

CONFORMING AMENDMENTS TO OTHER SLAuSs

Note: The following are conforming amendments to other SLAuSs as a result of SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors*. These amendments are effective for audits of financial statements for periods ending on or after 31 March 2018. The footnote numbers within these amendments do not align with the SLAuSs that will be amended, and reference should be made to those SLAuSs.

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

Definitions

12. In this SLSQC, the following terms have the meanings attributed below:

- (f) 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 an auditor's external experts 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).¹

SLAuS 220, *Quality Control for an Audit of Financial Statements*

Definitions

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

- (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 by a network firm.² 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

¹ 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.

² SLAuS 620, *Using the Work of an Auditor's Expert*, paragraph 6(a), defines the term "auditor's expert."

complies with the requirements of SLAuS 610 (Revised 2013).³

SLAuS 260, *Communication with Those Charged with Governance*

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 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.⁴

SLAuS 300, *Planning an Audit of Financial Statements*

Appendix

Characteristics of the Engagement

...

- Whether the entity has an internal audit function and, if so, whether, in which areas and to what extent, the work of the function can be used, or internal auditors can be used to provide direct assistance, for purposes of the audit.

...

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

Appendix 5

Required and Additional Matters Included in the Group Engagement Team's Letter of Instruction

Matters required by this SLAuS to be communicated to the component auditor are shown in italicized text.

³ 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.

⁴ SLAuS 610 (Revised 2013), paragraphs 20 and 31

Matters that are relevant to the planning of the work of the component auditor:

- *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 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.*⁵

⁵ SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors*, paragraph A31

Note: The following amendments represent the final approved changes from the Disclosures project (*Addressing Disclosures in the Audit of Financial Statements*) and conforming amendments to other SLAuSs as a result of the Auditor Reporting project and the project to revise SLAuS 720. These amendments are effective for audits of financial statements for periods ending on or after 31 March 2018. The footnote numbers within these amendments do not align with the SLAuSs that will be amended, and reference should be made to those SLAuSs.

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

Definitions

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

...

- (f) Financial statements – A structured representation of historical financial information, including ~~related notes~~ disclosures, 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. 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)

...

Application and Other Explanatory Material

Definitions

Financial Statements (Ref: Para. 13(f))

- A14. 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. 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.

An Audit of Financial Statements

Scope of the Audit (Ref: Para. 3)

- A1. The auditor’s opinion on the financial statements deals with whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. Such an opinion is common to all audits of financial statements. The auditor’s opinion therefore does not assure, for example, the future viability of the entity nor the efficiency or effectiveness with which management has conducted the affairs of the entity. In some jurisdictions, however, applicable law or regulation may require auditors to provide opinions on other specific matters, such as the effectiveness of internal control, or the consistency of a separate management report with the financial statements. While the SLAuSs include requirements and guidance in relation to such matters to the extent that they are relevant to forming an opinion on the financial statements, the auditor would be required to undertake further work if the auditor had additional responsibilities to provide such opinions.

SLAuS 210, *Agreeing the Terms of Audit Engagements*

Requirements

Agreement on Audit Engagement Terms

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–A27)
 - (a) The objective and scope of the audit of the financial statements;
 - (b) The responsibilities of the auditor;
 - (c) The responsibilities of management;
 - (d) Identification of the applicable financial reporting framework for the preparation of the financial statements; and
 - (e) Reference to the expected form and content of any reports to be issued by the auditor; and (Ref: Para. A24)

- (f) A statement that there may be circumstances in which a report may differ from its expected form and content.

...

Application and Other Explanatory Material

...

Preconditions for an Audit

...

Agreement of the Responsibilities of Management (Ref: Para. 6(b))

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).¹ 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 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.

...

Additional Information (Ref: Para. 6(b)(iii)b)

A20. 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.

¹ SLAuS 200, paragraph A4

...

Audit Engagement Letter or Other Form of Written Agreement (Ref: Para. 10–11)

...

Form and Content of the Audit Engagement Letter

A24. The form and content of the audit engagement letter may vary for each entity. Information included in the audit engagement letter on the auditor's responsibilities may be based on SLAuS 200. Paragraphs 6(b) and 12 of this SLAuS deal with the description of the responsibilities of management. In addition to including the matters required by paragraph 10, an audit engagement letter may make reference to, for example:

- Elaboration of the scope of the audit, including reference to applicable legislation, regulations, SLAuSs, and ethical and other pronouncements of professional bodies to which the auditor adheres.
- The form of any other communication of results of the audit engagement.
- The requirement for the auditor to communicate key audit matters in the auditor's report in accordance with SLAuS 701.²
- The fact that 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.
- Arrangements regarding the planning and performance of the audit, including the composition of the engagement team.
- The expectation that management will provide written representations (see also paragraph A13).
- 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.
- The agreement of management to make available to the auditor draft financial statements and any other accompanying other information, including all information relevant to their preparation, whether obtained from within or outside of the general and subsidiary ledgers (including

² SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

all information relevant to the preparation of disclosures), and the other information,³ if any, in time to allow the auditor to complete the audit in accordance with the proposed timetable.

- The agreement of management to inform the auditor of facts that may affect the financial statements, of which management may become aware during the period from the date of the auditor's report to the date the financial statements are issued.
- The basis on which fees are computed and any billing arrangements.
- A request for management to acknowledge receipt of the audit engagement letter and to agree to the terms of the engagement outlined therein.

A25. 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.

³ As defined in SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

Appendix 1

(Ref: Para. A24–A26)

Example of an Audit Engagement Letter

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.

To the appropriate representative of management or those charged with governance of ABC Company:⁴

[The objective and scope of the audit]

You⁵ have requested that we audit the financial statements of ABC Company, which comprise the ~~balance sheet~~ statement of financial position as at December 31, 20X1, and the ~~income~~ statement of comprehensive income, statement of changes in equity and statement of cash flows ~~statement~~ for the year then ended, and notes to the financial statements, including 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~~ 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 expressing an opinion on the financial statements. 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.

[The responsibilities of the auditor]

⁴ 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.

⁵ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

We will conduct our audit in accordance with ~~Sri Lanka Auditing Standards~~ (SLAuSs). Those standards require that we comply with ethical requirements, ~~and As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the planning and performing of the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit also involves~~ We also:

- ~~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~~ 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.~~
- ~~In making our risk assessments, we~~ Obtain an understanding of ~~consider~~ internal control relevant to the ~~entity's preparation of the financial statements~~ 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.⁶ 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.
- ~~An audit also includes evaluating~~ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates ~~and related disclosures made by management, as well as~~
- 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.

⁶ 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.

- ~~evaluating~~ 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.

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.

[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).]

Our audit will be conducted on the basis that [management and, where appropriate, those charged with governance]⁷ acknowledge and understand that they have responsibility:

- For the preparation and fair presentation of the financial statements in accordance with Sri Lanka Accounting Standards;⁸
- 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
- To provide us with:⁹
 - 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;
 - Additional information that we may request from [management] for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

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.

We look forward to full cooperation from your staff during our audit.

⁷ Use terminology as appropriate in the circumstances.

⁸ Or, if appropriate, “For the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards”

⁹ See paragraph A24 for examples of other matters relating to management’s responsibilities that may be included.

