the complete set of financial statements may be useful to the auditor's determination of how to address the matter when it is relevant to the audit of the single financial statement or the specific element of the financial statement.

Inclusion of a reference to the auditor's report on the complete set of financial statements

A27. Even when certain matters included in the auditor's report on the complete set of financial statements do not have implications for the audit of, or for the auditor's report on, the single financial statement or the specific element of a financial statement, the auditor may deem it appropriate to refer to the matter(s) in an Other Matter paragraph in an auditor's report on the single financial statement or on the specific element of a financial statement (see SLAuS 706 Revised)).[33] For example, the auditor may consider it appropriate to refer in the auditor's report on the single financial statement or a specific element of the financial statement to a Material Uncertainty Related to Going Concern section included in the auditor's report on the complete set of financial statements.

[33] See SLAuS 706 (Revised), paragraphs 10–11.

Adverse Opinion or Disclaimer of Opinion in the Auditor's Report on the Entity's Complete Set of Financial Statements (Ref: Para. 15)

A28. In the auditor's report on an entity's complete set of financial statements, the expression of a disclaimer of opinion regarding the results of operations and cash flows, where relevant, and an unmodified opinion regarding the financial position is permitted since the disclaimer of opinion is being issued in respect of the results of operations and cash flows only and not in respect of the financial statements as a whole.[34]

[34] SLAuS 510, *Initial Audit Engagements—Opening Balances*, paragraph A8, and SLAuS 705 (Revised), paragraph A16

**Appendix 1**

(Ref: Para. A3)

## Examples of Specific Elements, Accounts or Items of a Financial Statement

- Accounts receivable, allowance for doubtful accounts receivable, inventory, the liability for accrued benefits of a private pension plan, the recorded value of identified intangible assets, or the liability for "incurred but not reported" claims in an insurance portfolio, including related notes.
- A schedule of externally managed assets and income of a private pension plan, including related notes.
- A schedule of net tangible assets, including related notes.
- A schedule of disbursements in relation to a lease property, including explanatory notes.
- A schedule of profit participation or employee bonuses, including explanatory notes.

**Appendix 2**

(Ref: Para. A17)

## Illustrations of Independent Auditor`s Reports on a Single Financial Statement and on a Specific Element of a Financial Statement

- Illustration 1: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 2: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a special purpose framework (for purposes of this illustration, a fair presentation framework).
- Illustration 3: An auditor's report on a specific element of a financial statement of a listed entity prepared in accordance with a special purpose framework (for purposes of this illustration, a compliance framework).

**Illustration 1: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a general purpose framework (for purposes of this illustration, a fair presentation framework).**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of a balance sheet (that is, a single financial statement) of an entity other than a listed entity.**
- **The balance sheet has been prepared by management of the entity in accordance with the requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing a balance sheet.**
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The applicable financial reporting framework is a fair presentation framework designed to**

**meet the common financial information needs of a wide range of users.**

- **The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.**
- **The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised). The disclosure of the material uncertainty in the single financial statement is adequate.**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701 in the context of the audit of the balance sheet.**
- **The auditor has determined that there is no other information (i.e., the requirements of SLAuS 720 (Revised) do not apply).**
- **Those responsible for oversight of the financial statement differ from those responsible for the preparation of the financial statement.**
- **The auditor has no other reporting responsibilities required under local law or regulation.**

## INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

### Opinion

We have audited the balance sheet of ABC Company (the Company) as at December 31, 20X1 and notes to the financial statement, including a summary of significant accounting policies (together "the financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as at December 31, 20X1 in accordance with those requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing such a financial statement. [Opinion section positioned first as required in SLAuS 700 (Revised)]

### Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[35] , and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in SLAuS 700 (Revised).]

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[35] In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

**Material Uncertainty Related to Going Concern**

We draw attention to Note 6 in the financial statement, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note 6, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Responsibilities of Management and Those Charged with Governance for the Financial Statement[36]**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with those requirements of the Financial Reporting Framework in Jurisdiction X relevant to preparing such a financial statement, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

**Auditor's Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

Paragraph 41(b) of SLAuS 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of SLAuS 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

[36] Throughout these illustrative auditor's reports, the terms management and those charged with governance may need to be replaced by another term that is appropriate in the context of the legal framework in the particular jurisdiction.

effectiveness of the Company's internal control.[37]

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

[37] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statement.

**Illustration 2: An auditor's report on a single financial statement of an entity other than a listed entity prepared in accordance with a special purpose framework.**

**For purposes of this illustrative auditor's report, the following ccircumstances are assumed:**

- **Audit of a statement of cash receipts and disbursements (that is, a single financial statement) of an entity other than a listed entity.**
- **An auditor's report on the complete set of financial statements was not issued.**
- **The financial statement has been prepared by management of the entity in accordance with the cash receipts and disbursements basis of accounting to respond to a request for cash flow information received from a creditor. Management has a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a fair presentation framework designed to meet the financial information needs of specific users.**[38]
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The auditor has determined that it is appropriate to use the phrase "presents fairly, in all material respects," in the auditor's opinion.**
- **The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.**
- **Distribution or use of the auditor's report is not restricted.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701 in the context of the audit of the statement of cash receipts and disbursements.**
- **The auditor has determined that there is no other information (i.e., the requirements of SLAuS 720 (Revised) do not apply).**
- **Management is responsible for the preparation of the financial statement and oversight of the financial reporting process to prepare this financial statement.**
- **The auditor has no other reporting responsibilities required under local law or regulation.**

[38] SLAuS 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

# INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

**Opinion**

We have audited the statement of cash receipts and disbursements of ABC Company (the Company) for the year ended December 31, 20X1 and notes to the statement of cash receipts and disbursements, including a summary of significant accounting policies (together "the financial statement").

