Audit, Business Processes and Digitalization [BL 5]

Business Level II | CA Sri Lanka

Study Text

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Contents of the Curriculum

PART E: FUNDAMENTALS OF AUDIT AND ASSURANCE

E.4: Audit Finalization and Reporting

This chapter will consider the completion stage of the audit, which include subsequent events and going concern. These are both important disclosure issues in the financial statements because, if the disclosures are not correct, this will impact on the auditor's report.

We also consider the use and reliability of written representations from management as audit evidence and the overall review of the financial statements which involves analytical procedures.

Finally, we look at audit reporting. We cover the statutory audit report and the different possible audit opinions and modifications. We also look at how auditors report key audit issues and control weaknesses to management

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E.4.1. Subsequent Events

Subsequent events are events occurring between the period end and the date of the auditor's report and also include facts discovered after the auditor's report has been issued. Auditors shall consider the effect of such events on the financial statements and on their audit opinion

LKAS 10 Events after the Reporting Period (para. 3) deals with the treatment in the financial statements of events, both favorable and unfavorable, occurring after the period end.

There are two types of event defined by LKAS 10:

- Those that provide evidence of conditions that existed at the year-end date (adjusting events)
- Those that are indicative of conditions that arose after the year-end date (non-adjusting events)

Here are some examples:

Adjusting events	Non-adjusting events
Settlement of a court case	Dividends declared after the year end
Sale of inventory after year end providing evidence of its net realisable value at year end	Fire causing destruction of major plant
Fraud or error showing the accounts are incorrect	Announcement of a major restructuring

SLAuS 560 (para. 4) provides guidance to auditors in this area.

The objectives of the auditor are:

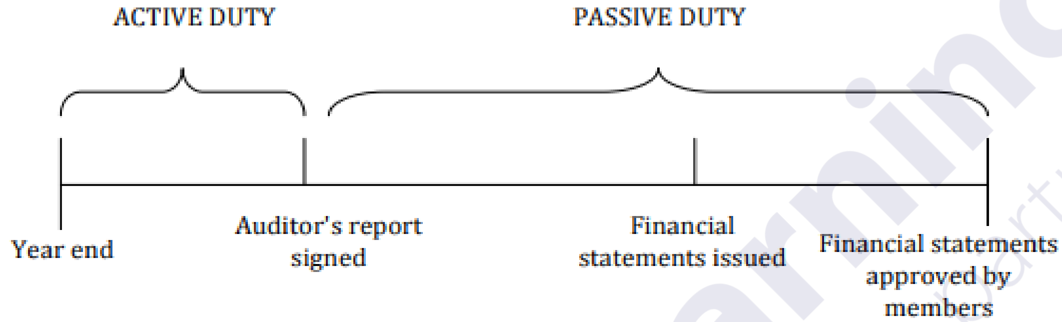
(a) To obtain sufficient appropriate audit evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that need adjustment or disclosure in the financial statements are properly reflected in the financial statements

(b) To respond appropriately to facts that become known to the auditor after the date of the auditor's report which may have caused the auditor to amend the auditor's report if they were known to the auditor at the date of the report

Procedures

Auditors have a responsibility to review subsequent events before they sign the auditor's report, and may have to take action if they become aware of subsequent events between the date they sign the auditor's report and the date the financial statements are issued

The following timeline is helpful when considering subsequent events and the auditor's responsibilities concerning them.



Events occurring up to the date of the auditor's report

The auditor shall perform procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report that may require adjustment of, or disclosure in, the financial statements have been identified

Audit procedures to test subsequent events	
Enquiries of management	Status of items involving **subjective judgement** Status of items accounted for using **preliminary or inconclusive** data Whether there are any new **commitments, borrowings or guarantees** Whether there have been any: • **Sales** or destruction of **assets** • **Issues** of **shares/debentures** or changes in business structure • **Developments** involving **risk areas, provisions** and **contingencies** • **Unusual accounting adjustments** • **Major events** (eg going concern problems) affecting appropriateness of accounting policies for estimates • Litigations or claims

Audit procedures to test subsequent events	
Other procedures	**Review** management procedures for identifying subsequent events to ensure that such events are identified. **Read minutes** of general board/committee meetings and enquire about unusual items. **Review latest available interim financial statements** and budgets, cash flow forecasts and other management reports. **Obtain evidence** concerning any litigation or claims from the company's solicitors (only with client permission). Obtain **written representation** that all events occurring subsequent to the period end which need adjustment or disclosure have been adjusted or disclosed.

Facts discovered after the date of the auditor's report but before the financial statements are issued

The financial statements are the management's responsibility. They should therefore inform the auditors of any material subsequent events between the date of the auditor's report and the date the financial statements are issued. The auditor does not have any obligation to perform procedures, or make enquiries regarding the financial statements, after the date of the report

However, if the auditor becomes aware of a fact that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- ✓ Discuss the matter with management and those charged with governance.
- ✓ Determine whether the financial statements need amendment.
- ✓ If amendment is required, enquire how management intends to address the matter in the financial statements

If amendment is required to the financial statements and management makes the necessary changes, the auditor must carry out a number of procedures:

- ✓ Undertake any necessary audit procedures on the changes made.
- ✓ Extend audit procedures for identifying subsequent events that may require adjustment of or disclosure in the financial statements to the date of the new auditor's report.
- ✓ Provide a new auditor's report on the amended financial statements

If management does not amend the financial statements:

- ✓ If the auditor's report has not yet been provided to the entity, the auditor shall modify the opinion and then provide the auditor's report.
- ✓ If the auditor's report has already been provided to the entity, the auditor shall notify management and those charged with governance not to issue the financial statements before the amendments are made; but if the financial statements are issued anyway, the auditor shall take action to seek to prevent reliance on the auditor's report

Facts discovered after the financial statements have been issued

Auditors have no obligations to perform procedures or make enquiries regarding the financial statements after they have been issued.

