

ADVANCED AUDIT AND ASSURANCE

CORPORATE LEVEL

TUTE 10 – THE AUDITOR'S REPORT

S.L.Au.S 700 (Revised) Forming an Opinion and Reporting on Financial Statements

S.L.Au.S 701 Communicating Key Audit Matters in the Independent Auditor's Report

S.L.Au.S 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report

S.L.Au.S 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report



by

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Forming an Opinion and Reporting on Financial Statements – (S.L.Au.S 700)

SESSION OUTLINE.....

- A) Introduction
- B) The Content of the Audit Report



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Introduction

In order to form the opinion, the auditor needs to conclude as to whether reasonable assurance has been obtained that the financial statements are free from material misstatement. The auditor’s conclusion needs to consider the following.

- ✚ Whether sufficient appropriate audit evidence has been obtained.
- ✚ Whether uncorrected misstatements are material.
- ✚ Whether the financial statements adequately disclose the significant accounting policies selected and applied.
- ✚ Whether the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate.
- ✚ Whether accounting estimates made by management are reasonable.
- ✚ Whether the information in the financial statements is relevant, reliable.
- ✚ Whether the financial statements provide adequate disclosures to allow users to understand the effect of material transactions and events on the information presented in the financial statements.
- ✚ The overall presentation, structure and content of the financial statements.
- ✚ Whether the financial statements adequately refer to or describe the applicable financial reporting framework.

S.L.Au.S 700 states that the auditor shall express an unmodified opinion when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

If the auditor concludes that the financial statements as a whole are not free from material misstatement or cannot obtain sufficient appropriate audit evidence to make this conclusion, the auditor must modify the opinion in accordance with S.L.Au.S 705 Modifications to the opinion in the independent auditor’s report.

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Content of the Audit Report

1) Title

The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor. This signifies that the Auditor has met all the ethical requirements concerning independence and therefore distinguishes the Auditor's Report from other reports.

2) Addressee

The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement. It is normally address to the shareholders or those charged with governance of the entity.

3) Auditor's Opinion

Under this segment, the auditor needs to identify the Financial Statements which has been audited by the auditor and express the independent opinion on the financial statements.

The Opinion Section must identify the entity being audited, state that the financial statements have been audited, identified the elements of the financial statements including the summary of significant accounting policies and other explanatory notes and specify the date or the period covered by each statement comprising the financial statements.

If the auditor expresses an unmodified opinion on financial statements prepared in accordance with a fair presentation framework, the opinion shall use one of the following equivalent phrases: -

- a) **The financial statements present fairly, in all material respects, ...in accordance with [the applicable financial reporting framework]; or**
- b) **The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].**

4) Basis for Opinion

4.1) States that the audit was conducted in accordance with Sri Lanka Auditing Standards.

4.2) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with the Code of Ethics

4.3) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.

5) **Key Audit Matters**

For audits of complete sets of general-purpose financial statements of listed entities, the auditor shall communicate Key Audit Matters (KAM) in the auditor's report in accordance with communicating Key Audit Matters in the Independent Auditor's Report.

6) **Other Information**

6.1) Statement that the management is responsible for other information. An identification of the other information obtained before the date of the auditor's report.

6.2) Statement that the Audit Opinion expressed, is not covered the other information

6.3) Statement that the Auditor's responsibility is to read the other information and check whether there is a Material Inconsistency between Other Information and Audited Financial Statements. Where other information has been obtained, either a statement that the auditor has nothing to report, or a description of any uncorrected material misstatement.

7) **Responsibility of Management for the Financial Statements.**

7.1) Statement that the management is responsible for the preparation of Financial Statements in accordance with Sri Lanka Accounting Standards and the responsibility of the management towards to the implementation of the proper internal control system that is necessary to enable the preparation of the financial statements that are free from material misstatements, whether due to fraud or errors.

7.2) Statement that the Management is responsible to consider the appropriateness of the Going Concern Assumption when preparing the Financial Statements

7.3) Statement that the Management is responsible to consider the Financial Reporting Framework/Process.

8) **Auditor's Responsibility for the Audit of the Financial Statements**

8.1) Statement that the objective of the Auditor is to provide a Reasonable Assurance whether the Financial Statements are free from Material Misstatements.

8.2) Statement that the Audit has conducted in accordance with the Sri Lanka Auditing Standards and auditor used his Professional Judgement and maintain Professional Scepticism during the audit

8.2.1) Statement that the auditor identifies and assess the Risk of having Material Misstatements in the Financial Statements.

8.2.2) Statement that the auditor obtains an understanding of Internal Controls relevant to the audit, in order to design audit procedures that are appropriate in the circumstances.

8.2.3) Statement that the auditor evaluates the appropriateness of Accounting Policies and reasonableness of Accounting Estimates.

8.2.4) Statement that the auditor considers whether there is Material Uncertainty with regard to the Going Concern assumption used by the Management.

8.2.5) Statement that the auditor evaluates the overall presentation of the financial statements including the disclosures

8.3) Statement that the auditor communicates with those with governance regarding among other matters, the planned scoped and timing of the audit and all the significant audit findings, including any significant deficiencies in internal control systems

8.4) Statement that the auditor complied with the Ethical Requirements in accordance with the Code of Ethics and provide a written statement to the those charged with governance.

8.5) Statement that from the matters discussed with those charged with governance, most significant matters are included in the Key Audit Matter segment.

9) Other Reporting Responsibilities

Other reporting responsibilities shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements.

10) Signature of the Auditor

11) Address of the Auditor

12) Date of the Auditor's Report

IMPORTANT

Going Concern Note in the Audit Report

Where the Auditor considers there is a material uncertainty related to Going Concern is exists, this should be describe in a separate section headed "**Material Uncertainty related to Going Concern**"

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company, which comprise the Statement of Financial Position as at 31st March 2023, and the Statement of Profit or Loss and Other Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements of the Company give a true and fair view of the financial position of the Company as at 31st March 2023, and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAUSs).

Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics), and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics.

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

Key Audit Matters

Key and matters are those matters that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent

with the financial statement or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ✚ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ✚ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company internal control.
- ✚ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ✚ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- ✚ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with ethical requirements in accordance with the Code of Ethics regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.

CA Sri Lanka membership number of the engagement partner responsible for signing this independent auditor's report is ****.

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Chartered Accountants

Colombo, Sri Lanka

Date

Additional Notes.

