

CFN/IRA/00/028/11

Friday, 26 August 2016

CIRCULAR NO. IC & RE 09/2016

**TO: ALL INSURANCE COMPANIES, REINSURANCE COMPANIES,
INSURANCE BROKERS AND MEDICAL INSURANCE PROVIDERS**

**RE: APPLICATION OF NEW INTERNATIONAL STANDARD ON AUDITING
(ISA) NO. 701 – COMMUNICATING KEY AUDIT MATTERS IN THE
INDEPENDENT AUDITOR’S REPORT**

In line with the current auditor’s reporting standard, auditors have for many years, provided a binary “pass/fail” opinion on a company’s financial statements. Either the financial statements fairly present (true and fair view) the company’s financial position and operations in accordance with applicable accounting standards, or they do not. While the “traditional approach” remains valuable, many believe it is no longer enough. Auditors have more insights to share, and investors are eager to be informed more on the operations of an entity.

The International Standard on Auditing (ISA) 701 “Communicating Key Audit Matters in the Independent Auditor’s Report” has set a mandatory requirement for listed entities to communicate Key Audit Matters (KAM) in the auditor’s report in the public interest. ISA 701 defines KAM as those matters that, in the auditor’s professional judgment, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with those charged with governance.

The Authority and the Institute of Certified Public Accountants of Kenya (ICPAK) have held consultative meetings in respect to the application of ISA 701. The Authority observes that insurance regulated entities hold assets with the objective of indemnifying the insured and therefore there is greater need

for public accountability. The Authority also observes that all insurance regulated entities operate in the same environment and face similar risks to listed entities and therefore users of annual reports and audited financial statements would be disadvantaged if insurance regulated entities adopted different set of standards in reporting.

Consequently, the purpose of this circular is to inform all insurance regulated entities that:

- 1) *ISA 701 - Communicating Key Audit Matters in the Independent Auditor's Report* is applicable to all insurers, insurance brokers and medical insurance providers and become effective for audits of financial statements for periods ending on or after 31st December 2016.
- 2) The Authority and ICPAK will require that a key audit matters section is included in the report of the independent auditor.

Please be guided accordingly.



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