

RISK, GOVERNANCE AND AUDIT

CORPORATE LEVEL

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(AGREEING THE TERMS OF AUDIT ENGAGEMENTS – S.L.Au.S -210)

(THE AUDITOR'S RESPONSES TO ASSESSED RISK – S.L.Au.S – 330)



by

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AGREEING THE TERMS OF AUDIT ENGAGEMENTS – (S.L.Au.S – 210)

Introduction

In practical terms, the Auditor will not be accepting the Audit Engagement upon receiving the request from the Management. Auditor shall accept and continue an audit only when preconditions for an audit are present and common understanding exists between auditor and Management regarding the terms of the engagement.

To determine whether preconditions are present, auditor should do the following;

- A) Auditor shall determine whether the financial Reporting Framework used by the management to prepare financial statements is acceptable.

Factors to consider include the Nature of the Entity, the purpose of the Financial Statements, the nature of the Financial Statements, laws and regulations and the applicable financial reporting framework.

- B) Obtain acknowledgement from management that they are taking the responsibility for the preparation of financial statements in accordance with applicable reporting framework, establishing good internal control system within the organization and providing unrestricted access to all the information which are required to conduct the audit.

If auditor determines these preconditions are not present, auditor should not accept the engagement.

Steps to accept a Audit Engagement

- a) Formal request from the client to auditor to accept the audit engagement.
- b) Ascertain whether the preconditions are met.
- c) Verbal Agreement between the client and the auditor with regard to Terms and Conditions of the Audit engagement
- d) Converting the verbal agreements into a written agreement and both parties to signed the agreement

What is Audit Engagement Letter?

"It is a document/Agreement which prepared by the Auditors, while converting all the verbal terms and conditions which both parties agreed, in relation to an audit engagement, into a written format."

When terms of engagement are agreed by both parties, those terms should be recorded in an engagement letter.

Content of the Audit Engagement Letter

A) Main Contents/ Principal Contents

- 1) The objective and the responsibility of the Auditor
- 2) Management's responsibilities
- 3) Scope of the audit
- 4) Reference to the expected form and content of any reports to be issued by the auditor
- 5) Unrestricted access to the books of accounts, documents and information which is applicable to audit
- 6) The fact that due to the inherent limitations of an audit and those 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 S.L.Au.S Arrangements regarding planning and performance

B) Content to be included depending on the preference of the Auditor.

- 7) Information relating to Planning of the Audit Engagement
- 8) Expectation that management will provide written representations
- 9) The report that the Auditor expects to release other than the Signed Audit Report
- 10) Fees and Billing Arrangements
- 11) Requesting the client read the agreement to obtain overall understanding about the audit and requesting to sign off the both original and duplicate copy and to send the original while keeping the copy for future reference.

C) Contents to be included depending on the situation

- 12) Involvement of Other Auditors, Experts
- 13) Using the work of the Internal Auditors and the internal staff depending on the applicability
- 14) Arrangements to be made with predecessor auditor
- 15) Areas where the liability of the Auditor is limited
- 16) Any other arrangements between the client and the auditor

To: The Board of Directors or the appropriate representative of senior management

Engagement Letter – Statutory Audit for the year ended 31st March 2026

1. The purpose of this letter is to set out the basis on which we, **Skymax Associates** ("the Audit Firm", "we", "us",), act as auditors of **ABC PLC** and the respective areas of responsibility of the directors and of ourselves.

2. Responsibilities of the directors

As directors of the Company, you are responsible for ensuring that the Company maintains accounting records which disclose with reasonable accuracy, at any time, the financial position of the Company, and enable the preparation of financial statements which give a true and fair view, in accordance with Sri Lanka Accounting Standards and for establishing and maintaining an internal control structure.

Under Sections 150 (1) and 151 (2) of the Companies Act, No. 7 of 2007 (the "Act") the directors shall ensure that the financial statements of the Company comply with any regulations made under this Act, which specifies the form and content of the financial statements and with any requirements which apply to the Company's financial statements under any other law.

The directors are also responsible for making available to us, as and when required, all the Company's accounting records, all other relevant records, including minutes of all directors', management and shareholders' meetings, and such information and explanations as we consider necessary for the performance of our duties as auditors as described under "Responsibilities of the auditors" section of this letter and also unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

To enable us to provide audit report on the complete set of financial statements on the same date as the date of the audited financial results, please provide the complete set of financial statements including the notes along with the results, for us to perform audit procedures and report on them. Our reports will be issued only when we have completed all our audit procedures on the information being reported upon, including the quality control reviews as required under the auditing standards.