However, if the auditor becomes aware of a fact that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor shall:

- ✓ Discuss the matter with management and those charged with governance
- ✓ Determine whether the financial statements need amendment
- ✓ If amendment is required, enquire how management intends to address the matter in the financial statements

If management amends the financial statements, the auditor shall carry out any necessary procedures on the amendment and review the steps taken by management to ensure that anyone in receipt of the previously issued financial statements is informed

The auditor shall also issue a new or amended auditor's report, which will include an explanatory paragraph (known as an emphasis of matter paragraph or other matter paragraph) that refers to a note in the financial statements that discusses the reason for the amendment

Audit procedures will be extended up to the date of the new report

If management does not take the necessary steps, the auditor shall notify management and those charged with governance that the auditor will seek to prevent future reliance on the report. If management still does not act, the auditor shall take appropriate action to seek to prevent reliance on the auditor's report

E.4.2. Going Concern

If the entity has inappropriately used the going concern basis of accounting or a material uncertainty about going concern exists, this may impact on the auditor's report

Under the going concern basis of accounting, an entity is viewed as continuing in business for the foreseeable future. When the use of the going concern basis of accounting is appropriate, assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business

SLAuS 570 Going Concern provides guidance to auditors in this area. The objectives of the auditor are:

(a) To obtain sufficient appropriate audit evidence regarding, and conclude on the appropriateness of management's use of the going concern basis of accounting

(b) To conclude whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

(c) To determine the implications for the auditor's report

SLAuS 570 (para. A2) includes examples of events or conditions that may cast doubt on whether the going concern basis of accounting is appropriate. These are sometimes referred to as going concern indicators and fall under three headings: 'financial', 'operating' and 'other', and are shown in the table below

Events or conditions that may cast doubt about the going concern assumption (potential indicators that an entity is not a going concern)	
Financial	• Net liability or net current liability position • Fixed-term borrowings approaching maturity without realistic prospects of renewal or repayment • Indications of withdrawal of financial support by creditors • Negative operating cash flows (historical or prospective) • Adverse key financial ratios • Substantial operating losses or significant deterioration in the value of assets used to generate cash flows • Arrears or discontinuance of dividends • Inability to pay creditors on due dates • Inability to comply with terms of loan agreements • Change from credit to cash-on-delivery transactions with suppliers • Inability to obtain financing for essential new product development or other essential investments

Events or conditions that may cast doubt about the going concern assumption (potential indicators that an entity is not a going concern)	
Operating	• Management intentions to liquidate or cease operations • Loss of key management without replacement • Loss of a major market, key customers, licence, or principal suppliers • Labour difficulties • Shortages of important supplies • Emergence of a highly successful competitor
Other	• Non-compliance with capital or other statutory requirements • Pending legal or regulatory proceedings against the entity that may, if successful, result in claims that the entity is unlikely to be able to satisfy • Changes in laws/regulations/government policy expected to adversely affect the entity • Uninsured or underinsured catastrophes when they occur

Management's responsibilities for going concern

Management has specific responsibilities relating to going concern that may be set out in law or regulation and in the financial reporting framework. LKAS 1 Presentation of Financial Statements (para. 25) contains a specific requirement that management makes an assessment of an entity's ability to continue as a going concern

Management's assessment involves making a judgement about inherently uncertain future outcomes of events or conditions.

This judgement is affected by the following:

- ❑ Degree of uncertainty which increases the further into the future an event/condition/outcome occurs
- ❑ Size and complexity of the entity
- ❑ Nature and condition of the business
- ❑ Judgement about the future is based on information available at the time the judgement is made but subsequent events may result in inconsistent outcomes

Management's assessment

Management may have performed a preliminary assessment of whether the entity can continue as a going concern. If it has, the auditor shall discuss it with management. If the assessment has not been performed, the auditor shall discuss with management the basis for the intended use of the going concern basis of accounting

Auditors' responsibilities in relation to management's assessment

The auditor must remain alert throughout the audit for evidence of events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. However, the auditor also has specific responsibilities in relation to management's assessment

The auditor shall evaluate management's assessment of the entity's ability to continue as a going concern. However, if this assessment covers less than 12 months from the date of the financial statements, the auditor shall ask management to extend its assessment period to at least 12 months from that date

Events or conditions identified

When events or conditions are identified that may cast significant doubt on the entity's ability to continue as a going concern, the auditor shall obtain sufficient appropriate audit evidence to determine whether a material uncertainty exists by:

(a) Requesting management to make its assessment where this has not been done

(b) Evaluating management's plans for future action

(c) Evaluating the reliability of underlying data used to prepare a cash flow forecast and considering the assumptions used to make the forecast

(d) Considering whether any additional facts or information have become available since the date management made its assessment

(e) Requesting written representations from management and those charged with governance about plans for future action and the feasibility of these plans

Audit reporting

The auditor shall consider whether a material uncertainty exists related to events or conditions which may cast doubt on the entity's ability to continue as a going concern, as this will have an impact on the opinion issued in the auditor's report because the uncertainty must be disclosed.