[Other relevant information]

[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]

[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report including, if applicable, the reporting on other information in accordance with SLAuS 720 (Revised).]

The form and content of our report may need to be amended in the light of our audit findings.

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.

XYZ & Co.

Acknowledged and agreed on behalf of ABC Company by

(signed)

.....
Name and Title
Date

SLAuS 220, *Quality Control for an Audit of Financial Statements*

Requirements

Engagement Performance

Engagement Quality Control Review

...

20. The engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the auditor's report. This evaluation shall involve:
 - (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the financial statements and the proposed auditor's report;
 - (c) Review of selected audit documentation relating to the significant judgments the engagement team made and the conclusions it reached; and

- (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–~~A28~~, A30–A32)

Application and Other Explanatory Material

Engagement Performance

Engagement Quality Control Review

...

Nature, Timing and Extent of Engagement Quality Control Review (Ref: Para. 20)

...

A28. When SLAuS 701¹⁰ applies, the conclusions reached by the engagement team in formulating the auditor's report include determining:

- The key audit matters to be included in the auditor's report;
- 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
- 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.

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.

SLAuS 230, *Audit Documentation*

Application and Other Explanatory Material

Documentation of the Audit Procedures Performed and Audit Evidence Obtained

Form, Content and Extent of Audit Documentation

Documentation of Significant Matters and Related Significant Professional Judgments (Ref: Para. 8(c))

- A10. Some examples of circumstances in which, in accordance with paragraph 8, it is appropriate to prepare audit documentation relating to the use of professional judgment include, where the matters and judgments are significant:

...

¹⁰ SLAuS 701, *Communicating Key Audit Matters in the Auditor's Report*

- When SLAuS 701 applies,¹¹ the auditor's determination of the key audit matters or the determination that there are no key audit matters to be communicated.

Appendix

(Ref: Para. 1)

Specific Audit Documentation Requirements in Other SLAuSs

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.

...

- SLAuS 610 (Revised 2013), *Using the Work of Internal Auditors* – paragraphs 36–37
- SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 25

SLAuS 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

Application and Other Explanatory Material

...

Characteristics of Fraud (Ref: Para. 3)

...

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 intentionally:

- Recording fictitious journal entries, particularly close to the end of an accounting period, to manipulate operating results or achieve other objectives.
- Inappropriately adjusting assumptions and changing judgments used to estimate account balances.
- Omitting, advancing or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period.

¹¹ SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

- Omitting, obscuring or misstating disclosures required by the applicable financial reporting framework, or disclosures that are necessary to achieve fair presentation.
- ~~Concealing, or not disclosing,~~ facts that could affect the amounts recorded in the financial statements.
- Engaging in complex transactions that are structured to misrepresent the financial position or financial performance of the entity.
- Altering records and terms related to significant and unusual transactions.

...

Discussion among the Engagement Team (Ref: Para. 15)

...

A11. The discussion may include such matters as:

- 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.
- A consideration of circumstances that might be indicative of earnings management and the practices that might be followed by management to manage earnings that could lead to fraudulent financial reporting.
- A consideration of the risk that management may attempt to 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).
- A consideration of the known external and internal factors affecting the entity that may create an incentive or pressure for management or others to commit fraud, provide the opportunity for fraud to be perpetrated, and indicate a culture or environment that enables management or others to rationalize committing fraud.
- A consideration of management's involvement in overseeing employees with access to cash or other assets susceptible to misappropriation.
- A consideration of any unusual or unexplained changes in behavior or lifestyle of management or employees which have come to the attention of the engagement team.

- An emphasis on the importance of maintaining a proper state of mind throughout the audit regarding the potential for material misstatement due to fraud.
- A consideration of the types of circumstances that, if encountered, might indicate the possibility of fraud.
- A consideration of how an element of unpredictability will be incorporated into the nature, timing and extent of the audit procedures to be performed.
- A consideration of the audit procedures that might be selected to respond to the susceptibility of the entity's financial statements to material misstatement due to fraud and whether certain types of audit procedures are more effective than others.
- A consideration of any allegations of fraud that have come to the auditor's attention.
- A consideration of the risk of management override of controls.

SLAuS 300, *Planning an Audit of Financial Statements*

Application and Other Explanatory Material

...

Planning Activities

...

The Audit Plan (Ref: Para. 9)

A13. 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.

A14. 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:

- 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);
- Significant new or revised disclosures arising from changes in the applicable financial reporting framework;
- 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
- Matters relating to disclosures that the auditor may wish to discuss with those charged with governance.¹²

Appendix

(Ref: Para. 7–8, A8–A11)

Considerations in Establishing the Overall Audit Strategy

This appendix provides examples of matters the auditor may consider in establishing the overall audit strategy. Many of these matters will also influence the auditor's detailed audit plan. The examples provided cover a broad range of matters applicable to many engagements. While some of the matters referred to below may be required by other SLAuSs, not all matters are relevant to every audit engagement and the list is not necessarily complete.

Characteristics of the Engagement

...

Reporting Objectives, Timing of the Audit, and Nature of Communications

...

Significant Factors, Preliminary Engagement Activities, and Knowledge Gained on Other Engagements

- The determination of materiality in accordance with SLAuS 320¹³ and, where applicable:
 - The determination of materiality for components and communication thereof to component auditors in accordance with SLAuS 600.¹⁴

¹² SLAuS 260 (Revised), *Communication with Those Charged with Governance*, paragraph A13

¹³ SLAuS 320, *Materiality in Planning and Performing an Audit*

- The preliminary identification of significant components and material classes of transactions, account balances and disclosures.
- Preliminary identification of areas where there may be a higher risk of material misstatement.
- The impact of the assessed risk of material misstatement at the overall financial statement level on direction, supervision and review.
- The manner in which the auditor emphasizes to engagement team members the need to maintain a questioning mind and to exercise professional skepticism in gathering and evaluating audit evidence.
- Results of previous audits that involved evaluating the operating effectiveness of internal control, including the nature of identified deficiencies and action taken to address them.
- The discussion of matters that may affect the audit with firm personnel responsible for performing other services to the entity.
- Evidence of management's commitment to the design, implementation and maintenance of sound internal control, including evidence of appropriate documentation of such internal control.
- Changes within the applicable financial reporting framework, such as changes in accounting standards, which may involve significant new or revised disclosures.
- Volume of transactions, which may determine whether it is more efficient for the auditor to rely on internal control.
- Importance attached to internal control throughout the entity to the successful operation of the business.
- 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.
- Significant business developments affecting the entity, including changes in information technology and business processes, changes in key management, and acquisitions, mergers and divestments.
- Significant industry developments such as changes in industry regulations and new reporting requirements.
- ~~Significant changes in the financial reporting framework, such as changes in accounting standards.~~

¹⁴ SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*, paragraphs 21–23 and 40(c)

- Other significant relevant developments, such as changes in the legal environment affecting the entity.

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

Requirements

The Entity's Internal Control

...

Components of Internal Control

Control environment

...

The information system, including the related business processes, relevant to financial reporting, and communication

18. 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)
 - (a) The classes of transactions in the entity's operations that are significant to the financial statements;
 - (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;
 - (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;
 - (d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements;
 - (e) The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures; and
 - (f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments. (Ref: Para. A93-A94)

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.