3. Responsibilities of the auditors

We have a statutory responsibility to report to the members of the Company whether in our opinion the financial statements of the Company give a true and fair view, in accordance with Sri Lanka Accounting Standards, of the state of the Company's financial position, financial performance and cash flows, and whether they have been properly prepared in accordance with the Act.

In arriving at our opinion, we are required to consider the following matters and to report on any in respect of which we are not satisfied:

- a) whether proper accounting records have been kept by the Company sufficient to enable the financial statements to be prepared and audited; and

- b) whether we have obtained all the information and explanations which we consider necessary for the purposes of our audit

Our professional responsibilities also include:

- providing in our report a description of the directors' responsibilities for the financial statements where the financial statements or accompanying information do not include such a description; and
- considering whether other information in annual reports and other documents containing audited financial statements is consistent with those financial statements.
- to deliver to the Company a statement of the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the Company or any of its subsidiaries

4. Scope of audit

Our audit will be conducted in accordance with Sri Lanka Auditing Standards ("SLAuS") issued by the Institute of Chartered Accountants of Sri Lanka and will include such tests of transactions and of the existence, ownership and valuation of assets and liabilities as we consider necessary. We shall obtain an understanding of the accounting and internal financial control systems to the extent necessary in order to assess their adequacy as a basis for the preparation of the financial statements and to establish whether proper accounting records have been maintained by the Company.

We shall expect to obtain such appropriate evidence as we consider sufficient to enable us to draw reasonable conclusions therefrom. The nature and extent of our procedures will vary according to our assessment of the Company's accounting system and, where we wish to place reliance on it, the internal financial control system and may cover any aspect of the business operations. Our procedures will also include examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements.

Our work will be planned in advance and incorporated into an audit plan. This may be varied on the basis of our findings during the course of an audit and from year to year. Accordingly, we may modify our audit scope, rotate our audit emphasis and propose matters of special audit emphasis, as the circumstances dictate.

Our audit includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements. It also includes an assessment of whether the accounting policies are appropriate to the Company's circumstances, are consistently applied and adequately disclosed.

We will also conclude 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.

The concept of materiality affects our audit planning and our consideration of matters arising from our audit. We take into account both qualitative and quantitative factors when assessing materiality.

In forming our opinion, we will also evaluate the overall presentation of information in the financial statements.

5. Auditor's reporting responsibility

Our report prepared in accordance with relevant provisions of the Act and SLAuSs including, the reporting on Other Information in accordance with SLAuS 720 (Revised) The Auditor's Responsibilities Relating to Other Information, would be addressed to the shareholders of the Company for adoption of the Financial Statements at the Annual General Meeting.

Further, in accordance with SLAuS 701 'Communicating Key Audit Matters in the Independent Auditor's Report', we are required to determine and communicate key audit matters in our report.

In addition to our report on the financial statements, we expect to provide you with a separate letter concerning any material weaknesses in accounting and internal control systems which come to our notice. Our audit is not designed to identify all weaknesses in the Company's accounting and internal control systems. However, we shall report in writing to those charged with governance any material weaknesses in the Company's systems or other business matters which come to our notice during the course of our normal audit work and which we consider in our professional judgment should be brought to the attention of those charged with governance. Our review of internal financial control systems is only performed to the extent required to express an opinion on the Company's financial statements and therefore our comments on these systems will not necessarily address all possible improvements which might be suggested as a result of a more extensive special examination.

6. Access to Books of Accounts and related information

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our audit.

7. Management representations

As part of our normal audit procedures, we shall request the directors or senior officials/ management to provide written confirmation each year of such facts or judgments and any other oral representations that we have received during the course of the audit on matters having a material effect on the financial statements. We will also ask them to confirm in that letter that all important and relevant information has been brought to our attention. In addition, we shall present to those charged with governance a schedule of any unadjusted misstatements that have come to our attention in the course of our audit work.

Because of the test nature and other inherent limitations of an audit, together with the inherent limitations of any accounting and internal control system, there is an unavoidable risk that even some material misstatements may remain undiscovered.

8. Professional Charges

Our fees are computed on the basis of the time spent on your affairs by our partners and staff and on the levels of skill and responsibility involved. The fees will be subject to review by us each year and will vary with a number of factors including the extent of our reliance upon the work of the internal auditors and the assistance we receive from them and other members of your staff in preparing routine schedules and analyses. Our fees will be billed at appropriate intervals during the course of the year and will be due on presentation. Any queries concerning an invoice must be raised within 30 days of the invoice date. It is our usual practice to provide estimates of our fees in advance of commencing the audit.