The following information would need to be included by management for the auditors to conclude that the disclosure is adequate:

- The main events or conditions which have created the doubt about whether the going concern basis of accounting is appropriate

- ❑ Management's plans to deal with these events or conditions
- ❑ That there is a material uncertainty that may cast significant doubt on the entity's ability to continue as a going concern
- ❑ That the entity may not be able to realize its assets and settle its liabilities in the normal course of business

Scenario		Impact on auditor's report
1	Going concern assumption appropriate but material uncertainty which is adequately disclosed	Unmodified opinion Section headed 'Material Uncertainty Related to Going Concern'
2	Going concern assumption appropriate but material uncertainty which is not adequately disclosed	Qualified or adverse opinion (ie modified opinion)
3	Use of going concern assumption inappropriate	Adverse opinion (ie modified opinion)
4	Management unwilling to make or extend its assessment	Qualified or disclaimer of opinion (ie modified opinion)

Scenario 1: Going concern basis of accounting appropriate but material uncertainty which is adequately disclosed

In this situation, the opinion on the financial statements will be unmodified but the auditor's report will include a Material Uncertainty Related to Going Concern paragraph which explains the uncertainty

Material Uncertainty Related to Going Concern

Without qualifying our opinion, we draw attention to Note X in the financial statements, which indicates that the Company incurred a net loss of ZZZ during the year ended December 31, 20X1 and, as of that date, the Company's current liabilities exceeded its total assets by YYY. As stated in Note X, these events or conditions, along with other matters as set forth in Note 6, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern.

Scenario 2: Going concern basis of accounting appropriate but material uncertainty which is not adequately disclosed

In this situation, as inadequate disclosure has been made of the material uncertainty, the auditor's opinion will be modified – either a qualified or adverse opinion will be issued depending on the magnitude of the uncertainty. An extract from the auditor's report where a qualified opinion is issued is provided by the SLAuS as follows

> **Qualified Opinion**
>
> In our opinion, except for the incomplete disclosure of the information referred to in the Basis for Qualified Opinion paragraph, the 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, 20X0, and of its financial performance and its cash flows for the year then ended in accordance with ....
>
> **Basis for Qualified Opinion**
>
> The Company's financing arrangements expire and amounts outstanding are payable on 19 March 20X1. The Company has been unable to re-negotiate or obtain replacement financing. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business. The financial statements (and notes thereto) do not fully disclose this fact.

Scenario 3: Use of going concern basis of accounting inappropriate

When the going concern basis of accounting has been used but this is considered inappropriate by the auditor, an adverse opinion must be issued, regardless of whether or not the financial statements include disclosure of the inappropriateness of management's use of the going concern basis of accounting

Scenario 4: Management unwilling to make or extend its assessment

In some circumstances, the auditor may ask management to make or extend its assessment. If management does not do this, a qualified opinion or a disclaimer of opinion may be appropriate, because it may not be possible for the auditor to obtain sufficient appropriate audit evidence regarding the use of the going concern basis of accounting in the preparation of the financial statements (SLAuS 570: para. 22. Examples of auditor's reports with a disclaimer of opinion are provided later in this chapter which looks at modifications to the auditor's opinion in detail

Communicating to those charged with governance

The auditor shall communicate with those charged with governance events or conditions that may cast doubt on the entity's ability to continue as a going concern. This will include:

- Whether the events or conditions constitute a material uncertainty

- ❑ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements
- ❑ The adequacy of related disclosures

E.4.3. Written Representations

The auditor obtains written representations from management concerning its responsibilities and to support other audit evidence where necessary

Written representations are written statements by management provided to the auditor to confirm certain matters or to support other audit evidence. They do not include the financial statements, assertions or supporting books and records

SLAuS 580 Written Representations (para. 6) provides guidance to auditors in this area. The objectives of the auditor are:

- ✓ To obtain written representations that management believes that it has fulfilled the fundamental responsibilities that constitute the premise on which an audit is conducted
- ✓ To support other audit evidence relevant to the financial statements if determined by the auditor or required by other SLAuSs
- ✓ To respond appropriately to written representations or if management does not provide written representations requested by the auditor

Written representations about management's responsibilities

The auditor shall request management to provide written representations on the following matters:

(a) That management has fulfilled its responsibility for the preparation and presentation of the financial statements as set out in the terms of the audit engagement and whether the financial statements are prepared and presented in accordance with the applicable financial reporting framework

(b) That management has provided the auditor with all relevant information agreed in the terms of the audit engagement and that all transactions have been recorded and are reflected in the financial statements

Other written representations

Other written representations
Whether the selection and application of accounting policies are appropriate
Plans or intentions that may affect the carrying value or classification of assets and liabilities
Liabilities, both actual and contingent
Title to, or control over, assets, liens or encumbrances on assets and assets pledged as collateral
Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance
All deficiencies in internal control that management is aware of have been communicated to the auditor
Written representations about specific assertions in the financial statements
Significant assumptions used in making accounting estimates are reasonable
All subsequent events requiring adjustment or disclosure have been adjusted or disclosed

Other written representations
The effects of uncorrected misstatements are immaterial, both individually and in aggregate
Management has disclosed the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud
Management has disclosed all information in relation to fraud or suspected fraud involving management, employees with significant roles in internal control, and others where fraud could have a material effect on the financial statements
Management has disclosed all information in relation to allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others
Management has disclosed all instances of non-compliance or suspected non-compliance with laws or regulations

Quality and reliability of written representations as audit evidence

Even though written representations are a form of audit evidence, they are from an internal source and on their own they do not provide sufficient appropriate audit evidence about the issues they relate to.