...

Identifying and Assessing the Risks of Material Misstatement

...

26. For this purpose, the auditor shall:

- (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, and disclosures (including the quantitative or qualitative aspects of such disclosures) in the financial statements; (Ref: Para. A132–A136)
- (b) Assess the identified risks, and evaluate whether they relate more pervasively to the financial statements as a whole and potentially affect many assertions;
- (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. A137–A39)
- (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. (Ref: Para. A140)

Application and Other Explanatory Material

Risk Assessment Procedures and Related Activities (Ref: Para. 5)

- A1. Obtaining an understanding of the entity and its environment, including the entity’s internal control (referred to hereafter as an “understanding of the entity”), is a continuous, dynamic process of gathering, updating and analyzing information throughout the audit. The understanding establishes a frame of reference within which the auditor plans the audit and exercises professional judgment throughout the audit, for example, when:
 - Assessing risks of material misstatement of the financial statements;
 - Determining materiality in accordance with SLAuS 320;¹⁵

¹⁵ SLAuS 320, *Materiality in Planning and Performing an Audit*

- Considering the appropriateness of the selection and application of accounting policies, and the adequacy of financial statement disclosures;
- Identifying areas relating to amounts or disclosures in the financial statements where special audit consideration may be necessary, for example; related party transactions, ~~the appropriateness of or management's use of the assessment of the entity's ability to continue as a going concern assumption;~~ or when considering the business purpose of transactions;
- Developing expectations for use when performing analytical procedures;
- Responding to the assessed risks of material misstatement, including designing and performing further audit procedures to obtain sufficient appropriate audit evidence; and
- Evaluating the sufficiency and appropriateness of audit evidence obtained, such as the appropriateness of assumptions and of management's oral and written representations.

...

Information Obtained in Prior Periods (Ref: Para. 9)

A19. The auditor's previous experience with the entity and audit procedures performed in previous audits may provide the auditor with information about such matters as:

- Past misstatements and whether they were corrected on a timely basis.
- The nature of the entity and its environment, and the entity's internal control (including deficiencies in internal control).
- Significant changes that the entity or its operations may have undergone since the prior financial period, which may assist the auditor in gaining a sufficient understanding of the entity to identify and assess risks of material misstatement.
- 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.

Discussion among the Engagement Team (Ref: Para. 10)

...

A22. 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:

- Changes in financial reporting requirements that may result in significant new or revised disclosures;
- 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;
- Disclosures for which obtaining sufficient appropriate audit evidence may have been difficult in the past; and
- Disclosures about complex matters, including those involving significant management judgment as to what information to disclose.

...

The Required Understanding of the Entity and Its Environment, Including the Entity's Internal Control

The Entity and Its Environment

Industry, Regulatory and Other External Factors (Ref: Para. 11(a))

...

Regulatory Factors

A27. Relevant regulatory factors include the regulatory environment. The regulatory environment encompasses, among other matters, the applicable financial reporting framework and the legal and political environment. Examples of matters the auditor may consider include:

- Accounting principles and industry-specific practices.
- Regulatory framework for a regulated industry, including requirements for disclosures.
- Legislation and regulation that significantly affect the entity's operations, including direct supervisory activities.
- Taxation (corporate and other).
- Government policies currently affecting the conduct of the entity's business, such as monetary, including foreign exchange controls, fiscal, financial incentives (for example, government aid programs), and tariffs or trade restrictions policies.

- Environmental requirements affecting the industry and the entity's business.

...

Nature of the Entity (Ref: Para. 11(b))

A31. An understanding of the nature of an entity enables the auditor to understand such matters as:

- 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.
- The ownership, and relationships between owners and other people or entities. This understanding assists in determining whether related party transactions have been appropriately identified, and accounted for, appropriately and adequately disclosed in the financial statements. SLAuS 550¹⁶ establishes requirements and provides guidance on the auditor's considerations relevant to related parties.

A32. Examples of matters that the auditor may consider when obtaining an understanding of the nature of the entity include:

- Business operations such as:

...

- Investments and investment activities such as:

...

- Financing and financing activities such as:

...

- Financial reporting practices such as:

- Accounting principles and industry-specific practices, including for industry-specific significant categories-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).
- Revenue recognition ~~practices~~.

¹⁶ SLAuS 550, *Related Parties*

- Accounting for fair values.
- Foreign currency assets, liabilities and transactions.
- Accounting for unusual or complex transactions including those in controversial or emerging areas (for example, accounting for stock-based compensation).

...

Components of Internal Control—Control Environment (Ref: Para. 14)

...

Effect of the Control Environment on the Assessment of the Risks of Material Misstatement

A81. Some elements of an entity's control environment have a pervasive effect on assessing the risks of material misstatement. For example, an entity's control consciousness is influenced significantly by those charged with governance, because one of their roles is to counterbalance pressures on management in relation to financial reporting that may arise from market demands or remuneration schemes. The effectiveness of the design of the control environment in relation to participation by those charged with governance is therefore influenced by such matters as:

- Their independence from management and their ability to evaluate the actions of management.
- Whether they understand the entity's business transactions.
- The extent to which they evaluate whether the financial statements are prepared in accordance with the applicable financial reporting framework, including whether the financial statements include adequate disclosures.

...

Components of Internal Control—The Information System, Including Related Business Processes, Relevant to Financial Reporting, and Communication

The Information System, Including Related Business Processes, Relevant to Financial Reporting (Ref: Para. 18)

...

A91. Financial statements may contain information that is obtained from outside of the general and subsidiary ledgers. Examples of such information may include:

- Information obtained from lease agreements disclosed in the financial statements, such as renewal options or future lease payments.
- Information disclosed in the financial statements that is produced by an entity's risk management system.
- Fair value information produced by management's experts and disclosed in the financial statements.
- 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:
 - Assumptions developed internally that may affect an asset's useful life; or
 - Data such as interest rates that are affected by factors outside the control of the entity.
- Information disclosed in the financial statements about sensitivity analyses derived from financial models that demonstrates that management has considered alternative assumptions.
- Information recognized or disclosed in the financial statements that has been obtained from an entity's tax returns and records.
- 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 events or conditions that have been identified that may cast significant doubt on the entity's ability to continue as a going concern.¹⁷

A92. 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

¹⁷ See paragraphs 19–20 of SLAuS 570 (*Revised*), *Going Concern*.

aspects of the risk management system, and uses professional judgment in determining the necessary understanding.

...

Considerations specific to smaller entities (ref Para 18)

- A96. The iInformation systems, 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, are is likely to be less sophisticated than in larger entities, but ~~their~~ 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 ~~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.

...

- A103. 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.

...

Identifying and Assessing the Risks of Material Misstatement

Assessment of Risks of Material Misstatement at the Financial Statement Level (Ref: Para. 25(a))

...

- 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~~ 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.

...

The Use of Assertions

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, and presentation of classes of transactions and events, account balances and disclosures of the various elements of financial statements and related disclosures.

A128. The auditor may use the assertions as described ~~above in paragraph 129(a)-(b) below~~ or may express them differently provided all aspects described ~~above 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 balances, and related disclosures.