9. Using the work of Internal Auditors and Component Auditors

In developing our audit plan, we will liaise with your internal auditors as appropriate to ensure that our work is properly coordinated with their work. While we will use the work of internal audit whenever possible, SLAuS 610 "Using the Work of Internal Audit", states we have "sole responsibility for the audit opinion to be expressed and that responsibility is not reduced by any use made of internal auditing".

In assessing the extent to which use can be made of internal audit work, we will perform an evaluation of its adequacy for the external audit process in accordance with SLAuS 610. This will include an assessment of the procedures performed and documentation for compliance with SLAuS issued by the Institute of Chartered Accountants of Sri Lanka and may require us to evaluate and perform audit procedures on selected internal audit work.]

In accordance with professional standards, as the primary auditors we accept full responsibility for our opinion on the group's consolidated financial statements. To fulfil this responsibility, it will be necessary for us to carry out certain procedures on the work performed by the auditors of those group companies where the Audit Firm has not been appointed.

10. Acknowledgement and acceptance

This letter forms the entire agreement between us in connection with the services set out above. It supersedes any previous proposals, contracts or other communications, written or oral, save in relation to any fraudulent misrepresentation.

Once it has been agreed, this letter will remain effective, from one audit appointment to another, until it is replaced. [In signing this letter, you confirm you have the authority to sign for and on behalf of, and to legally bind, each of the Subsidiaries to the terms and conditions as set out in this letter.] * We should be obliged if you would confirm in writing your agreement to the terms of this letter by signing and returning the enclosed copy. If you wish to discuss the terms of our appointment further before replying, please let us know.

Yours Faithfully

.....
Skymax Associates

Acknowledgement of acceptance

I have read the above letter and accept the terms and conditions set out therein and confirm that I am authorised to accept and sign for and on behalf of ABC PLC

Signed:

.....

(Name and position)

(date)



JMC vLearning
"your virtual learning partner"

Recurring Audits

If the same auditor/audit firm carry out an audit of a particular client for several years continuously, those audits are treated as Recurring Audits.

For recurring audits, Auditor may decide not to send the engagement letter annually. However, if following situations occurred, it is appropriate to send the engagement letter, despite whether it was sent previously.

- ✚ Any indication that the management has misunderstood the scope and objective of an audit
- ✚ A significant change in the ownership/Management of the Company in the current year, compare to previous years.
- ✚ A significant change in size or nature of the entity
- ✚ A change in laws or regulations
- ✚ A revision of a previously agreed terms and conditions



The logo for JMC vLearning is located in the bottom left corner. It features a stylized 'J' composed of two overlapping 3D rectangular blocks, one light blue and one light orange. To the right of the 'J' is the text 'JMC vLearning' in a bold, sans-serif font, with 'JMC' in blue and 'vLearning' in orange. Below this, the tagline 'your virtual learning partner' is written in a smaller, lighter blue font.

A) Introduction

Once the auditor assessed the Risk of Material Misstatements, sufficient and appropriate audit evidences to be obtained through designing and implementing appropriate responses to those assessed risks.

The auditor should design and implement responses at two levels.

- ✚ At overall financial statement level
- ✚ At the assertion level

At Overall Financial Statement Level

The auditor should determine overall responses to address the risks of material misstatement at the financial statement level

- ✚ Emphasizing to audit staff the need to maintain professional scepticism
- ✚ Assigning additional or more experienced staff to the audit team
- ✚ Providing more supervision on the audit
- ✚ Incorporating more unpredictability into the audit procedures
- ✚ Making general changes to the nature, timing or extent of audit procedures

At the Assertion Level

The auditor should design and perform further audit procedures whose nature, timing, and extent are responsive to the assessed risks of material misstatement at the assertion level.

The nature of the audit procedures is of most importance in responding to the assessed risks. Assertion Level responses includes two approaches.

- a) Combine Approach
- b) Substantive Approach

Combine Approach

When the business organization is having sound Internal Control Systems and when the auditor believes that those internal controls are effective throughout the period, combination of Test of Controls and Substantive Procedures can be used.

Substantive Approach

When the auditor decides that the Internal Controls of a business organization is ineffective or when the particular business organization does not have a sound internal control system, the auditor may decided to use the Substantive Procedures as a mean of gathering audit evidences.

The auditor shall design and perform substantive audit procedures for each material class of transactions, account balance and disclosure.