



21 August 2020

Procedure to resolve matters giving rise to modified audit opinion in the Independent Auditor's Report

Preface

In consultation with the Securities and Exchange Commission and the Colombo Stock Exchange (CSE), the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka), has developed a sample report format with the objective to provide guidance to Auditors in communicating to the CSE about actions taken by their clients after the modified audit report was issued.

Under the Continuing Listing Requirements of the CSE, in the event the independent auditor's report in the Audited Financial Statements of a Listed Entity submitted to the CSE contains a Modified Audit Opinion, it shall be the duty of such Entity to resolve the matters giving rise to the Modified Audit Opinion and have such matters independently verified by the auditor that such matters have been resolved within the time period provided in the enforcement Rules. Until the matters giving rise to the Modified Audit Opinion are resolved in the manner specified in Rule 7.5 (d) (i) and 7.5 (d) (ii), the Listed Entity shall be subjected to the enforcement procedures specified in this Rule. The resolution of matters shall be communicated by following the illustrative report attached hereto, in a consistent manner by the Auditors.

This agreed upon procedures report illustration will assist the Auditors of Listed Entities to meet the requirements set out by the CSE to enable the Entities which receive a modified report to resolve such matter/s. In the event the matters giving rise to the Modified Audit Opinion are resolved, such fact shall be announced to the Market via the CSE in the form of a declaration by the Board of Directors of the Listed Entity which shall be accompanied with a confirmation issued by the Audit Committee of the Listed Entity stating that the matters giving rise to the Modified Audit Opinion have been resolved.

Thank you,
Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Suren', is positioned above a yellow rectangular stamp. The signature is fluid and cursive.

Suren Rajakarier
CHAIRMAN – AUDITING STANDARDS COMMITTEE

ILLUSTRATIVE FACTUAL FINDINGS REPORT

<< Date >>

The Board of Directors
ABC Company PLC
<<Address>>

Dear Sirs,

ABC Company PLC

Agreed upon procedures performed regarding actions taken with regard to the matters that gave rise to an Adverse or Disclaimer of Audit Opinion or a Qualified Audit Opinion for the year ended 31st March 20xx

We have performed the procedures enumerated below and we report our findings below which we agreed with you in our engagement letter dated XX xxx XX in connection to the matters that gave rise to an Adverse or Disclaimer of Audit Opinion or a Qualified Opinion for the year ended 31st March 20xx

Our engagement was undertaken in accordance with the Sri Lanka Standard on Related Services (SLSRS) – 4400, applicable to agreed-upon procedures engagements. The procedures that we performed was solely to assist you in communicating to the Colombo Stock Exchange (CSE) about actions taken after the audit for the year ended 31st March 20xx.

The CSE rules require the statutory auditors to confirm the following, and we list the related procedures that were performed below:

(Select and specify as appropriate)

CSE requirement	Basis of verification that matter is resolved/ not resolved
<i>Section 7.5 (d) (i) - Enforcement Procedure for Independent Auditor's Reports containing an Adverse or Disclaimer of Opinion</i> Independent verification by an Auditor is obtained by the Listed Entity as to the resolution of all matters giving rise to an Adverse or Disclaimer of Audit Opinion. Such verification shall be obtained by the Listed Entity within the given time bars.	1. 2. 3.
<i>Section 7.5 (d) (ii) - Enforcement Procedure for Independent Auditor's Reports containing a Qualified Audit Opinion</i> The matters giving rise to a Qualified Audit Opinion and such fact is independently verified by an auditor within the given time bars.	1. 2. 3.

CSE requirement	Basis of verification that matter is resolved/ not resolved
The Impact Report provided by ABC Company PLC , shall contain a detailed description of the impact of the said audit qualification/s to the Audited Financial Statements had the matter in question been recognized and disclosed as per the views of the Independent Auditor, including cumulative impact on profit or loss, net assets, total assets, turnover/total income, earnings per share and any other financial item/s, which may be impacted due to the qualified audit opinion.	1. 2.

We would like to draw your attention to the *Note N* to financial statements for the year ended 31st March 20xx which has disclosed the fact and circumstances for an Adverse or Disclaimer of our report / giving rise to a Qualified Audit Opinion.

Our findings after the previous audit for the financial period ended 31st March 20xx based on the agreed upon procedures performed are:

- 1 Matters giving rise to an Adverse or Disclaimer of audit opinion as at 31st March 20xx, have been resolved by the following steps as represented by the Board of Directors.
 - A
 - B
 - C

- 2 Matters giving rise to a Qualified Audit Opinion as at 31st March 20xx, have been resolved by the following steps as represented by the Board of Directors.
 - A
 - B
 - C

- 3 The attached Impact Report provided by **ABC Company PLC** to the CSE has recognized and disclosed the impact of the audit qualification/s on profit or loss, net assets, total assets, turnover/total income, earnings per share as given below;
 - Profit/loss
 - Net assets
 - Total assets
 - Revenue
 - EPS

Accordingly, necessary adjustments will have to be made to the interim/comparative information based on the requirements of LKAS 10.

Because the above procedures do not constitute either an audit or a review made in accordance with the Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, we do not express any assurance on the information contained in this Report. Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the second paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties, except to the CSE. This report relates only to the items specified above and does not extend to any financial statements of ABC Company PLC.

Yours Faithfully,

(Signed)

Chartered Accountants