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THE INSTITUTE OF  
CHARTERED ACCOUNTANTS OF SRI LANKA

# RECENT SIGNIFICANT DEVELOPMENTS IN AUDITING REQUIREMENTS

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# 01

## INTRODUCTION

In the backdrop of rising challenges with the global financial crisis and complexities of capital markets, the need for enhanced transparency in financial reporting has been consistently highlighted. As a result, the recent developments in Auditing such as the improved Auditor's Report aims to improve the credibility and quality of financial statements.

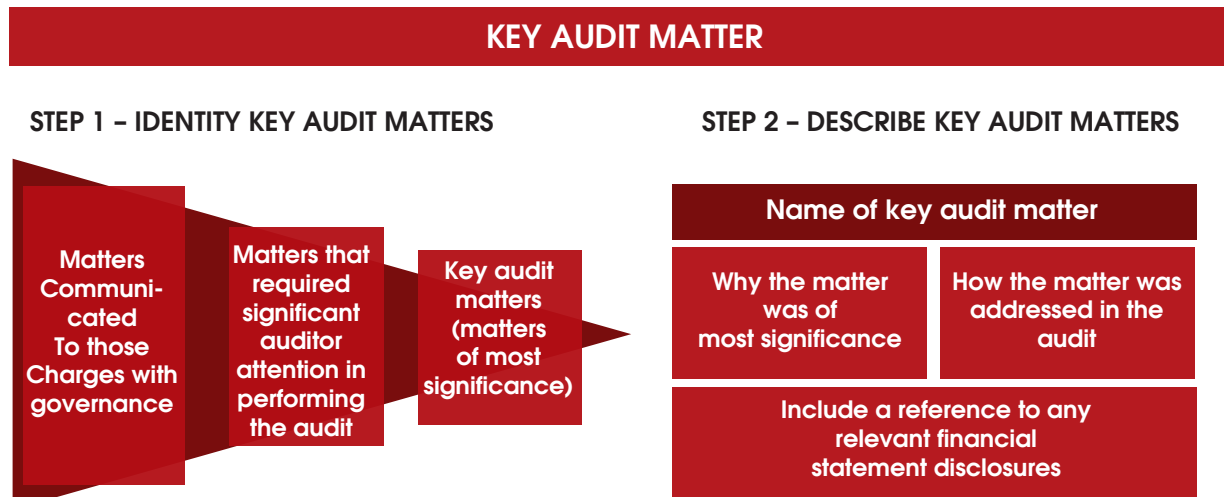
# 02

## KEY ENHANCEMENTS TO THE AUDITOR'S REPORT

Key enhancements to the auditor's report that will be effective for audits of financial statements for periods ending on or after 31st March 2018 are summarized below.

### Key audit matters

For audits of listed entities, a new section in the auditor's report called Key Audit Matters (KAM) will highlight those matters that, in the auditor's professional judgment, were of most significance in the audit. KAM are included in a separate section of the auditor's report explaining the nature and intent of KAM.



### Going Concern

Enhanced auditor's reporting on;

- Description of the respective responsibilities of management and the auditor for GC.
- A separate section when a material uncertainty exists, and is adequately disclosed, under the heading "Material Uncertainty Related to Going Concern". Previously such reporting would have been under the heading entitled "Emphasis of Matter"
- New requirement to challenge adequacy of disclosures for "close calls" in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a Going Concern.

### Other Information

Inclusion of a section that explains;

- Management's responsibility for other information.
- Identifies the other information obtained or expected to be obtained.
- Explains the auditor's responsibilities.
- Work effort in relation to other information.
- A statement on whether there is something to report in regards to the other information or not.
- A statement describing any uncorrected material misstatements.

Other Information is financial or non-financial information (other than financial statements and the auditors' report thereon) included in an entity's annual report, for example, the Management Discussion and Analysis Statement and Corporate Governance Statement.

## Restructuring the audit report

The “opinion” section is required to be presented first, followed by the “basis for opinion” section.

## Responsibilities of the Auditor, the management and those charged with Governance

Enhanced description of the responsibilities of the auditor and key features of an audit. Improved description of the responsibilities of the management and those charged with governance particularly relating to going concern.

Furthermore the auditor is now permitted to present these descriptions in an appendix to the auditor’s report or, where law, regulation or national auditing standards expressly permit, refer to a website of an appropriate authority.

## Disclose the CA Sri Lanka membership number of the engagement partner responsible for signing the independent auditors report

# 03

## THE AUDITOR’S REPORT – A COMPARISON OF CONTENTS AND THEIR SEQUENCE:

Para No	Existing Auditors’ report
1	Directors’ Responsibility
2	Auditors’ Responsibility
3	opinion
4	Report on other legal and regulatory requirements.

Para No	Enhanced Auditors’ Report.
1	Opinion
2	Basis of opinion
3	Material uncertainty related to going concern (if any).
4	Key Audit Matters. (only for Auditors of listed entities)
5	Information other than the financial statements and auditor’s report there on.
6	Responsibilities of the director.
7	Auditors’ responsibilities.
8	Report on the other legal regulatory requirement.
9	CA Sri Lanka membership number of the engagement partner. (only for Auditors of listed entities)

The intended benefits of the above changes would pave way for enhanced communication between auditors, investors and “Those Charged with Governance (TCWG)”. Further it will increase the attention to disclosures and professional skepticism by the auditor and that will in turn intensify the confidence about financial statements towards enhancing the transparency in financial reporting.

## SUMMARY

Recent developments in the auditor's report are expected to achieve increased transparency in financial reporting that will positively impact upon the effective functioning of capital market operations and the economy at large.

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