In addition, the fact that management has provided reliable written representations does not affect the nature or extent of other audit evidence obtained by the auditor regarding the fulfilment of management's responsibilities, or about specific assertions in the financial statements

Obtaining written representations

The written representations are usually obtained in the form of a letter addressed to the auditor

Throughout the course of the audit, the auditors will determine those items on which written representations are required and should inform management of those areas on which they will be seeking written representations

At the finalization and review stage the auditors will provide management with a draft written representation containing the necessary representations. The auditors will then ask management to print the letter on their headed paper, review the representations, and sign the document to confirm them

Written representations are requested from those responsible for the preparation of the financial statements – management is usually the responsible party. These representations can therefore be requested from the chief executive officer and chief financial officer, or equivalent. In some cases, though, it may be that those charged with governance are also responsible for the preparation of the financial statements

Doubt about the reliability of written representations

When written representations are inconsistent with other audit evidence, the auditor shall perform audit procedures to try to resolve the matter. If the matter cannot be resolved, the auditor shall reconsider the assessment of the competence, integrity and ethical values of management, and the effect this may have on the reliability of representations and audit evidence in general

Written representations not provided]

When management does not provide one or more requested written representations, the auditor shall:

- Discuss the matter with management
- Re-evaluate the integrity of management and evaluate the effect this may have on the reliability of representations and audit evidence in general
- Take appropriate actions, including determining the impact on the auditor's report

E.4.4. Overall Review of the Financial Statements

The auditors must perform and document an overall review of the financial statements by undertaking analytical procedures before they can reach an opinion

Once most of the substantive audit procedures have been carried out, the auditors will have a draft set of financial statements which should be supported by appropriate and sufficient audit evidence. At the beginning of the end of the audit process, it is usual for the auditors to undertake an overall review of the financial statements

Compliance with accounting regulations

The auditors should consider whether:

(a) The information presented in the financial statements is in accordance with local/national statutory requirements.

(b) The accounting policies employed are in accordance with accounting standards, properly disclosed, consistently applied and appropriate to the entity

When examining the accounting policies, auditors should consider:

(a) Policies commonly adopted in particular industries

(b) Policies for which there is substantial authoritative support

(c) Whether any departures from applicable accounting standards are necessary for the financial statements to give a true and fair view

(d) Whether the financial statements reflect the substance of the underlying transactions and not merely their form

Review for consistency and reasonableness

The auditors should consider whether the financial statements are consistent with their knowledge of the entity's business and with the results of other audit procedures, and the manner of disclosure is fair

The principal considerations are as follows:

(a) Whether the financial statements adequately reflect the information and explanations previously obtained and conclusions previously reached during the course of the audit.

(b) Whether it reveals any new factors which may affect the presentation of, or disclosure in, the financial statements.

(c) Whether analytical procedures applied when completing the audit, such as comparing the information in the financial statements with other pertinent data, produce results which assist in arriving at the overall conclusion as to whether the financial statements as a whole are consistent with their knowledge of the entity's business.

(d) Whether the presentation adopted in the financial statements may have been unduly influenced by the directors' desire to present matters in a favorable or unfavorable light.

(e) The potential impact on the financial statements of the aggregate of uncorrected misstatements (including those arising from bias in making accounting estimates) identified during the course of the audit and the preceding period's audit, if any

The analytical review at the final stage should cover the following:

- Important accounting ratios
- Related items
- Changes in products/customers
- Price and mix changes
- Wages changes
- Variances
- Trends in production and sales
- Changes in material and labor content of production
- Other expenditure in the statement of profit or loss
- Variations caused by industry or economy factors

As at other stages of the audit process, significant fluctuations and unexpected relationships must be investigated by enquiries of management and obtaining appropriate audit evidence relevant to management's responses, and performing other audit procedures considered necessary

Accounting treatment issues

As noted in the previous section, auditors review the financial statements to assess whether the accounting policies are consistently applied. Auditors should therefore consider whether new accounting policies are appropriate, whether matters in financial statements are consistent with each other, and whether the financial statements give a true and fair view

Treatment of misstatements

A misstatement is 'a difference between the reported amount, classification, presentation, or disclosure of a 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

An uncorrected misstatement is a misstatement that the auditor has accumulated during the audit and that has not been corrected

As part of their completion procedures, auditors shall consider whether the aggregate of uncorrected misstatements in the financial statements is material, having first reassessed materiality in accordance with SLAuS 320 Materiality in Planning and Performing an Audit to confirm that it is still appropriate. When determining whether uncorrected misstatements are material (individually or in aggregate), the auditor shall consider the size and nature of the misstatements and the effect of uncorrected misstatements related to prior periods on the financial statements as a whole

If uncorrected misstatements are material then it will be necessary to express a modified auditor's opinion. The auditor must decide how seriously the financial statements are misstated. Less serious material misstatements would give rise to a qualified opinion. More serious issues, that are both 'material and pervasive', give rise to an adverse opinion. This could be the case where there are multiple misstatements that are individually material