Assertions about classes of transactions, account balances, and related disclosures

A129. Assertions used by the auditor ~~to~~in considering the different types of potential misstatements that may occur may fall into the following ~~three~~ categories ~~and may take the following forms:~~

- (a) Assertions about classes of transactions and events, and related disclosures, for the period under audit:
 - (i) Occurrence—transactions and events that have been recorded or disclosed, have occurred, and such transactions and events pertain to the entity.
 - (ii) 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.
 - (iii) Accuracy—amounts and other data relating to recorded transactions and events have been recorded appropriately, and related disclosures have been appropriately measured and described.
 - (iv) Cutoff—transactions and events have been recorded in the correct accounting period.
 - (v) Classification—transactions and events have been recorded in the proper accounts.
 - (vi) 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.

- (b) Assertions about account balances, and related disclosures, at the period end:
 - (i) Existence—assets, liabilities, and equity interests exist.
 - (ii) Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity.
 - (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.
 - (iv) Accuracy, ~~Valuation and allocation—financial and other information are disclosed fairly and at appropriate amounts~~ 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.
 - (v) Classification—assets, liabilities and equity interests have been recorded in the proper accounts.
 - (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.
- ~~(c) Assertions about presentation and disclosure:~~
 - ~~(i) Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity.~~
 - ~~(ii) Completeness— all disclosures that should have been included in the financial statements have been included.~~
 - ~~(iii) Classification and understandability— financial information is appropriately presented and described, and disclosures are clearly expressed.~~
 - ~~(iv) Accuracy and valuation— financial and other information are disclosed fairly and at appropriate amounts.~~

Assertions about other disclosures

A1304a. The assertions described in paragraph A129(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.

~~A125. 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. [Moved to paragraph A123a]~~

...

Process of Identifying Risks of Material Misstatement (Ref: Para. 26(a))

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 determines the nature, 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 200.¹⁸

A133. 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.

A134. As explained in SLAuS 320,¹⁹ 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.²⁰

A135. The auditor's consideration of disclosures in the financial statements when identifying risks includes quantitative and qualitative disclosures, the

¹⁸ SLAuS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards*, paragraph 15

¹⁹ SLAuS 320, paragraph A1

²⁰ SLAuS 320, paragraph 4

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 of disclosures that will have qualitative aspects and that may be relevant when assessing the risks of material misstatement include disclosures about:

- Liquidity and debt covenants of an entity in financial distress.
- Events or circumstances that have led to the recognition of an impairment loss.
- Key sources of estimation uncertainty, including assumptions about the future.
- 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.
- Share-based payment arrangements, including information about how any amounts recognized were determined, and other relevant disclosures.
- Related parties, and related party transactions.
- 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.

Considerations specific to smaller entities

A136.Disclosures in the financial statements of smaller entities may be less detailed or less complex (e.g., some financial 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.

...

Material Misstatements

A139.Potential misstatements in individual statements and disclosures may be judged to be material due to size, nature or circumstances. (Ref: Para. 26(d))

...

Appendix 2

(Ref: Para. A41, A133)

Conditions and Events That May Indicate Risks of Material Misstatement

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.

- Operations in regions that are economically unstable, for example, countries with significant currency devaluation or highly inflationary economies.
- Operations exposed to volatile markets, for example, futures trading.
- Operations that are subject to a high degree of complex regulation.
- Going concern and liquidity issues including loss of significant customers.
- Constraints on the availability of capital and credit.
- Changes in the industry in which the entity operates.
- Changes in the supply chain.
- Developing or offering new products or services, or moving into new lines of business.
- Expanding into new locations.
- Changes in the entity such as large acquisitions or reorganizations or other unusual events.
- Entities or business segments likely to be sold.
- The existence of complex alliances and joint ventures.
- Use of off balance sheet finance, special-purpose entities, and other complex financing arrangements.
- Significant transactions with related parties.
- Lack of personnel with appropriate accounting and financial reporting skills.
- Changes in key personnel including departure of key executives.

- Deficiencies in internal control, especially those not addressed by management.
- Incentives for management and employees to engage in fraudulent financial reporting.
- Inconsistencies between the entity's IT strategy and its business strategies.
- Changes in the IT environment.
- Installation of significant new IT systems related to financial reporting.
- Inquiries into the entity's operations or financial results by regulatory or government bodies.
- Past misstatements, history of errors or a significant amount of adjustments at period end.
- Significant amount of non-routine or non-systematic transactions including intercompany transactions and large revenue transactions at period end.
- Transactions that are recorded based on management's intent, for example, debt refinancing, assets to be sold and classification of marketable securities.
- Application of new accounting pronouncements.
- Accounting measurements that involve complex processes.
- Events or transactions that involve significant measurement uncertainty, including accounting estimates, and related disclosures.
- Omission, or obscuring, of significant information in disclosures.
- Pending litigation and contingent liabilities, for example, sales warranties, financial guarantees and environmental remediation.

SLAuS 320, *Materiality in Planning and Performing an Audit*

Introduction

...

Materiality in the Context of 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:
 - (a) Determining the nature, timing and extent of risk assessment procedures;
 - (b) Identifying and assessing the risks of material misstatement; and

- (c) Determining the nature, timing and extent of further audit procedures.

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 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 misstatement²¹. In addition, when evaluating the effect on the financial statements of all uncorrected misstatements,~~ the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence, ~~when evaluating their effect on the financial statements.~~²² (Ref: Para.A2)

...

Application and Other Explanatory Material

Materiality in the Context of an Audit (Ref: Para. 6)

A2. Identifying and assessing the risks of material misstatement²³ 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:

- The circumstances of the entity for the period (for example, the entity may have undertaken a significant business combination during the period).
- 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).

²¹ See SLAuS 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and its Environment*, paragraphs A134–A135b.

²² SLAuS 450, paragraph A21

²³ SLAuS 315 (Revised), paragraph 25, requires the auditor to identify and assess the risk of material misstatement at the financial statement and assertion level.

- 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).

...

Determining Materiality and Performance Materiality When Planning the Audit

...

Materiality Level or Levels for Particular Classes of Transactions, Account Balances or Disclosures (Ref: Para. 10)

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:

- 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, and sensitivity analysis for fair value accounting estimates with high estimation uncertainty).
- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).
- 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~~ disclosures about segments or a significant business combination).

SLAuS 330, *The Auditor's Responses to Assessed Risks* **Requirements**

...

Substantive Procedures

...

Substantive Procedures Related to the Financial Statement Closing Process

20. The auditor's substantive procedures shall include the following audit procedures related to the financial statement closing process:
 - (a) Agreeing or reconciling information in the financial statements with the underlying accounting records, including agreeing or reconciling information in disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers; and
 - (b) Examining material journal entries and other adjustments made during the course of preparing the financial statements. (Ref: Para. A52)

...

Adequacy of Presentation and ~~Disclosure~~ 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. In making this evaluation, the auditor shall consider whether the financial statements are presented in a manner that reflects the appropriate:
 - Classification and description of financial information and the underlying transactions, events and conditions; and
 - Presentation, structure and content of the financial statements. (Ref: Para. A59)

...

Documentation

...

30. 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.

Application and Other Explanatory Material

...

Audit Procedures Responsive to the Assessed Risks of Material Misstatement at the Assertion Level

Timing

...