In our opinion, the accompanying financial statement presents fairly, in all material respects, the cash receipts and disbursements of the Company for the year ended December 31, 20X1 in accordance with the cash receipts and disbursements basis of accounting described in Note X. [Opinion section positioned first as required in SLAuS 700 (Revised)]

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statement* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[39] and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after the Opinion section as required in SLAuS 700 (Revised).]

**Emphasis of Matter – Basis of Accounting**

We draw attention to Note X to the financial statement, which describes the basis of accounting. The financial statement is prepared to provide information to XYZ Creditor. As a result, the statement may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

**Responsibilities of Management and Those Charged with Governance for the Financial Statement[40]**

Management is responsible for preparation and fair presentation of the financial statement in accordance with the cash receipts and disbursements basis of accounting described in Note X; this includes determining that the cash receipts and disbursements basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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[39] In the event other ethical requirements for auditors are issued by any regulatory authority reference should be made to such regulation.

[40] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

**Auditor's Responsibilities for the Audit of the Financial Statement**

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial statement.

Paragraph 41(b) of SLAuS 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of SLAuS 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.[41]
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statement or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures, and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

[41] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the financial statement.

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

**Illustration 3: An auditor's report on a specific element of a financial statement of a listed entity prepared in accordance with a special purpose framework.**

**For purposes of this illustrative auditor's report, the following circumstances are assumed:**

- **Audit of an accounts receivable schedule (that is, element, account or item of a financial statement).**
- **The financial information has been prepared by management of the entity in accordance with the financial reporting provisions established by a regulator to meet the requirements of that regulator. Management does not have a choice of financial reporting frameworks.**
- **The applicable financial reporting framework is a compliance framework designed to meet the financial information needs of specific users.**[42]
- **The terms of the audit engagement reflect the description of management's responsibility for the financial statements in SLAuS 210.**
- **The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.**
- **The relevant ethical requirements that apply to the audit comprise the *Code of Ethics issued by CA Sri Lanka*.**
- **Distribution of the auditor's report is restricted.**
- **Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with SLAuS 570 (Revised).**
- **The auditor is not required, and has otherwise not decided to communicate key audit matters in accordance with SLAuS 701 in the context of the audit of the accounts receivable schedule.**
- **The auditor has determined that there is no other information (i.e., the requirements of SLAuS 720 (Revised) do not apply).**
- **Those responsible for oversight of the financial statement differ from those responsible for the preparation of the financial statement.**

[42] SLAuS 800 (Revised) contains requirements and guidance on the form and content of financial statements prepared in accordance with a special purpose framework.

**The auditor has no other reporting responsibilities required under local law or regulation.**

## INDEPENDENT AUDITOR'S REPORT

[To the Shareholders of ABC Company or Other Appropriate Addressee]

**Opinion**

We have audited the accounts receivable schedule of ABC Company (the Company) as at December 31, 20X1 ("the schedule").

In our opinion, the financial information in the schedule of the Company as at December 31, 20X1 is prepared, in all material respects, in accordance with [describe the financial reporting provisions established by the regulator]. [Opinion section positioned first as required SLAuS 700 (Revised)]

**Basis for Opinion**

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedule* section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics)[9], and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. [The first and last sentences in this section used to be in the Auditor's Responsibility section. Also, the Basis for Opinion section is positioned immediately after opinion section as required in SLAuS 700 (Revised).]

**Emphasis of Matter – Basis of Accounting and Restriction on Distribution**

We draw attention to Note X to the schedule, which describes the basis of accounting. The schedule is prepared to assist the Company to meet the requirements of Regulator DEF. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for the Company and Regulator DEF and should not be distributed to parties other than the Company or Regulator DEF. Our opinion is not modified in respect of this matter.

**Responsibilities of Management and Those Charged with Governance for the Schedule[43]**

Management is responsible for the preparation of the schedule in accordance with [describe the financial reporting provisions established by the regulator], and for such internal control as management determines is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

In preparing the schedule, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management_either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

[43] Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction.

**Auditor's Responsibilities for the Audit of the Schedule**

Our objectives are to obtain reasonable assurance about whether the schedule is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this schedule.

Paragraph 41(b) of SLAuS 700 (Revised) explains that the shaded material below can be located in an Appendix to the auditor's report. Paragraph 41(c) of SLAuS 700 (Revised) explains that when law, regulation or national auditing standards expressly permit, reference can be made to a website of an appropriate authority that contains the description of the auditor's responsibilities, rather than including this material in the auditor's report, provided that the description on the website addresses, and is not inconsistent with, the description of the auditor's responsibilities below.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the schedule, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.[44]
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the schedule or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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[44] This sentence would be modified, as appropriate, in circumstances when the auditor also has responsibility to issue an opinion on the effectiveness of internal control in conjunction with the audit of the schedule.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is [*number*].