Communication of uncorrected misstatements

It requires the auditor to communicate uncorrected misstatements and their effect to those charged with governance, with material uncorrected misstatements being identified individually. The auditor shall request uncorrected misstatements to be corrected. The auditor shall also communicate the effect of uncorrected misstatements relating to prior periods

Misstatements of disclosures

Professional judgement is required in determining whether a misstatement in a qualitative disclosure is material or not. SLAuS 450 gives some examples of misstatements which may be material:

- For insurance or banking companies, inaccurate or incomplete descriptions of information about the objectives, policies and processes for managing capital
- The omission of information about the events which have led to an impairment loss (for example, in a mining company, this may be a significant long-term decline in the demand for a metal)
- 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
- For an entity trading internationally, the inadequate description of the sensitivity of an exchange rate

Documentation

SLAuS 450 (para. 15) requires the auditor to document the following information:

- The amount below which misstatements would be regarded as clearly trivial
- All misstatements accumulated during the audit and whether they have been corrected
- The auditor's conclusion as to whether uncorrected misstatements are material and the basis for that conclusion

E.4.5. The Auditor's Report on the Financial Statements

The auditor is required to produce an auditor's report at the end of the audit which sets out their opinion on the truth and fairness of the financial statements. The report contains a number of consistent elements so that users know the audit has been conducted according to recognized standards

The following SLAuS are relevant for this unit and cover audit reporting:

- SLAuS 700 (Revised) Forming an Opinion and Reporting on Financial Statements
- SLAuS 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report
- SLAuS 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report

SLAuS 700 ((Revised): para. 10) Forming an Opinion and Reporting on Financial Statements establishes standards and provides guidance on the form and content of the auditor's report issued as a result of an audit performed by an independent auditor on the financial statements of an entity. It states that the auditor 'shall form an opinion on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework

In order to form the opinion, the auditor needs to conclude whether reasonable assurance has been obtained that the financial statements are free from material misstatement.

The auditor's conclusion needs to consider the following:

(a) Whether sufficient appropriate audit evidence has been obtained (SLAuS 330)

(b) Whether uncorrected misstatements are material (SLAuS 450)

(c) Qualitative aspects of the entity's accounting practices, including indicators of possible bias in management's judgements – this includes considering whether the accounting policies disclosed are relevant to the entity, and whether they have been presented in an understandable manner

(d) Whether the financial statements adequately disclose the significant accounting policies selected and applied

(e) Whether the accounting policies selected and applied are consistent with the applicable financial reporting framework and are appropriate

(f) Whether accounting estimates made by management are reasonable

(g) Whether the information in the financial statements is relevant, reliable, comparable and understandable

(h) 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

(i) Whether the terminology used in the financial statements is appropriate

(j) The overall presentation, structure and content of the financial statements

(k) Whether the financial statements represent the underlying transactions and events so as to achieve fair presentation

(l) Whether the financial statements adequately refer to or describe the applicable financial reporting framework

Unmodified opinions in the auditor's report

An unmodified opinion is the opinion expressed by the auditor when the auditor concludes that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework

The following extract from an auditor's report shows an example of the opinion paragraph for an unmodified report, in accordance with SLAuS 700(Revised)

> In our opinion, the financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of ABC Company as of December 31, 20X1, and (of) its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basic elements of the auditor's report

A measure of consistency in the form and content of the auditor's report is desirable because it promotes credibility in the global marketplace and also helps to promote the reader's understanding of the report and to identify unusual circumstances when they occur.

The auditor's report must be in writing and includes the following basic elements

Basic elements of auditor's report	Explanation
Title	The auditor's report must have a title that clearly indicates that it is the report of the 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.
Addressee	The addressee will be determined by law or regulation, but is likely to be the shareholders or those charged with governance.
Opinion paragraph	The opinion paragraph must identify the entity being audited, state that the financial statements have been audited, identify the title of each statement that comprises the financial statements being audited, refer to the summary of significant accounting policies and other explanatory notes, and specify the date or 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: • The financial statements present fairly, in all material respects, ... in accordance with [the applicable financial reporting framework]; or • The financial statements give a true and fair view of ... in accordance with [the applicable financial reporting framework].

Basic elements of auditor's report	Explanation
Basis for opinion	The basis for opinion paragraph must state that the audit was conducted in accordance with the SLAuSs, and refer to the 'Auditor's responsibilities for the audit of the financial statements' section which describes the auditor's responsibilities under the SLAuSs. The auditor must also state that they are independent of the audited entity, in accordance with the relevant ethical requirements relating to the audit. Finally, the auditor must state that they believe the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.
Going concern	Where the auditor considers a material uncertainty related to going concern exists, this should be described in a separate section headed 'Material uncertainty related to going concern'.
Key audit matters	For the audit of listed entities, or where required by law or regulation, the auditor should include a 'Key audit matters' section. This section describes the matters that, in the auditor's professional judgement, are most significant to the audit.
Other information	For the audit of listed entities or any other entity where the auditor has obtained other information, an 'Other information' section should be included in the auditor's report. This section should include: • A statement that management is responsible for the other information • An identification of the other information obtained before the date of the auditor's report (for listed entities, also the other information expected to be obtained after the date of the auditor's report) • A statement that the auditor's opinion does not cover the other information • A description of the auditor's responsibilities for reading, considering and reporting on other information, and • Where other information has been obtained, either a statement that the auditor has nothing to report, or a description of any uncorrected material misstatement

