

Analysis of the Key Audit Matters and Revealing the Underlying Causes: Evidence Gather from Listed Banking and Insurance Companies in Sri Lanka

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Abstract

Global financial scandals and crises have placed the auditor's role into greater attention, especially regarding the value of the data in audit reports. The traditional audit report is not adequate due to its standardized format, which is considered by financial stakeholders as uninformative. This perception caused the establishment of global audit standards. One of the most recent changes is that the International Auditing and Assurance Standards Board (IAASB) published ISA 701, which requires auditors to report "Key Audit Matters" (KAMs). In the Sri Lankan context, the Auditing standard was introduced as SLAuS 701. The primary objective of this study is to analyse the Key Audit Matters of both banking and insurance companies listed on the Colombo Stock Exchange (CSE) and to find the identifying the underlying root causes that may not be covered. In this research study analysed, KAMs identified in audit reports of both banking and insurance companies listed in CSE over the period of 2018 to 2022 using the content analysis method. According to the findings of the study, it can be identified that the majority of KAMs disclosed under the areas of impairment of financial instruments and information technology systems and controls over financial reporting in the banking sector and the area of insurance contract liabilities in the insurance sector. Based on the results of this study, it can be identified that the underlying root cause behind those disclosed KAMs was it represent a significant portion of a particular company's financial position, and this amount was calculated mainly based on the assumptions and estimations. Therefore, there is a significant impact on the financial position of the company. This research study found different kinds of estimation methods and calculation methods as well.

Keywords: Key Audit Matters (KAMs), Insurance Contract Liability, Expected Credit Loss, Deferred Tax Asset