



Institute of Certified Public Accountants of Kenya

Technical Release No. 1/2004

Guidance on the Wording of the Auditor's Report. ISA 700

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1.0 Preamble

The Institute adopted International Standards on Auditing (ISAs) as the basis for audit of financial statements in Kenya for all audit reports issued on or from 1st January 2000. To facilitate a smooth transition, the Institute provided technical guidance to members in various aspects of the Standards and continues to do the same on provisions that would otherwise result in different interpretations by those implementing the Standards.

Technical release no. 4/1999 was issued to communicate Council's decision to adopt both International Financial Reporting Standards (then referred to as International Accounting Standards) and International Standards on Auditing. The communication also provided guidance on the wording of the auditor's report on financial statements taking cognizance of the different types of opinions that the auditor may be required to issue.

A review of Technical Release No. 4/1999 has necessitated some amendments to the earlier wording of the auditor's report to achieve greater consistency with ISA 700, The Auditor's Report on Financial Statements, and to provide better understanding of the financial statements. These amendments are the subject of this communication.

2.0 Amendments to Technical Release No. 4/1999

The Technical Release No. 4/1999 has been amended in the following respects:

2.1. Title

ISA 700 paragraph 6 recommends the use of the term "Independent Auditor" to distinguish the external auditor's report from reports of others who may not have to abide with the same ethical requirements as the independent auditor. Such reports may include reports by an internal auditor or other officers of an entity. Technical Release No.4/1999 referred to the "**Auditor's Report to the members of____**" whereas it is now recommended that the wording "**Report of the Independent Auditor to the members of____**" be used in the title of the auditor's report.

2.2. Identification of Financial Statements

ISA 700 Paragraph 8 provides that the opening or introductory paragraph of the auditor's report should identify the financial statements of the entity that have been audited, including the date of and the period covered by the financial statements. At the moment the practice has been to state, "we have audited the Financial Statements on pages --to ---".

Those pages will usually contain financial information relating to two (2) periods, the current period and the prior period.

To achieve better clarity it is recommended that the period being audited is clearly identified by stating that “*we have audited the Financial Statements on pages --- to--- for the year/period ended _____*”

2.3. Identification of the Financial Reporting Framework.

ISA 700 Paragraph 17 requires the opinion paragraph of the auditor’s report to clearly indicate the financial reporting framework used to prepare the financial statements (including identifying the country of origin of the financial reporting framework when the framework used is not International Financial Reporting Standards) and where appropriate state whether the financial statements comply with statutory requirements.

The International Financial Reporting Standards and the Companies Act constitute the financial reporting framework in Kenya. While the financial reporting standards are clearly identified the country of origin of the Companies Act has in some instances not been clearly identified in the auditor’s report.

It is herein recommended that the Companies Act be identified by using the wording “*Kenyan Companies Act*”

3.0 Examples of Auditor's Report

To capture the above recommendations, the following examples are provided:

3.1 Unqualified Audit Report (Group)

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ABC COMPANY LIMITED.

We have audited the financial statements on pages ---to ---for the year ended _____, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. The Balance Sheet of the company is in agreement with its books of account

Respective responsibilities of directors and auditors

As described on page __, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the group and the company and of the group's operating results. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of affairs of the group and the Company at _____, and of the group's results of operations and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

AUDITOR
Certified Public Accountants
Date
Address

3.2 Unqualified Audit Report (Company)

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF ABC COMPANY LIMITED.

We have audited the financial statements on pages ---to ---for the year ended _____, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit. The financial statements are in agreement with the books of account

Respective responsibilities of directors and auditors

As described on page __, the directors are responsible for the preparation of financial statements which give a true and fair view of the state of affairs of the company and of its operating results. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept by the company and the financial statements, give a true and fair view of the state of affairs of the Company at _____, and of its results of operations and cash flows for the year then ended and comply with International Financial Reporting Standards and the Kenyan Companies Act.

AUDITOR
Certified Public Accountants
Date
Address