[*Signature in the name of the audit firm*] [*Audit Firm Address*]

[*Date*]

# SRI LANKA AUDITING STANDARD 810 (REVISED)

# ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

(Effective for engagements to report on summary financial statements for periods ending on or after 31 March 2018)

## CONTENTS

Sri Lanka Auditing Standard (SLAuS) 810 (Revised), *Engagements to Report on Summary Financial Statements*, should be read in conjunction with SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*.

# Introduction

### Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibilities relating to an engagement to report on summary financial statements derived from financial statements audited in accordance with SLAuSs by that same auditor.

### Effective Date

2. This SLAuS is effective for engagements to report on summary financial statements for periods ending on or after 31 March 2018.

# Objectives

3. The objectives of the auditor are:

   (a) To determine whether it is appropriate to accept the engagement to report on summary financial statements; and

   (b) If engaged to report on summary financial statements:

      (i) To form an opinion on the summary financial statements based on an evaluation of the conclusions drawn from the evidence obtained; and

      (ii) To express clearly that opinion through a written report that also describes the basis for that opinion.

# Definitions

4. For purposes of this SLAuS, the following terms have the meanings attributed below:

   (a) Applied criteria – The criteria applied by management in the preparation of the summary financial statements.

   (b) Audited financial statements – Financial statements[1] audited by the auditor in accordance with SLAuSs, and from which the summary financial statements are derived.

   (c) Summary financial statements – Historical financial information that is derived from financial statements but that contains less detail than the financial statements, while still providing a structured representation consistent with that provided by the financial statements of the entity's economic resources or obligations at a point in time or the changes therein for a period of time.[2] Different jurisdictions may use different terminology to describe such historical financial information.

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[1] SLAuS 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 13(f), defines the term "financial statements."

[2] SLAuS 200, paragraph 13(f)

## Requirements

### Engagement Acceptance

5. The auditor shall accept an engagement to report on summary financial statements in accordance with this SLAuS only when the auditor has been engaged to conduct an audit in accordance with SLAuSs of the financial statements from which the summary financial statements are derived. (Ref: Para. A1)

6. Before accepting an engagement to report on summary financial statements, the auditor shall: (Ref: Para. A2)

   (a) Determine whether the applied criteria are acceptable; (Ref: Para. A3–A7)

   (b) Obtain the agreement of management that it acknowledges and understands its responsibility:

      (i) For the preparation of the summary financial statements in accordance with the applied criteria;

      (ii) To make the audited financial statements available to the intended users of the summary financial statements without undue difficulty (or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, to describe that law or regulation in the summary financial statements); and

      (iii) To include the auditor's report on the summary financial statements in any document that contains the summary financial statements and that indicates that the auditor has reported on them.

   (d) Agree with management the form of opinion to be expressed on the summary financial statements (see paragraphs 9–11).

7. If the auditor concludes that the applied criteria are unacceptable or is unable to obtain the agreement of management set out in paragraph 6(b), the auditor shall not accept the engagement to report on the summary financial statements, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SLAuS. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SLAuS. The auditor shall include appropriate reference to this fact in the terms of the engagement. The auditor shall also determine the effect that this may have on the engagement to audit the financial statements from which the summary financial statements are derived.

### Nature of Procedures

8. The auditor shall perform the following procedures, and any other procedures that the auditor may consider necessary, as the basis for the auditor's opinion on the summary financial statements:

   (a) Evaluate whether the summary financial statements adequately disclose their summarized nature and identify the audited financial statements.

   (b) When summary financial statements are not accompanied by the audited financial statements, evaluate whether they describe clearly:

      (i) From whom or where the audited financial statements are available; or

(ii) The law or regulation that specifies that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements.

(c) Evaluate whether the summary financial statements adequately disclose the applied criteria.

(d) Compare the summary financial statements with the related information in the audited financial statements to determine whether the summary financial statements agree with or can be recalculated from the related information in the audited financial statements.

(e) Evaluate whether the summary financial statements are prepared in accordance with the applied criteria.

(f) Evaluate, in view of the purpose of the summary financial statements, whether the summary financial statements contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

(g) Evaluate whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty, unless law or regulation provides that they need not be made available and establishes the criteria for the preparation of the summary financial statements. (Ref: Para. A8)

**Form of Opinion**

9. When the auditor has concluded that an unmodified opinion on the summary financial statements is appropriate, the auditor's opinion shall, unless otherwise required by law or regulation, use one of the following phrases: (Ref: Para. A9)

   (a) The accompanying summary financial statements are consistent, in all material respects, with the audited financial statements, in accordance with [*the applied criteria*]; or

   (b) The accompanying summary financial statements are a fair summary of the audited financial statements, in accordance with [*the applied criteria*].

10. If law or regulation prescribes the wording of the opinion on summary financial statements in terms that are different from those described in paragraph 9, the auditor shall:

   (a) Apply the procedures described in paragraph 8 and any further procedures necessary to enable the auditor to express the prescribed opinion; and

   (b) Evaluate whether users of the summary financial statements might misunderstand the auditor's opinion on the summary financial statements and, if so, whether additional explanation in the auditor's report on the summary financial statements can mitigate possible misunderstanding.

11. If, in the case of paragraph 10(b), the auditor concludes that additional explanation in the auditor's report on the summary financial statements cannot mitigate possible misunderstanding, the auditor shall not accept the engagement, unless required by law or regulation to do so. An engagement conducted in accordance with such law or regulation does not comply with this SLAuS. Accordingly, the auditor's report on the summary financial statements shall not indicate that the engagement was conducted in accordance with this SLAuS.

**Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements**

12. The auditor's report on the summary financial statements may be dated later than the date of the auditor's report on the audited financial statements. In such cases, the auditor's report on the summary financial

statements shall state that the summary financial statements and audited financial statements do not reflect the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements. (Ref: Para. A10)

13. The auditor may become aware of facts that existed at the date of the auditor's report on the audited financial statements, but of which the auditor previously was unaware. In such cases, the auditor shall not issue the auditor's report on the summary financial statements until the auditor's consideration of such facts in relation to the audited financial statements in accordance with SLAuS 560[3] has been completed.

**Information in Documents Containing Summary Financial Statements**

14. The auditor shall read the information included in a document containing the summary financial statements and the auditor's report thereon and consider whether there is a material inconsistency between that information and the summary financial statements.

15. If the auditor identifies a material inconsistency, the auditor shall discuss the matter with management and determine whether the summary financial statements or the information included in the document containing the summary financial statements and the auditor's report thereon needs to be revised. If the auditor determines that the information needs to be revised and management refuses to revise the information as necessary, the auditor shall take appropriate action in the circumstances, including considering the implications for the auditor's report on the summary financial statements. (Ref: Para. A11–A16)

**Auditor's Report on Summary Financial Statements**

*Elements of the Auditor's Report*

16. The auditor's report on summary financial statements shall include the following elements:[4] (Ref: Para. A23)

    (a) A title clearly indicating it as the report of an independent auditor. (Ref: Para. A17)

    (b) An addressee. (Ref: Para. A18)

    (c) Identification of the summary financial statements on which the auditor is reporting, including the title of each statement included in the summary financial statements. (Ref: Para. A19)

    (d) Identification of the audited financial statements.

    (e) Subject to paragraph 20, a clear expression of an opinion (see paragraphs 9–11).

    (f) A statement indicating that the summary financial statements do not contain all the disclosures required by the financial reporting framework applied in the preparation of the audited financial statements, and that reading the summary financial statements and the auditor's report thereon is not a substitute for reading the audited financial statements and the auditor's report thereon.

    (g) Where applicable, the statement required by paragraph 12.

    (h) Reference to the auditor's report on the audited financial statements, the date of that report, and, subject to paragraphs 19–20, the fact that an unmodified opinion is expressed on the audited financial statements.

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3 SLAuS 560, *Subsequent Events*

4 Paragraphs 19–20, which deal with circumstances where the auditor's report on the audited financial statements has been modified, require additional elements to those listed in this paragraph.

(i) A description of management's[5] responsibility for the summary financial statements, explaining that management[6] is responsible for the preparation of the summary financial statements in accordance with the applied criteria.

(j) A statement that the auditor is responsible for expressing an opinion, based on the auditor's procedures conducted in accordance with this SLAuS, on whether the summary financial statements are consistent, in all material respects, with [or *are a fair summary of*] the audited financial statements.

(k) The auditor's signature.

(l) The auditor's address.

(m) The date of the auditor's report. (Ref: Para. A20)

17. If the addressee of the summary financial statements is not the same as the addressee of the auditor's report on the audited financial statements, the auditor shall evaluate the appropriateness of using a different addressee. (Ref: Para. A18)

18. The auditor shall date the auditor's report on the summary financial statements no earlier than: (Ref: Para. A20)

(a) The date on which the auditor has obtained sufficient appropriate evidence on which to base the opinion, including evidence that the summary financial statements have been prepared and those with the recognized authority have asserted that they have taken responsibility for them; and

(b) The date of the auditor's report on the audited financial statements.

*Reference to the Auditor's Report on the Audited Financial Statements* (Ref: Para. A23)

19. When the auditor's report on the audited financial statements includes:

(a) A qualified opinion in accordance with SLAuS 705 (Revised);[7]

(b) An Emphasis of Matter paragraph or an Other Matter paragraph in accordance with SLAuS 706 (Revised);[8]

(c) A *Material Uncertainty Related to Going Concern* section in accordance with SLAuS 570 (Revised);[9]

(d) Communication of key audit matters in accordance with SLAuS 701;[10] or

(e) A statement that describes an uncorrected material misstatement of the other information in accordance with SLAuS 720 (Revised);[11]

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5 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

6 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

7 SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

8 SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

9 SLAuS 570 (Revised), *Going Concern*, paragraph 22

10 SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

11 SLAuS 720 (Revised), *The Auditor's Responsibilities Related to Other Information*

and the auditor is satisfied that the summary financial statements are consistent, in all material respects, with or are a fair summary of the audited financial statements, in accordance with the applied criteria, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 16:

(i) State that the auditor's report on the audited financial statements includes a qualified opinion, an Emphasis of Matter paragraph, an Other Matter paragraph, a *Material Uncertainty Related to Going Concern* section, communication of key audit matters, or a statement that describes an uncorrected material misstatement of the other information; and (Ref: Para. A21)

(ii) Describe: (Ref: Para. A22)

a. The basis for the qualified opinion on the audited financial statements and the effect thereof, if any, on the summary financial statements;

b. The matter referred to in the Emphasis of Matter paragraph, the Other Matter paragraph, or the *Material Uncertainty Related to Going Concern* section in the auditor's report on the audited financial statements and the effect(s) thereof, if any, on the summary financial statements; or

c. The uncorrected material misstatement of the other information and the effect(s) thereof, if any, on the information included in a document containing the summary financial statements and the auditor's report thereon. (Ref: Para. A15)