A13. In addition, certain audit procedures can be performed only at or after the period end, for example:

- Agreeing or reconciling information in the financial statements with the underlying accounting records, including classes of transactions, account balances and agreeing or reconciling disclosures, with the underlying accounting records including, as applicable, those relevant accounting records that are whether such information is obtained from within or outside of the general and subsidiary ledgers;
- Examining adjustments made during the course of preparing the financial statements; and
- Procedures to respond to a risk that, at the period end, the entity may have entered into improper sales contracts, or transactions may not have been finalized.

A14. Further relevant factors that influence the auditor's consideration of when to perform audit procedures include the following:

- The control environment.
- When relevant information is available (for example, electronic files may subsequently be overwritten or procedures to be observed may occur only at certain times).
- The nature of the risk (for example, if there is a risk of inflated revenues to meet earnings expectations by subsequent creation of false sales agreements, the auditor may wish to examine contracts available on the date of the period end).
- The period or date to which the audit evidence relates.
- 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.

...

Substantive Procedures (Ref: Para. 18)

...

Substantive Procedures Related to the Financial Statement Closing Process (Ref: Para. 20**(b)**)

- A52. The nature, and also the extent, of the auditor's substantive procedures related to the financial statement closing process ~~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.

...

Adequacy of Presentation and Disclosure of the Financial Statements (Ref: Para. 24)

- A59. Evaluating the ~~overall appropriate~~ presentation, arrangement and content 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, consideration of the terminology used as required by the applicable financial reporting framework, the amount level of detail given provided, the classification of items in the statements, aggregation and disaggregation of amounts and the bases of amounts set forth.

SLAuS 450, *Evaluation of Misstatements Identified during the Audit*
Definitions

4. For purposes of the SLAuSs, the following terms have the meanings attributed below:
- (a) Misstatement – A difference between the reported 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)

When the auditor expresses an opinion on whether the financial statements are presented fairly, in all material respects, or give a true and fair view, misstatements also include those adjustments of amounts, classifications, presentation, or disclosures that, in the auditor's judgment, are necessary for the financial statements to be presented fairly, in all material respects, or to give a true and fair view.

Application and Other Explanatory Material

Definition of Misstatement (Ref: Para. 4(a))

- A1. Misstatements may result from:

- (a) An inaccuracy in gathering or processing data from which the financial statements are prepared;
- (b) An omission of an amount or disclosure, including inadequate or incomplete disclosures, and those disclosures required to meet disclosure objectives of certain financial reporting frameworks as applicable;²⁴
- (c) An incorrect accounting estimate arising from overlooking, or clear misinterpretation of, facts; ~~and~~
- (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;
- (e) An inappropriate classification, aggregation or disaggregation, of information; and
- (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.²⁵

Examples of misstatements arising from fraud are provided in SLAuS 240.²⁶

Accumulation of Identified Misstatements (Ref: Para. 5)

“Clearly Trivial”

- 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. 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.” Matters-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, than materiality determined in accordance with SLAuS 320, and will be matters~~

²⁴ For example, Sri Lanka Accounting Standard – SLFRS 7, *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...”

²⁵ For example, SLFRS requires an entity to provide additional disclosures when compliance with the specific requirements in SLFRSs 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)).

²⁶ SLAuS 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs A1–A6

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 ~~matter~~ misstatement is considered not to be clearly trivial.

Misstatements in Individual Statements

A3. 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 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.

Misstatements in Disclosures

A4. 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.

Accumulation of Misstatements

A5. 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.

A6. To assist the auditor in evaluating the effect of misstatements accumulated during the audit and in communicating misstatements to management and those charged with governance, it may be useful to distinguish between factual misstatements, judgmental misstatements and projected misstatements.

- Factual misstatements are misstatements about which there is no doubt.
- Judgmental misstatements are differences arising from the judgments of management including those concerning recognition,

measurement, presentation and disclosure in the financial statements (including accounting estimates that the auditor considers unreasonable, or the selection or application of accounting policies) that the auditor considers unreasonable or inappropriate.

- Projected misstatements are the auditor's best estimate of misstatements in populations, involving the projection of misstatements identified in audit samples to the entire populations from which the samples were drawn. Guidance on the determination of projected misstatements and evaluation of the results is set out in SLAuS 530.²⁷

...

Communication and Correction of Misstatements (Ref: Para. 8–9)

- A10. Timely communication of misstatements to the appropriate level of management is important as it enables management to evaluate whether the ~~items~~ classes of transactions, account balances and disclosures are misstated 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.

...

Evaluating the Effect of Uncorrected Misstatements (Ref: Para. 10–11)

...

- A16. 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.
- A17. 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:

²⁷ SLAuS 530, *Audit Sampling*, paragraphs 14–15

- Inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital for entities with insurance and banking activities.
- 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.
- 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.
- The inadequate description of the sensitivity of an exchange rate in an entity that undertakes international trading activities.

A18. 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:

- (a) Identified errors are persistent or pervasive; or
- (b) A number of identified misstatements are relevant to the same matter, and considered collectively may affect the users' understanding of that matter.

This consideration of accumulated misstatements is also helpful when evaluating the financial statements in accordance with paragraph 13(d) of SLAuS 700 (Revised),²⁸ 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.

...

Evaluating the Effect of Uncorrected Misstatements (Ref. Para. 10–11)

A21. The circumstances related to some misstatements may cause the auditor to evaluate them as material, individually or when considered together with other misstatements accumulated during the audit, even if they are lower than materiality for the financial statements as a whole. Circumstances that may affect the evaluation include the extent to which the misstatement:

...

²⁸ SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

- Affects other information ~~that will be communicated to be included in the entity's annual report 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 (Revised)²⁹ deals with the auditor's responsibilities relating to consideration of other information, on which the auditor has no obligation to report, in documents containing audited financial statements.

A22. SLAuS 240³⁰ 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:

- Misleading disclosures that have resulted from bias in management's judgments; or
- Extensive duplicative or uninformative disclosures that are intended to obscure a proper understanding of matters in the financial statements.

When considering the implications of misstatements in classes of transactions, account balances and disclosures, the auditor exercises professional skepticism in accordance with SLAuS 200.³¹

SLAuS 500, *Audit Evidence*

Definitions

- For purposes of the SLAuSs, the following terms have the meanings attributed below:
 - 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 obtained~~ from other sources.

SLAuS 510, *Initial Audit Engagements—Opening Balances*

²⁹ SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*

³⁰ SLAuS 240, paragraph 35

³¹ SLAuS 200, paragraph 15

Appendix

(Ref: Para. A8)

Illustrations of Auditors's Reports with Modified Opinions

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.

Illustration 1:

For purposes of this illustrative auditor's report, the following Ccircumstances described in paragraph 8(a) include the following 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 600³² 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 210.³³**
- **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.**
- **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.³⁴**
- **The financial position at year end is fairly presented.**

³² SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

³³ SLAuS 210, *Agreeing the Terms of Audit Engagements*

³⁴ 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.

- 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.
- The relevant ethical requirements that apply to the audit are those of the 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).³⁵
- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.³⁶
- 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 Statements³⁷

Qualified Opinion

We have audited the ~~accompanying~~ 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 ~~and other explanatory information.~~

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report~~paragraph~~, the accompanying financial

³⁵ SLAuS 570 (Revised), *Going Concern*

³⁶ SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

³⁷ 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 present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ~~ABC~~ 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

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.

