

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

SESSION OUTLINE.....

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

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.
- 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 identified the Financial Statements which has been audited by the auditor and express the independent opinion on the financial statements
- 4) **Basis for Opinion**
 - 4.1) States that the audit was conducted in accordance with Si 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
 - 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
- 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
 - 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

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

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

Types of Audit Report

This can be segregated into two aspects

- A) Unmodified Audit Opinion
- B) Modified Audit Opinion

A) Unmodified Audit Opinion

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

B) Modified Audit Opinion

The auditor shall modify the opinion in the auditor's report when:

1. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
2. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Types of Modified Opinions

Standard establishes three types of modified opinions, namely,

- a) A Qualified Audit Opinion
- b) An Adverse Audit Opinion
- c) A Disclaimer of Opinion

The decision regarding which type of modified opinion is appropriate depends upon:

- 1) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated, **and**
- 2) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

IMPORTANT

“Pervasive effects relate to the scope of the effect which reflects the wide spread effect of misstatement.”

When the auditor modifies the opinion on the financial statements the auditor shall include a heading immediately after the opinion paragraph to describe the matter which gives rise to the modification.

A) Qualified Audit Opinion

The auditor shall express a qualified opinion when,

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Example for Qualified Opinion for option A

Qualified Opinion

We have audited the financial statements of ABC Company (the company), which comprise the statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified opinion section of our report, the accompanying financial statements give a true and fair view of. (present fairly, in all material respects) the financial position of the Company as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at xxx. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from Sri Lanka Accounting Standards. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of xxx would have been required to write the inventories down to their net realizable value Accordingly, cost of sales would have been increased by xxx, and income tax, net income and shareholders equity would have been reduced by xxx, xxx and xxx, respectively.

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

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

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

Example for Qualified Opinion for option B

Qualified Opinion

We have audited the financial statements of ABC Company (the company), which comprise the statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matter described in the Basis for Qualified opinion section of our report, the accompanying financial statements give a true and fair view of (present fairly, in all material respects) the financial position of the Company as at December 31, 2022, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Qualified Opinion

The Company appointed, we as the auditors after the reporting period and therefore, we have not observed the stock count which was carried out by the Company as at 31st December 2022. Due to the incompleteness of the stock records after the reporting period, as auditors we are not in a position to carry out other alternative procedures to validate the accuracy of the stock balance reported in the Statement of Financial Position as at 31st December 2022. Due to the above reasons, as auditors we were unable to obtain sufficient and appropriate audit evidences with regard to the closing inventory.

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

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

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

B) Adverse Audit Opinion

The auditor expresses an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.

Example for Adverse Opinion

Adverse Opinion

We have audited the financial statements of ABC Company (the company), which comprise the statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying financial statements do not present fairly do not give a true and fair view of, (do not present fairly) the financial position of the Company as at December 31, 2022, and (of) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis of Adverse Opinion

The Company is having five bank accounts which are using for the operational activities. However, out of the five, in three bank accounts, bank balance appears in the bank statements as at 31st December 2022 is not in line with the bank balance appears in the Bank Reconciliation which has been prepared by the Company as at 31st December 2022. As a result of that, many elements in the accompanying financial statements would have been affected including, revenue, expenses, trade and other receivables, trade and other payables, bank balance and etc.

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

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

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

C) Disclaimer of Opinion

The auditor disclaims an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

Example for Disclaimer of Opinion

Disclaimer of Opinion

We have audited the financial statements of ABC Company, which comprise the statement of financial position as at December 31, 2022, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion on these financial statements. Therefore, we do not express an opinion on the accompanying financial statements of ABC Company.

Basis for Disclaimer of Opinion

The Company is having five bank accounts which are using for the operational activities and the Company is unable to provide the Bank Reconciliations for all the bank accounts as at 31st December 2022. Also, the Company has not prepared the Bank Reconciliation for the entire financial year starting from 01st January 2022 to 31st December 2022. Therefore, As a result of that, many elements in the accompanying financial statements would have been affected and as auditors we are not in a position to assess the impact to the financial statements of ABC Company.

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

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

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

Emphasis of Matter Paragraph

This Standard deals with additional communication in the auditor's report when the auditor shall;

1. Draw users' attention to a matter appropriately presented or disclosed in the financial statements that are of such importance that they are fundamental to users understanding of the financial statements; or
2. Draw users attention to any matter or matters other than those presented or disclosed in the financial statements that are relevant to users understanding of the audit, the auditor's responsibilities or the auditor's report.

When the auditor includes an Emphasis of Matter paragraph in the auditor's report, the auditor needs to follow following guidelines,

1. Include the paragraph within a separate section of the auditor's report with an appropriate heading as "Emphasis of Matter"
2. Include a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the financial statements.
3. Indicate that the auditor's opinion is not modified in respect of the matter emphasized.

Examples of circumstances where the auditor may consider it necessary to include an Emphasis of Matter paragraph

-  An uncertainty relating to the future outcome of exceptional litigation or regulatory action.
-  A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.
-  Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.
-  A major catastrophe that has had, or continuous to have, a significant effect on the entity's financial position.

Example for Emphasis of Matter

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion

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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.

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 25 to the financial statements, which indicates that the Company, have incurred a loss of Rs. XXX Mn during the financial year ended 31st March 2023 and accumulated losses of Rs. XXX Mn as at the reporting date. Further, the Company's current liabilities exceeded its current assets by Rs. XXX Mn.

As disclosed in the same note, the Board of Directors are of the view that it is appropriate to prepare these financial statements on a going concern basis as the ultimate parent company of ABC Company, has confirmed its willingness to provide necessary financial assistance to the

Company as and when required and for a period of at least 12 months from the date of signing these Financial Statements.

Further, the board of Directors the Company does not have any intention to liquidate the Company or to cease the operations in the near future. Our opinion is not modified in respect of this matter.

Additional Notes....