Basic elements of auditor's report	Explanation
Responsibilities for the financial statements	This part of the report describes the responsibilities of those who are responsible for the preparation of the financial statements. This section should describe management's responsibility including the following: • The preparation of the financial statements in accordance with the applicable financial reporting framework; • The implementation of such internal control as are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error or fraud. • The assessment of the entity's ability to continue as a going concern, the appropriateness of the going concern basis of accounting and adequacy of related disclosures; Reference shall be made to 'the preparation and fair presentation of these financial statements' (or 'the preparation of financial statements that give a true and fair view') where the financial statements are prepared in accordance with a fair presentation framework.
Auditor's responsibilities for the audit of the financial statements	The report must state that: • The auditor's objectives are to obtain **reasonable assurance** whether the financial statements as a whole are free from material misstatement, and to **issue an auditor's report** that includes the auditor's opinion; and • Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. The report must also: • Explain that misstatements can arise from fraud or error • Describe the meaning of materiality • Explain that the auditor exercises professional judgement and maintains professional scepticism throughout the audit • Describe the auditor's responsibilities in an audit.

Basic elements of auditor's report	Explanation
	The description of the auditor's responsibilities must either be set out in the body of the auditor's report, in an appendix to the auditor's report or by including a specific reference in the body of the auditor's report to such a description on the website of an appropriate authority, where this is permitted by law and regulation.
Other reporting responsibilities	If the auditor is required by law to report on any other matters, this must be done in an additional paragraph titled 'Report on other legal and regulatory requirements' or otherwise as appropriate.
Name of the engagement partner	The name of the engagement partner should be identified, unless such a disclosure is reasonably expected to lead to a significant personal security threat.
Auditor's signature	The report must contain the auditor's signature, whether this is the auditor's own name or the audit firm's name or both.
Auditor's address	The location where the auditor practises must be included.
Date of the report	The report must be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements.

Emphasis of matter paragraphs and other matter paragraphs in the auditor's report

Emphasis of matter paragraphs and other matter paragraphs can be included in the auditor's report under certain circumstances. Their use does not modify the auditor's opinion on the financial statements

Emphasis of matter paragraphs

An emphasis of matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgement, is of such importance that it is fundamental to users' understanding of the financial statements

Emphasis of matter paragraphs are used to draw readers' attention to a matter already presented or disclosed in the financial statements that the auditor feels is fundamental to their understanding, provided that the auditor has obtained sufficient appropriate audit evidence that the matter is not materially misstated

The following are examples of situations in which the auditor might include an emphasis of matter paragraph in the auditor's report.

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

> **'Emphasis of Matter**
>
> We draw attention to Note X of the financial statements, which describes the effects of a fire in the Company's production facilities. Our opinion is not modified in respect of this matter.'

Other matter paragraphs

An other matter paragraphs is a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report

The other matter paragraph can be used whenever the auditor judges the matter to be relevant to users' understanding of the audit. Examples include:

- The auditor is unable to withdraw from the engagement and yet is unable to obtain sufficient appropriate audit evidence;
- The auditor has been requested to report on other matters or to provide more clarifications in line with the legal jurisdiction of the country

> **Other Matter**
>
> The financial statements of 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.

Communication with those charged with governance

SLAuS 706 (Revised) (para. 12) states that when the auditor expects to include an emphasis of matter paragraph or an other matter paragraph, the auditor must communicate with those charged with governance the circumstances and the proposed wording of the paragraph in the auditor's report

Modified opinions in auditor's reports

There are three types of modified opinion: a qualified opinion, an adverse opinion and a disclaimer of opinion

SLAuS 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report sets out the different types of modified opinions that can result.

It identifies three possible types of modification:

1 A qualified opinion

2 An adverse opinion

3 A disclaimer of opinion

Types of modification

The type of modification issued depends on the following:

(a) The nature of the matter giving rise to the modifications (ie whether the financial statements are materially misstated or whether they may be misstated when the auditor cannot obtain sufficient appropriate audit evidence)

(b) The auditor's judgement about the pervasiveness of the effects/possible effects of the matter on the financial statements

A modified opinion is required in either of the following situations:

(a) The auditor concludes that the financial statements as a whole are not free from material misstatements.

(b) The auditor cannot obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

Here is a summary of the different modified opinions

Nature of matter giving rise to the modification	Auditor's judgement about the pervasiveness of the effects or possible effects on the financial statements	
	Material but not pervasive	Both material and pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Qualified opinions

A qualified opinion must be expressed in the auditor's report in the following two situations.

- The auditor concludes that misstatements are material, but not pervasive, to the financial statements (SLAuS 705 (Revised): para. 7(a)).

Material misstatements could arise in respect of:

- ✓ The appropriateness of selected accounting policies
- ✓ The application of selected accounting policies
- ✓ The appropriateness or adequacy of disclosures in the financial statements
- The auditor cannot obtain sufficient appropriate audit evidence on which to base the opinion but concludes that the possible effects of undetected misstatements, if any, could be material but not pervasive (SLAuS 705 (Revised): para. 7(b)).