20. When the auditor's report on the audited financial statements contains an adverse opinion or a disclaimer of opinion, the auditor's report on the summary financial statements shall, in addition to the elements in paragraph 16:

(a) State that the auditor's report on the audited financial statements contains an adverse opinion or disclaimer of opinion;

(b) Describe the basis for that adverse opinion or disclaimer of opinion; and

(c) State that, as a result of the adverse opinion or disclaimer of opinion on the audited financial statements, it is inappropriate to express an opinion on the summary financial statements. (Ref: Para. A23)

*Modified Opinion on the Summary Financial Statements*

21. If the summary financial statements are not consistent, in all material respects, with or are not a fair summary of the audited financial statements, in accordance with the applied criteria, and management does not agree to make the necessary changes, the auditor shall express an adverse opinion on the summary financial statements. (Ref: Para. A23)

**Restriction on Distribution or Use or Alerting Readers to the Basis of Accounting**

22. When distribution or use of the auditor's report on the audited financial statements is restricted, or the auditor's report on the audited financial statements alerts readers that the audited financial statements are prepared in accordance with a special purpose framework, the auditor shall include a similar restriction or alert in the auditor's report on the summary financial statements.

**Comparatives**

23. If the audited financial statements contain comparatives, but the summary financial statements do not, the auditor shall determine whether such omission is reasonable in the circumstances of the engagement. The

auditor shall determine the effect of an unreasonable omission on the auditor's report on the summary financial statements. (Ref: Para. A24)

24. If the summary financial statements contain comparatives that were reported on by another auditor, the auditor's report on the summary financial statements shall also contain the matters that SLAuS 710 requires the auditor to include in the auditor's report on the audited financial statements.[12] (Ref: Para. A25)

**Unaudited Supplementary Information Presented with Summary Financial Statements**

25. The auditor shall evaluate whether any unaudited supplementary information presented with the summary financial statements is clearly differentiated from the summary financial statements. If the auditor concludes that the entity's presentation of the unaudited supplementary information is not clearly differentiated from the summary financial statements, the auditor shall ask management to change the presentation of the unaudited supplementary information. If management refuses to do so, the auditor shall explain in the auditor's report on the summary financial statements that such information is not covered by that report. (Ref: Para. A26)

**Auditor Association**

26. If the auditor becomes aware that the entity plans to state that the auditor has reported on summary financial statements in a document containing the summary financial statements, but does not plan to include the related auditor's report, the auditor shall request management to include the auditor's report in the document. If management does not do so, the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately associating the auditor with the summary financial statements in that document. (Ref: Para. A27)

27. The auditor may be engaged to report on the financial statements of an entity, while not engaged to report on the summary financial statements. If, in this case, the auditor becomes aware that the entity plans to make a statement in a document that refers to the auditor and the fact that summary financial statements are derived from the financial statements audited by the auditor, the auditor shall be satisfied that:

    (a) The reference to the auditor is made in the context of the auditor's report on the audited financial statements; and

    (b) The statement does not give the impression that the auditor has reported on the summary financial statements.

    If (a) or (b) are not met, the auditor shall request management to change the statement to meet them, or not to refer to the auditor in the document. Alternatively, the entity may engage the auditor to report on the summary financial statements and include the related auditor's report in the document. If management does not change the statement, delete the reference to the auditor, or include an auditor's report on the summary financial statements in the document containing the summary financial statements, the auditor shall advise management that the auditor disagrees with the reference to the auditor, and the auditor shall determine and carry out other appropriate actions designed to prevent management from inappropriately referring to the auditor. (Ref: Para. A27)

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[12] SLAuS 710, *Comparative Information—Corresponding Figures and Comparative Financial Statements*

## Application and Other Explanatory Material

**Engagement Acceptance** (Ref: Para. 5–6)

A1. The audit of the financial statements from which the summary financial statements are derived provides the auditor with the necessary knowledge to discharge the auditor's responsibilities in relation to the summary financial statements in accordance with this SLAuS. Application of this SLAuS will not provide sufficient appropriate evidence on which to base the opinion on the summary financial statements if the auditor has not also audited the financial statements from which the summary financial statements are derived.

A2. Management's agreement with the matters described in paragraph 6 may be evidenced by its written acceptance of the terms of the engagement.

*Criteria* (Ref: Para. 6(a))

A3. The preparation of summary financial statements requires management to determine the information that needs to be reflected in the summary financial statements so that they are consistent, in all material respects, with or represent a fair summary of the audited financial statements. Because summary financial statements by their nature contain aggregated information and limited disclosure, there is an increased risk that they may not contain the information necessary so as not to be misleading in the circumstances. This risk increases when established criteria for the preparation of summary financial statements do not exist.

A4. Factors that may affect the auditor's determination of the acceptability of the applied criteria include:

- The nature of the entity;
- The purpose of the summary financial statements;
- The information needs of the intended users of the summary financial statements; and
- Whether the applied criteria will result in summary financial statements that are not misleading in the circumstances.

A5. The criteria for the preparation of summary financial statements may be established by an authorized or recognized standards setting organization or by law or regulation. Similar to the case of financial statements, as explained in SLAuS 210,[13] in many such cases, the auditor may presume that such criteria are acceptable.