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.

Other Matter

The financial statements of the ~~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's³⁸—and Those Charged with Governance Responsibility for the Financial Statements³⁹

[Reporting in accordance with SLAuS 700 (Revised)⁴⁰ – see Illustration 1 in SLAuS 700 (Revised).]

³⁸ — Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

³⁹ Throughout these illustrative auditor's reports, the ~~Or other~~ 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.

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,⁴¹ 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.~~

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

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

~~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.~~

~~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, 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.~~

~~In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation⁴² 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.⁴³—An audit also includes evaluating the appropriateness of accounting~~

⁴⁰ SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁴¹ ~~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 ..."~~

⁴² ~~In the case of footnote 4, 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."~~

⁴³ ~~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 4, 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."~~

~~policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

[Auditor's ~~s~~Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

~~[Auditor's ~~a~~Address]~~

~~[Date of the auditor's report]~~

Illustration 2:

For purposes of this illustrative auditor's report, the following ~~C~~ircumstances described in paragraph A8(b) include the following 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 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.
- 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.⁴⁴
- The financial position at year end is fairly presented.
- An opinion that is qualified regarding the financial performance and cash flows and unmodified regarding financial position is considered

⁴⁴ 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.

appropriate in the circumstances.

- 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.
- 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 Statements⁴⁵

Opinions

We have audited the ~~accompanying~~ 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 ~~and other explanatory information~~.

Qualified Opinion on the Financial Performance and Cash Flows

In our opinion, except for the possible effects of the matter described in the Basis for *Qualified Opinion* ~~section of our report paragraph~~, 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 ABC Company~~ for the year ended December 31, 20X1 in accordance with Sri Lanka Accounting Standards.

Opinion on the Financial Position

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 ~~Sri Lanka Accounting Standards~~. Sri Lanka accounting standards.

Basis for Opinions, Including Basis for Qualified Opinion on the Financial Performance and Cash Flows

We were appointed as auditors of the ~~e~~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.

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

⁴⁵ 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.

~~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.

Other Matter

The financial statements of ~~the 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’s⁴⁶—and Those Charged with Governance Responsibility for the Financial Statements⁴⁷

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

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards;⁴⁸ 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.~~

Auditor’s ~~Responsibility~~Responsibilities for the Audit of the Financial Statements

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

~~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~~

⁴⁷ ~~Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.~~

⁴⁷ ~~Or other terms that is~~ are appropriate in the context of the legal framework in the particular jurisdiction

⁴⁸ ~~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 ...”~~

~~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, 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.~~

~~In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation⁴⁹ 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.⁵⁰ 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. 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.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

[Auditor's sSignature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor's sAddress]

⁴⁹— In the case of footnote 4, 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."

⁵⁰— 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 4, 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."

~~[Date of the auditor's report]~~

SLAuS 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Requirements

Obtaining an Understanding of How Management Identifies the Need for Accounting Estimates (Ref: Para. 8(b))

...

A19. Inquiries of management about changes in circumstances may include, for example, inquiries about whether:

- The entity has engaged in new types of transactions that may give rise to accounting estimates.
- Terms of transactions that gave rise to accounting estimates have changed.
- Accounting policies relating to accounting estimates have changed, as a result of changes ~~to~~ within the requirements of the applicable financial reporting framework or otherwise.
- Regulatory or other changes outside the control of management have occurred that may require management to revise, or make new, accounting estimates.
- New conditions or events have occurred that may give rise to the need for new or revised accounting estimates.

Application and Other Explanatory Material

Further Substantive Procedures to Respond to Significant Risks (Ref: Para. 15)

Recognition and Measurement Criteria

Recognition of the Accounting Estimates in the Financial Statements (Ref: Para. 17(a))

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. Where applicable, the auditor may also determine that there is a need to draw the reader's attention to that an accounting estimate that has been identified as having a high-significant estimation uncertainty by adding an Emphasis of Matter paragraph to the auditor's report is a key audit matter to be communicated

in the auditor's report in accordance with SLAuS 701,⁵¹ or may consider it necessary to include an Emphasis of Matter paragraph in the auditor's report (see SLAuS 706 (Revised)).⁵² ~~SLAuS 706⁵³ establishes requirements and provides guidance concerning such paragraphs. 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.~~⁵⁴

SLAuS 560, *Subsequent Events*

Introduction

Scope of this SLAuS

1. This Sri Lanka Auditing Standard (SLAuS) deals with the auditor's responsibilities relating to subsequent events in an audit of financial statements. 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).⁵⁵ However, such other information may bring to light a subsequent event that is within the scope of this SLAuS. (Ref: Para. A1)

Application and Other Explanatory Material

Scope of this SLAuS (Ref: Para. 1)

- A1. When the audited financial statements are included in other documents subsequent to the issuance of the financial statements (other than annual reports that would be within the scope of SLAuS 720 (Revised)), 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

⁵¹ SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

⁵² SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*

⁵³ ~~SLAuS 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*~~

⁵⁴ SLAuS 706 (Revised), paragraph 8(b)

⁵⁵ SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*

the financial information with which the auditor is associated⁵⁶.

Facts Which Become Known to the Auditor after the Date of the Auditor's Report but before the Date the Financial Statements Are Issued

Implications of Other Information Obtained after the Date of the Auditor's Report
(Ref: Para. 10)

A11. 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.

...

Facts Which Become Known to the Auditor after the Financial Statements Have Been Issued

Implications of Other Information Received after the Financial Statements Have Been Issued (Ref: Para. 14)

A18. 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.

SLAuS 580, *Written Representations*

Note: When the SLAuSs were clarified, all of them had the same effective date. Now that some of the SLAuSs (new or revised auditor reporting standards) have a different effective date, the phrase "in effect for audits of financial statements in effect for audits of financial statements for periods beginning on or after 01 January 2014..." will be deleted in the appendix to SLAuS 580.

⁵⁶ See SLAuS 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Sri Lanka Auditing Standards, paragraph 2.

Appendix 1

(Ref: Para. 2)

List of SLAuSs Containing Requirements for Written Representations

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.

...

- SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* – paragraph 13(c)

Appendix 2

(Ref: Para. A21)

Illustrative Representation Letter

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 (Revised)⁵⁷ 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.

(Entity Letterhead)

(To Auditor)

This representation letter is provided in connection with your audit of the financial statements of ABC Company for the year ended December 31, 20XX⁵⁸ for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects, (or *give a true and fair view*) in accordance with Sri Lanka Accounting Standards.

We confirm that (, *to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves*):

Financial Statements

⁵⁷ SLAuS 570 (Revised), *Going Concern*

⁵⁸ Where the auditor reports on more than one period, the auditor adjusts the date so that the letter pertains to all periods covered by the auditor's report.

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of the financial statements in accordance with Sri Lanka Accounting Standards; in particular the financial statements are fairly presented (or *give a true and fair view*) in accordance therewith.
- Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. (SLAuS 540)
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Sri Lanka Accounting Standards. (SLAuS 550)
- All events subsequent to the date of the financial statements and for which Sri Lanka Accounting Standards require adjustment or disclosure have been adjusted or disclosed. (SLAuS 560)
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to the representation letter. (SLAuS 450)
- [Any other matters that the auditor may consider appropriate (see paragraph A10 of this SLAuS).]