The auditor's inability to obtain sufficient appropriate audit evidence is also referred to as a limitation on the scope of the audit and could arise from:

- ✓ Circumstances beyond the entity's control (eg accounting records destroyed)
- ✓ Circumstances relating to the nature or timing of the auditor's work (eg the timing of the auditor's appointment prevents the observation of the physical inventory count)
- ✓ Limitations imposed by management (eg management prevents the auditor from requesting external confirmation of specific account balances)

Adverse opinions

An adverse opinion is expressed when the auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements are both material and pervasive to the financial statements

Pervasiveness is a term used to describe the effects or possible effects on the financial statements of misstatements or undetected misstatements (due to an inability to obtain sufficient appropriate audit evidence). There are three types of pervasive effect:

- Those that are not confined to specific elements, accounts or items in the financial statements
- Those that are confined to specific elements, accounts or items in the financial statements and represent or could represent a substantial portion of the financial statements
- Those that relate to disclosures which are fundamental to users' understanding of the financial statements

The table below gives one example of why an adverse opinion might be expressed for each of the three possible reasons for misstatements being determined as pervasive

Reason deemed pervasive	Example
Misstatements are not confined to specific elements, accounts or items in the financial statements (SLAuS 705 (Revised): para. 5(a)(i))	No depreciation has been provided on plant and equipment, a receivable balance consisting half of total receivables is irrecoverable and has not been provided and trade payables have been significantly understated. All misstatements are material and these balances are significant on the statement of financial position (SOFP).
Misstatements are confined to specific elements, accounts or items in the financial statements and represent a substantial portion of the financial statements (SLAuS 705 (Revised): para. 5(a)(ii))	A house building company has included all the houses it has constructed in the year as non-current assets rather than inventory. The value of these houses constitutes 90% of the total asset value on the SOFP.

Reason deemed pervasive	Example
Misstatements relate to disclosures which are fundamental to users' understanding of the financial statements (SLAuS 705 (Revised): para. 5(a)(iii))	There is a material uncertainty in respect of going concern which has not been adequately disclosed.

Disclaimers of opinion

An opinion must be disclaimed when the auditor cannot obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive

The opinion must also be disclaimed in situations involving multiple uncertainties when the auditor concludes that, despite having obtained sufficient appropriate audit evidence for the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements

Impact on the auditor's report

When the auditor has had to modify the auditor's opinion, the auditor's report must include a paragraph after the opinion paragraph, which provides a description of the matter giving rise to the modification. This paragraph will be entitled 'Basis for qualified opinion' or 'Basis for adverse opinion' or 'Basis for disclaimer of opinion' depending on the type of modification

The section of the auditor's report containing the opinion will be headed either 'Qualified opinion', 'Adverse opinion' or 'Disclaimer of opinion', again depending on the type of modification

When the auditor expresses a qualified or adverse opinion, the section of the report on the auditor's responsibilities must be amended to state that the auditor believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the auditor's modified audit opinion

Example 1: Qualified opinion due to material misstatement

In this example, inventories are materially misstated but the effect is not pervasive

Qualified Opinion

We have audited the 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.

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 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.

Basis for qualified opinion

The company's inventories are carried in the statement of financial position at xxx. Management has not stated inventories at the lower of cost and net realisable 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 realisable value, an amount of xxx would have been required to write the inventories down to their net realisable 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 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.

Example 2: Adverse opinion due to material misstatement with a pervasive effect

This example is an adverse opinion due to a pervasive material misstatement in the consolidated financial statements

Adverse Opinion

We have audited the 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.

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not present fairly (or do not give a true and fair view of) the consolidated financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Sri Lanka Auditing Standards.

Basis for adverse opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X1 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under Sri Lanka Accounting Standards, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

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 ethical requirements that are relevant to our audit of the consolidated 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 adverse opinion.

Example 3: Qualified opinion due to inability to obtain sufficient appropriate audit evidence

In this example, the inventory count was not attended by the auditor, but, in the context of the financial statements, even though inventory could be materially misstated (which the auditor cannot conclude on – so the phrase 'possible effects' is used), the effects would not be pervasive

Qualified Opinion

We have audited the 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.

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 financial position of the Group as at December 31, 20X1, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for qualified opinion

With respect to inventory having a carrying amount of $X the audit evidence available to us was limited because we did not observe the counting of the physical inventory as at 31 December 20X1, since that date was prior to our appointment as auditor of the company. Owing to the nature of the company's records, we were unable to obtain sufficient appropriate audit evidence regarding the inventory quantities by using other audit procedures.

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 ethical requirements that are relevant to our audit of the consolidated 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.

Example 4: Disclaimer of opinion due to inability to obtain sufficient appropriate audit evidence about multiple elements of the financial statements

In this example, the auditor has not only been unable to attend the inventory count, but has also been unable to gain evidence over other areas. As a result, the auditor has concluded that the effects of the possible misstatements could be material and pervasive

Disclaimer of Opinion

We were engaged to audit the 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.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for disclaimer of opinion

We were not appointed as auditors of the company until after December 31, 20X1 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X0 and 20X1 which are stated in the statement of financial position at xxx and xxx, respectively. In addition, the introduction of a new computerised accounts receivable system in September 20X1 resulted in numerous errors in accounts receivable. As of the date of our auditor's report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of xxx as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of profit or loss, statement of changes in equity and cash flow statement.