A6. Where established criteria for the preparation of summary financial statements do not exist, criteria may be developed by management, for example, based on practice in a particular industry. Criteria that are acceptable in the circumstances will result in summary financial statements that:

(a) Adequately disclose their summarized nature and identify the audited financial statements;

(b) Clearly describe from whom or where the audited financial statements are available or, if law or regulation provides that the audited financial statements need not be made available to the intended users of the summary financial statements and establishes the criteria for the preparation of the summary financial statements, that law or regulation;

(c) Adequately disclose the applied criteria;

[13] SLAuS 210, *Agreeing the Terms of Audit Engagements,* paragraphs A3 and A8–A9

(d) Agree with or can be recalculated from the related information in the audited financial statements; and

(e) In view of the purpose of the summary financial statements, contain the information necessary, and are at an appropriate level of aggregation, so as not to be misleading in the circumstances.

A7. Adequate disclosure of the summarized nature of the summary financial statements and the identity of the audited financial statements, as referred to in paragraph A6(a), may, for example, be provided by a title such as "Summary Financial Statements Prepared from the Audited Financial Statements for the Year Ended December 31, 20X1."

**Evaluating the Availability of the Audited Financial Statements** (Ref: Para. 8(g))

A8. The auditor's evaluation whether the audited financial statements are available to the intended users of the summary financial statements without undue difficulty is affected by factors such as whether:

- The summary financial statements describe clearly from whom or where the audited financial statements are available;
- The audited financial statements are on public record; or
- Management has established a process by which the intended users of the summary financial statements can obtain ready access to the audited financial statements.

**Form of Opinion** (Ref: Para. 9)

A9. A conclusion, based on an evaluation of the evidence obtained by performing the procedures in paragraph 8, that an unmodified opinion on the summary financial statements is appropriate enables the auditor to express an opinion containing one of the phrases in paragraph 9. The auditor's decision as to which of the phrases to use may be affected by generally accepted practice in the particular jurisdiction.

**Timing of Work and Events Subsequent to the Date of the Auditor's Report on the Audited Financial Statements** (Ref: Para. 12)

A10. The procedures described in paragraph 8 are often performed during or immediately after the audit of the financial statements. When the auditor reports on the summary financial statements after the completion of the audit of the financial statements, the auditor is not required to obtain additional audit evidence on the audited financial statements, or report on the effects of events that occurred subsequent to the date of the auditor's report on the audited financial statements since the summary financial statements are derived from the audited financial statements and do not update them.

**Information in Documents Containing Summary Financial Statements** (Ref: Para. 14–15)

A11. SLAuS 720 (Revised) deals with the auditor's responsibilities relating to other information in an audit of financial statements. In the context of SLAuS 720 (Revised), other information is financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. An annual report contains or accompanies the financial statements and the auditor's report thereon.

A12. In contrast, paragraphs 14–15 deal with the auditor's responsibilities relating to information included in a document that also contains the summary financial statements and the auditor's report thereon. This information may include:

- Some or all of the same matters as those dealt with in the other information included in the annual report (e.g., when the summary financial statements and the auditor's report thereon are included in a summary annual report); or

- Matters that are not dealt with in the other information included in the annual report.

A13. In reading the information included in a document containing the summary financial statements and the auditor's report thereon, the auditor may become aware that such information is misleading and may need to take appropriate action. Relevant ethical requirements[14] require the auditor to avoid being knowingly associated with information that the auditor believes contains a materially false or misleading statement, statements or information furnished recklessly, or omits or obscures information required to be included where such omission or obscurity would be misleading.

*Information in a Document Containing the Summary Financial Statements that Deals with Some or All of the Same Matters as the Other Information in the Annual Report*

A14. When information is included in a document containing the summary financial statements and the auditor's report thereon and that information deals with some or all of the same matters as the other information included in the annual report, the work performed on that other information in accordance with SLAuS 720 (Revised) may be adequate for the purposes of paragraphs 14–15 of this SLAuS.

A15. When an uncorrected material misstatement of the other information has been identified in the auditor's report on the audited financial statements and that uncorrected material misstatement relates to a matter that is dealt with in the information in a document containing the summary financial statements and the auditor's report thereon, a material inconsistency between the summary financial statements and that information may exist or the information may be misleading.

*Information in a Document Containing the Summary Financial Statements that Deals with Matters Not Dealt with in the Other Information in the Annual Report*

A16. SLAuS 720 (Revised), adapted as necessary in the circumstances, may be helpful to the auditor in determining the appropriate action to respond to management's refusal to make necessary revisions to the information, including considering the implications for the auditor's report on the summary financial statements.

**Auditor's Report on Summary Financial Statements**

*Elements of the Auditor's Report*

Title (Ref: Para. 16(a))

A17. A title indicating the report is the report of an independent auditor, for example, "Report of the Independent Auditor," affirms that the auditor has met all of the relevant ethical requirements regarding independence. This distinguishes the report of the independent auditor from reports issued by others.

Addressee (Ref: Para. 16(b), 17)

A18. Factors that may affect the auditor's evaluation of the appropriateness of the addressee of the summary financial statements include the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

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14 *Code of Ethics for Professional Accountants* (CA Sri Lanka Code), paragraph 110.2

Identification of the Summary Financial Statements (Ref: Para. 16(c))

A19. When the auditor is aware that the summary financial statements will be included in a document that contains information other than the summary financial statements and the auditor's report thereon, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the summary financial statements are presented. This helps readers to identify the summary financial statements to which the auditor's report relates.