Information Provided

- We have provided you with:⁵⁹
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. (SLAuS 240)

⁵⁹ If the auditor has included other matters relating to management's responsibilities in the audit engagement letter in accordance with SLAuS 210, *Agreeing the Terms of Audit Engagements*, consideration may be given to including these matters in the written representations from management or those charged with governance.

- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements. (SLAuS 240)
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others. (SLAuS 240)
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements. (SLAuS 250)
- We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. (SLAuS 550)
- [Any other matters that the auditor may consider necessary (see paragraph A11 of this SLAuS).]

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

Appendix 1

(Ref: Para. A19)

~~Example of a Qualified Opinion Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion~~

~~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 \$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.~~

~~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.~~

~~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.~~

Illustration of Independent 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

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.

Illustration—Example of a Qualified Opinion Where the Group Engagement Team Is Not Able to Obtain Sufficient Appropriate Audit Evidence on Which to Base the Group Audit Opinion

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 (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.**
- **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 Rs15 million in the statement of**

financial position, which reflects total assets of Rs60 million) because the group engagement team did not have access to the accounting records, management, or auditor of the component.

- 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.
- 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.⁶⁰
- Code of Ethics for Professional Accountants (CA Sri Lanka Code) 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).
- 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 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

⁶⁰ 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).

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

Report on the Audit of the Consolidated Financial Statements⁶¹

Qualified Opinion

We have audited the ~~accompanying~~ 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 and other explanatory information.

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 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.

Basis for Qualified Opinion

ABC Company's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at Rs15 million on the consolidated statement of financial position as at December 31, 20X1, and ABC's share of XYZ's net income of Rs1 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.

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 evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

⁶¹ 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 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.]

Responsibilities of Management’s⁶²—and Those Charged with Governance Responsibility for the Consolidated Financial Statements⁶³

[Reporting in accordance with SLAuS 700 (Revised)⁶⁴ – see Illustration 2 in SLAuS 700 (Revised).]

~~Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards,⁶⁵ 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.~~

Auditor’s ResponsibilityResponsibilities for the Audit of the Consolidated Financial Statements

[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.]

~~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.~~

~~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~~

⁶² — Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

⁶³ Throughout these illustrative auditor’s reports, the ~~Or other~~ 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.

⁶⁴ SLAuS 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

⁶⁵ — 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 ...”

~~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 entity's preparation and fair presentation⁶⁶ 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.⁶⁷ 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.~~

~~We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

~~[Reporting in accordance with SLAuS 700 (Revised) – see Illustration 2 in SLAuS 700 (Revised).]~~

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

~~[Auditor's Signature in the name of the audit firm,]~~

~~[Auditor's Address]~~

~~[Date of the auditor's report]~~

SLAuS 710, Comparative Information—Corresponding Figures and Comparative Financial Statements

Requirements

Auditor Reporting

⁶⁶—~~In the case of footnote 3, 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.”~~

⁶⁷—~~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 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 3, 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.”~~

*Corresponding Figures***Prior Period Financial Statements Not Audited**

14. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph in the auditor's report that the corresponding figures are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. (Ref: Para. A8)⁶²

...

Comparative Financial Statements

...

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 (Revised).⁶³

...

Prior Period Financial Statements Not Audited

19. If the prior period financial statements were not audited, the auditor shall state in an Other Matter paragraph that the comparative financial statements are unaudited. Such a statement does not, however, relieve the auditor of the requirement to obtain sufficient appropriate audit evidence that the opening balances do not contain misstatements that materially affect the current period's financial statements. (Ref: Para. A12)⁶⁴

⁶² SLAuS 510, Paragraph 6

⁶³ SLAuS 706 (Revised) Emphasis of matter paragraphs in the independent Auditors report, para 8

⁶⁴ SLAuS 510 paragraphs 6

Application and Other Explanatory Material**Auditor Reporting***Corresponding Figures***Prior Period Financial Statements Not Audited (Ref: Para. 14)**

A8. If the auditor is unable to obtain sufficient appropriate audit evidence regarding the opening balances, the auditor is required by SLAuS 705 (Revised)⁶⁸ 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.^{69*}

...

Comparative Financial Statements

...

Prior Period Financial Statements Not Audited (Ref: Para. 19)

A13. 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.

Appendix

Illustrations of Independent Auditors's Reports

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.

⁶⁸ SLAuS 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*

⁶⁹ SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

* When the conforming amendments become effective, this paragraph will become paragraph A8 and all subsequent paragraphs will be renumbered accordingly.

Illustration 1 – Corresponding Figures (Ref: Para. A5) For purposes of this Report illustrative auditor’s report, the following of the circumstances described in paragraph 11(a), as follows 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 600⁷⁰ does not apply).
- The financial statements are prepared by management of the entity in accordance with Sri Lanka Accounting Standards (SLFRSs) (a general purpose framework).
- The terms of the audit engagement reflect the description of management’s responsibility for the financial statements in SLAuS 210.⁷¹
- The auditor’s report on the prior period, as previously issued, included a qualified opinion.
- The matter giving rise to the modification is unresolved.
- The effects or possible effects of the matter on the current period’s figures are material and require a modification to the auditor’s opinion regarding the current period figures.
- 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).⁷²

⁷⁰ SLAuS 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

⁷¹ SLAuS 210, *Agreeing the Terms of Audit Engagements*

⁷² SLAuS 570 (Revised), *Going Concern*

- The auditor is not required, and has otherwise not decided, to communicate key audit matters in accordance with SLAuS 701.⁷³
- 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 Statements⁷⁴

Qualified Opinion

We have audited the ~~accompanying~~ 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 and other explanatory information.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report-~~paragraph~~, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of the 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 (SLFRSs).

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from ~~Sri Lanka Accounting Standards~~ SLFRSs. This is the result of a decision taken by management at the start of the preceding financial year and caused us to qualify our audit opinion on the financial statements relating to that year. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year

⁷³ SLAuS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

⁷⁴ 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.

should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

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 audit opinion.

Responsibilities of Management's⁷⁵—and Those Charged with Governance Responsibility for the Consolidated Financial Statements⁷⁶

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

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,⁷⁷ 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.~~

Auditor's ~~Responsibility~~Responsibilities for the Audit of the Financial Statements

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

~~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.~~

~~An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected~~

⁷⁵— Or other term that is appropriate in the context of the legal framework in the particular jurisdiction.

⁷⁶ Throughout these illustrative auditor's reports, the ~~Or other~~ 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.

⁷⁷— 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 ..."

~~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, 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.~~

~~In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation⁷⁸ 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.⁷⁹ 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

~~[Auditor's Signature in the name of the audit firm]~~

~~[Auditor's Address]~~

~~[Date of the auditor's report]~~

Illustration 2 – Corresponding Figures (Ref: Para. A5)

For purposes of this Report illustrative auditor's report the following of the circumstances described in paragraph 11(b) as follows are assumed:

- Audit of a complete set of financial statements of an entity other than a**

⁷⁸— ~~In the case of footnote 4, 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."~~

⁷⁹— ~~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 4, 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."~~

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 SLFRSs (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's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are immaterial but require a modification to the auditor's opinion because of the effects or possible effects of the unresolved matter on the comparability of the current period's figures and the corresponding figures.**
- **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 has 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 Statements⁸⁰

Qualified Opinion

⁸⁰ 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.