Communication with those charged with governance

SLAuS 705 (Revised) (para. 30) states that when the auditor expects to express a modified opinion, the auditor must communicate with those charged with governance the circumstances leading to the expected modification and the proposed wording of the modification in the auditor's report

Summary of modifications and impact on the auditor's report

Nature of circumstances	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Auditor unable to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Reporting on Compliance with Sri Lanka Accounting Standards

As we have discussed above, the objective of an audit is to enable the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. The auditor's report must indicate the financial reporting framework that has been used to prepare the financial statements

Reports to management

Recommendations regarding internal control are a by-product of the audit of the financial statements, not a primary objective, but nonetheless are frequently of great value to a client. The auditors shall communicate with those charged with governance any material deficiencies in the design, implementation or operating effectiveness of internal control which have come to their attention during the course of the audit. This shall be done on a timely basis

When auditors prepare a written communication on internal control matters, the following points should be considered:

(a) It should not include language that conflicts with the opinion expressed in the auditor's report.

(b) It should state that the accounting and internal control system were considered only to the extent necessary to determine the auditing procedures to report on the financial statements and not to determine the adequacy of internal control for management purposes or to provide assurances on the accounting and internal control systems.

(c) It will state that it discusses only deficiencies in internal control which have come to the auditors' attention as a result of the audit and that other deficiencies in internal control may exist.

(d) It should also include a statement that the communication is provided for use only by management (or another specific named party)

Example report to management

This is an example of a report to management with a covering letter which demonstrates how the principles described above might be put into practice

ABC & Co
Chartered Accountants

The Board of Directors
Manufacturing Ltd

1 April 20X8

Members of the board,

Financial statements for the year ended 31 May 20X8

Please find below the report to management which sets out deficiencies in internal control we identified as a result of our review of the accounting systems and procedures operated by your company during our recent audit. The matters dealt with in the report came to our notice during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements.

Purchases: ordering procedures

Deficiency

During the course of our work we discovered that it was the practice of the stores to order certain goods from X Co orally without preparing either a purchase requisition or purchase order.

Implication

There is therefore the possibility of liabilities being set up for unauthorised items and at a non-competitive price.

Recommendation

We recommend that the buying department should be responsible for such orders and, if they are placed orally, an official order should be raised as confirmation.

Payables ledger reconciliation

Deficiency

Although your procedures require that the payables ledger is reconciled against the control account on the nominal ledger at the end of every month, this was not done in December or January.

Implication

The balance on the payables ledger was short by some Rs. 25,120,000 of the nominal ledger control account at 31 January 20X8 for which no explanation could be offered. This implies a serious breakdown in the purchase invoice and/or cash payment batching and posting procedures.

Recommendation

It is important in future that this reconciliation is performed regularly by a responsible official independent of the day to day payables ledger, cashier and nominal ledger functions.

Receivables ledger: credit control

Deficiency

As at 28 February 20X8 trade receivables accounted for approximately 12 weeks of sales, although your standard credit terms are cash within 30 days of statement, equivalent to an average of about 40 days (6 weeks) of sales.

Implication

This has resulted in increased overdraft usage and difficulty in settling some key suppliers' accounts on time.

Recommendation

We recommend that a more structured system of debt collection be considered using standard letters and that statements should be sent out a week earlier if possible.

Preparation of payroll and maintenance of personnel records

Deficiency

Under your present system, just two members of staff are entirely and equally responsible for the maintenance of personnel records and preparation of the payroll. Furthermore, the only independent check of any nature on the payroll is that the chief accountant confirms that the amount of the wages cheque presented to him for signature agrees with the total of the net wages column in the payroll. This latter check does not involve any consideration of the reasonableness of the amount of the total net wages cheque or the monies being shown as due to individual employees.

Implication

It is a serious weakness of your present system that so much responsibility is vested in the hands of just two people. This situation is made worse by the fact that there is no clearly defined division of duties between the two of them. In our opinion, it would be far too easy for fraud to take place in this area (eg by inserting the names of 'dummy workmen' into the personnel records and hence on to the payroll) and/or for clerical errors to go undetected.

Recommendations

(i) Some person other than the two wages clerks be made responsible for maintaining the personnel records and for periodically (but on a surprise basis) checking them against the details on the payroll.

(ii) The two wages clerks be allocated specific duties in relation to the preparation of the payroll, with each clerk independently reviewing the work of the other.

(iii) When the payroll is presented in support of the cheque for signature to the chief accountant, he should be responsible for assessing the reasonableness of the overall charge for wages that week.

Please note that this report only sets out those significant deficiencies identified during our audit. If more extensive procedures on internal control had been carried out, we may have identified and reported more deficiencies.

This letter has been produced for the sole use of your company. It must not be disclosed to a third party, or quoted or referred to, without our written consent. No responsibility is assumed by us to any other person.

We should like to take this opportunity of thanking your staff for their co-operation and assistance during the course of our audit.

Yours faithfully

ABC & Co

Chapter review questions

1. State three enquiries that should be made of management to test subsequent events

2. Complete the definition, using the words given below

   Under the .... basis of accounting, an entity is viewed as .... in business for the ....

future	going	continuing	foreseeable	concern

3. The auditors must satisfy themselves that the use of the going concern basis in the financial statements is appropriate

   True ☐
   False ☐

4. List four examples of areas that analytical review at the final stage should cover

5. In evaluating whether the financial statements give a true and fair view, auditors shall assess the materiality of uncorrected misstatements

   True ☐
   False ☐

6. The statement of management's responsibilities is always included in the auditors' report

   True ☐
   False ☐

7. Draw a table that summarizes the different modified opinions that can arise in the auditor's report

8. The inclusion of an emphasis of matter paragraph in the auditor's report does not affect the auditor's opinion on the financial statements

   True ☐
   False ☐