Date of the Auditor's Report (Ref: Para. 16(m), 18)

A20. The person or persons with recognized authority to conclude that the summary financial statements have been prepared and take responsibility for them depend on the terms of the engagement, the nature of the entity, and the purpose of the summary financial statements.

Reference to the Auditor's Report on the Audited Financial Statements (Ref: Para. 19)

A21. Paragraph 19(i) of this SLAuS requires the auditor to include a statement in the auditor's report on the summary financial statements when the auditor's report on the audited financial statements includes communication of one or more key audit matters described in accordance with SLAuS 701.[15] However, the auditor is not required to describe the individual key audit matters in the auditor's report on the summary financial statements.

A22. The statement(s) and description(s) required by paragraph 19 are intended to draw attention to those matters and are not a substitute for reading the auditor's report on the audited financial statements. The required descriptions are intended to convey the nature of the matter(s), and need not repeat the corresponding text in the auditor's report on the audited financial statements in its entirety.

Illustrations (Ref: Para. 16, 19–21)

A23. The Appendix to this SLAuS contains illustrations of auditors' reports on summary financial statements that variously:

(a) Contain unmodified opinions;

(b) Are derived from audited financial statements on which the auditor issued modified opinions;

(c) Contain a modified opinion;

(d) Are derived from audited financial statements where the auditor's report thereon includes a statement describing an uncorrected material misstatement of the other information in accordance with SLAuS 720 (Revised); and

(e) Are derived from audited financial statements where the auditor's report thereon includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.

**Comparatives** (Ref: Para. 23–24)

A24. If the audited financial statements contain comparatives, there is a presumption that the summary financial statements also would contain comparatives. Comparatives in the audited financial statements may be regarded as corresponding figures or as comparative financial information. SLAuS 710

15 SLAuS 701, paragraph 13

describes how this difference affects the auditor's report on the financial statements, including, in particular, reference to other auditors who audited the financial statements for the prior period.

A25. Circumstances that may affect the auditor's determination whether an omission of comparatives is reasonable include the nature and objective of the summary financial statements, the applied criteria, and the information needs of the intended users of the summary financial statements.

**Unaudited Supplementary Information Presented with Summary Financial Statements** (Ref: Para. 25)

A26. SLAuS 700 (Revised)[16] contains requirements and guidance to be applied when unaudited supplementary information is presented with audited financial statements that, adapted as necessary in the circumstances, may be helpful in applying the requirement in paragraph 25.

**Auditor Association** (Ref: Para. 26–27)

A27. Other appropriate actions the auditor may take when management does not take the requested action may include informing the intended users and other known third-party users of the inappropriate reference to the auditor. The auditor's course of action depends on the auditor's legal rights and obligations. Consequently, the auditor may consider it appropriate to seek legal advice.

16 SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraphs 53–54

**Appendix**

(Ref: Para. A23)

## Illustrations of Independent Auditor's Reports on Summary Financial Statements

- Illustration 1: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which summary financial statements are derived. The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section and communication of other key audit matters.
- Illustration 2: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An unmodified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived. The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. The other information to which this uncorrected material misstatement relates is also information included in a document containing the summary financial statements and the auditor's report thereon.
- Illustration 3: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. A qualified opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- Illustration 4: An auditor's report on summary financial statements prepared in accordance with criteria developed by management and adequately disclosed in the summary financial statements. The auditor has determined that the applied criteria are acceptable in the circumstances. An adverse opinion is expressed on the audited financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.
- Illustration 5: An auditor's report on summary financial statements prepared in accordance with established criteria. An unmodified opinion is expressed on the audited financial statements. The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements. The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.

**Illustration 1:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements of a listed entity.**
- **Established criteria for the preparation of summary financial statements exist.**
- **The auditor's report on the summary financial statements is dated later than the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor's report on the audited financial statements includes a *Material Uncertainty Related to Going Concern* section.**
- **The auditor's report on the audited financial statements includes communication of other key audit matters.**[17]

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

[Appropriate Addressee]

**Opinion**

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with (or *a fair summary of*) the audited financial statements, in accordance with [describe established criteria].

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the audited financial statements.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2. That report also includes:

- A *Material Uncertainty Related to Going Concern* section that draws attention to Note 6 in the audited financial statements. Note 6 of the audited financial statements indicates that ABC Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, ABC Company's current liabilities exceeded its total assets by YYY. These events or conditions, along with other matters as set forth in Note 6 of the audited financial statements, indicate that a material uncertainty exists that may cast significant doubt on

[17] As explained in paragraph 15 of SLAuS 701, a material uncertainty related to going concern is, by its nature, a key audit matter but is required to be reported in a separate section of the auditor's report in accordance with paragraph 22 of SLAuS 570 (Revised).

ABC Company's ability to continue as a going concern. These matters are addressed in Note 5 of the summary financial statements.

- The communication of other[18] key audit matters. [Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period.][19]

**Management's[20] Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the financial statements in accordance with [describe established criteria].

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Sri Lanka Auditing Standard (SLAuS) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

**<u>Illustration 2:</u>**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**
- **The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of the other information. The other information to which this uncorrected material misstatement relates is also information included in a document containing the summary financial statements and the auditor's report thereon.**

18 In the circumstances where there is no material uncertainty related to going concern, inclusion of the word "other" in the statement for the communication of key audit matters would not be necessary.

19 The auditor may include additional explanation about key audit matters considered helpful to users of the auditor's report on the summary financial statements.

20 Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

[Appropriate Addressee]

**Opinion**

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with (or *a fair summary of*) the audited financial statements, on the basis described in Note X.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2. [The audited financial statements are included in the 20X1 Annual Report. The auditor's report on the audited financial statements includes a statement that describes an uncorrected material misstatement of other information within Management's Discussion and Analysis of the 20X1 Annual Report. Management's Discussion and Analysis, and the uncorrected material misstatement of the other information therein, are also contained in the 20X1 Summary Annual Report.] [*Describe the uncorrected material misstatement of the other information*].

**Management's[21] Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Sri Lanka Auditing Standard (SLAuS) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

[21] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

**Illustration 3:**

**Circumstances include the following:**

- **A qualified opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

[Appropriate Addressee]

**Opinion**

The summary financial statements, which comprise the summary statement of financial position as at December 31, 20X1, the summary statement of comprehensive income, summary statement of changes in equity and summary statement of cash flows for the year then ended, and related notes, are derived from the audited financial statements of ABC Company (the Company) for the year ended December 31, 20X1. We expressed a qualified audit opinion on those financial statements in our report dated February 15, 20X2.[22]

In our opinion, the accompanying summary financial statements are consistent, in all material respects, with (or *a fair summary of*) the audited financial statements, on the basis described in Note X. However, the summary financial statements are misstated to the equivalent extent as the audited financial statements of ABC Company for the year ended December 31, 20X1.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed a qualified audit opinion on the audited financial statements in our report dated February 15, 20X2. The basis for our qualified audit opinion was [that management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from Sri Lanka Accounting Standards]. The Company's records indicate that had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders' equity would have been reduced by xxx, xxx and xxx, respectively.

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[22] The positioning of this reference to the qualified opinion in the auditor's report on the audited financial statements in the Opinion paragraph on the summary financial statements assists users in understanding that although the auditor has expressed an unmodified opinion on the summary financial statements, the summary financial statements reflect audited financial statements that are materially misstated.

**Management's[23] Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the summary financial statements on the basis described in Note X.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Sri Lanka Auditing Standard (SLAuS) 810 (Revised), *Engagements to Report on Summary Financial Statements*.

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

**Illustration 4:**

**Circumstances include the following:**

- **An adverse opinion is expressed on the audited financial statements.**
- **Criteria are developed by management and adequately disclosed in Note X. The auditor has determined that the criteria are acceptable in the circumstances.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

[Appropriate Addressee]

**Denial of Opinion**

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

As a result of the adverse opinion on the audited financial statements discussed in *The Audited Financial Statements and our Report Thereon* section of our report, it is inappropriate to express an opinion on the accompanying summary financial statements.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary

[23] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

In our report dated February 15, 20X2, we expressed an adverse opinion on the audited financial statements of ABC Company for the year ended December 31, 20X1. The basis for our adverse opinion was [describe basis for adverse audit opinion].

**Management's[24] Responsibility for the Summary Financial Statements**

Management is responsible for the preparation of the financial statements on the basis described in Note X.

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Sri Lanka Auditing Standard (SLAuS) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

**Illustration 5:**

**Circumstances include the following:**

- **An unmodified opinion is expressed on the audited financial statements.**
- **Established criteria for the preparation of summary financial statements exist.**
- **The auditor concludes that it is not possible to express an unmodified opinion on the summary financial statements.**
- **The auditor's report on the summary financial statements is dated the same as the date of the auditor's report on the financial statements from which the summary financial statements are derived.**

**REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARY FINANCIAL STATEMENTS**

[Appropriate Addressee]

**Adverse Opinion**

The summary financial statements, which comprise the summary balance sheet as at December 31, 20X1, the summary income statement, summary statement of changes in equity and summary cash flow statement for the year then ended, and related notes, are derived from the audited financial statements of ABC Company for the year ended December 31, 20X1.

[24] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* section, the accompanying summary financial statements are not consistent with (or *a fair summary of*) the audited financial statements of ABC Company for the year ended December 31, 20X1, in accordance with [describe established criteria].

**Basis for Adverse Opinion**

[Describe matter that caused the summary financial statements not to be consistent, in all material respects, with (or *a fair summary of*) the audited financial statements, in accordance with the applied criteria.

**Summary Financial Statements**

The summary financial statements do not contain all the disclosures required by [describe financial reporting framework applied in the preparation of the audited financial statements of ABC Company]. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon.

**The Audited Financial Statements and Our Report Thereon**

We expressed an unmodified audit opinion on the audited financial statements in our report dated February 15, 20X2.

**Management's[25] Responsibility for the Summary Audited Financial Statements**

Management is responsible for the preparation of the summary financial statements in accordance with [describe established criteria].

**Auditor's Responsibility**

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with (or *are a fair summary of*) the audited financial statements based on our procedures, which were conducted in accordance with Sri Lanka Auditing Standard (SLAuS) 810 (Revised), *Engagements to Report on Summary Financial Statements.*

[Auditor's signature]

[Auditor's address]

[Date of the auditor's report]

[25] Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

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