We have audited the ~~accompanying~~ 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~~—and other explanatory information~~.

In our opinion, except for the possible effects on the corresponding figures of the matter described in the *Basis for Qualified Opinion* ~~section of our report paragraph~~, the accompanying financial statements present fairly, in all material respects, (or *give a true and fair view of*) the financial position of ~~the 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 (SLFRSs).

Basis for Qualified Opinion

Because we were appointed auditors of ~~the ABC~~ Company during 20X0, we were not able to observe the counting of the physical inventories at the beginning of that period or satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings might be necessary for 20X0. Our audit opinion on the financial statements for the period ended December 31, 20X0 was modified accordingly. Our opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures and the corresponding figures.

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 audit opinion.

Responsibilities of Management⁸²—and Those Charged with Governance Responsibility for the Financial Statements⁸²

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

⁸² Or other terms that is—are appropriate in the context of the legal framework in the particular jurisdiction

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,⁸² 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.~~

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

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

~~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.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

~~[Auditor's sSignature in the name of the audit firm]~~

~~[Auditor's sAddress]~~

~~[Date of the auditor's report]~~

⁸² ~~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 ..."~~

Illustration 3 – Corresponding Figures (Ref: Para. A7)

For purposes of this Report-illustrative auditor's report the following of the circumstances described in paragraph 13, as follows 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 SLFRSs (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 has 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.
- 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 Statements⁸⁴

Opinion

We have audited the ~~accompanying~~ 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 and other explanatory information.

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 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 (SLFRSs).

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 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

⁸⁴ 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.

evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the 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’s⁸⁵ –and Those Charged with Governance Responsibility for the Financial Statements⁸⁶

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

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,⁸⁷ 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.~~

Auditor’s Responsibility Responsibilities for the Audit of the Financial Statements

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

~~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.~~

~~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~~

⁸⁶ — Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

⁸⁶ — Or other terms that are appropriate in the context of the legal framework in the particular jurisdiction

⁸⁷ — 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 ...”

~~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.~~

~~In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation⁸⁸ 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.⁸⁹ 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]~~

~~[Auditor's sSignature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]~~

~~[Auditor's sAddress]~~

~~[Date of the auditor's report]~~

Illustration 4 – Comparative Financial Statements (Ref: Para. A9)

For purposes of this Report illustrative auditor's report of the following circumstances described in paragraph 15, as follows are assumed:

- **Audit of a complete set of financial statements of an entity other than a**

⁸⁸— In the case of footnote 4, 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."

⁸⁹— 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 4, 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."

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 SLFRSs (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 is required to report on both the current period financial statements and the prior period financial statements in connection with the current year's audit.**
- **The auditor's report on the prior period, as previously issued, included a qualified opinion.**
- **The matter giving rise to the modification is unresolved.**
- **The effects or possible effects of the matter on the current period's figures are material to both the current period financial statements and prior period financial statements and require a modification to 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 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 has 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 Statements⁹⁰

Qualified Opinion

⁹⁰ 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.

We have audited the ~~accompanying~~ financial statements of ABC Company (the Company), which comprise the statements of financial position as at December 31, 20X1 and 20X0, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies ~~and other explanatory information~~.

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 20X0 and (of) its financial performance and its cash flows for the years then ended in accordance with Sri Lanka Accounting Standards (SLFRSs).

Basis for Qualified Opinion

As discussed in Note X to the financial statements, no depreciation has been provided in the financial statements, which constitutes a departure from ~~Sri Lanka Accounting Standards~~ SLFRSs. Based on the straight-line method of depreciation and annual rates of 5% for the building and 20% for the equipment, the loss for the year should be increased by xxx in 20X1 and xxx in 20X0, property, plant and equipment should be reduced by accumulated depreciation of xxx in 20X1 and xxx in 20X0, and the accumulated loss should be increased by xxx in 20X1 and xxx in 20X0.

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 audit opinion.

Responsibilities of Management's⁹¹—and Those Charged with Governance Responsibility for the Financial Statements⁹²

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

~~Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards,⁹² and for~~

⁷¹ Or other term that is appropriate in the context of the legal framework in the particular jurisdiction

⁹² Or other terms that ~~is are~~ appropriate in the context of the legal framework in the particular jurisdiction

~~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.~~

Auditor's Responsibilities for the Audit of the Financial Statements

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

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.

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, 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.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation⁹⁴ 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.⁹⁵ 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. We believe

⁹³—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..."

⁹⁴—In the case of footnote 4, 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."

⁹⁵—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 4, 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."

~~that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.~~

Report on Other Legal and Regulatory Requirements

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

~~[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities.]~~

~~[Auditor’s Signature in the name of the audit firm~~

~~[Auditor’s Address~~

~~[Date of the auditor’s report]~~

SLAuS 800, *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*

Definitions

...

7. Reference to “financial statements” in this SLAuS means “a complete set of special purpose financial statements, ~~including the related notes. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information.~~ The requirements of the applicable financial reporting framework determine the presentation, structure, form and content of the financial statements, and what constitutes a complete set of financial statements.

SLAuS 805, *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items 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;”

- (b) “Sri Lanka Accounting Standards” means the Sri Lanka Accounting Standards (SLFRSs) issued by the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka); and
- (c) A single financial statement or to a specific element of a financial statement includes the related ~~notes~~ disclosures. The related ~~notes~~ disclosures ordinarily comprise ~~a summary of significant accounting policies and other explanatory or other descriptive~~ information relevant to the financial statement or to the element.

Application and Other Explanatory Material

Scope of this SLAuS (Ref: Para. 1)

...

- A2. SLAuS 200 defines the term “financial statements” as a structured representation of historical financial information, including ~~related notes~~ disclosures, 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. Disclosures comprise explanatory or other 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.⁹⁶

LAuS 810, *Engagements to Report on Summary Financial Statements*

Requirements

...

Other Information in Documents Containing Summary Financial Statements

24. The auditor shall read the other information included in a document containing the summary financial statements and related auditor’s report to consider whether there is ~~identify a~~ material inconsistency ~~ies between the other information and, if any, with the summary financial statements. If, on~~ reading the other information, the auditor identifies a material inconsistency, the auditor shall determine whether the summary financial statements or the other information needs to be revised. If, on reading the other information, the auditor becomes aware of an apparent material

⁹⁶ SLAuS 200, paragraph 13(f)

~~misstatement of fact~~that the other information needs to be revised, the auditor shall discuss the matter with management. (Ref: Para. A19)

Application and Other Explanatory Material

- A19. SLAuS 720 (Revised)⁹⁷ contains requirements and guidance ~~relating regarding the auditor's responsibilities relating to reading~~ other information ~~in a financial statement audit engagement included in a document containing the audited financial statements and related auditor's report, and responding to material inconsistencies and material misstatements of fact.~~ Adapted as necessary in the circumstances, they may be helpful in applying the requirement in paragraph 24.

⁹⁷ SLAuS 720 (Revised), *The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements*