



**THE SACCO SOCIETIES REGULATORY AUTHORITY
(SASRA)**

Our Ref: SASRA/700/721/VOL.I (131)

21st November, 2016

**ALL CHIEF EXECUTIVE OFFICERS
DEPOSIT TAKING SACCO SOCIETIES**

**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 entity'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 standard setters on auditing and assurance took note and commenced a consultative project in 2006 as a joint initiative of the International Auditing and Assurance Standards Board (IAASB) and the Auditing Standards Board (ASB) of the American Institute of Certified Public Accountants (AICPA) in the form of an academic research to identify, and provide information and insights on user perceptions regarding the financial statement audit and the auditor's report among different classes of financial statement users.

The objective of the project was two-fold as indicated below: -

- to appropriately enhance the communicative value and relevance of the auditor's report through proposed revisions to International Standards on Auditing (ISAs) requirements that address its structure and content; and
- to determine whether and how the IAASB's reporting ISAs, in their design, can be modified to accommodate evolving national financial reporting regimes, while at the same time ensuring that common and essential content is being communicated.

Arising from this research and engagements with stakeholders (where several regulators and standard setters responded with measures that would require auditors to say more), the IAASB approved the following standards and a number of conforming amendments to other standards in January 2015: -

- *ISA 700 (Revised), Forming an Opinion and Reporting on Financial Statements*
- ***ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report (KAM)***
- *ISA 260 (Revised), Communication with Those Charged with Governance*
- *ISA 570 (Revised), Going Concern*
- *ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report*
- *ISA 706 (Revised), Emphasis of Matter Paragraphs and Other Matter paragraphs in the Independent Auditor's Report*
- *ISA 720 (Revised), The Auditor's Responsibilities Relating to Other Information*

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. ISA 701 is mandatory for audits of complete sets of financial statements of listed entities, with voluntarily application allowed for entities other than listed entities. This ISA also applies when the auditor is required by law or regulation to communicate KAM in the auditor's report.

The Sacco Societies Regulatory Authority (SASRA) and the ICPAK have held consultative meetings on the application of ISA 701. SASRA notes that all entities it regulates hold and manage resources entrusted to them by the members, who are not involved in the management of the Sacco's and therefore required a greater level of accountability. Further, there is need for consistency and comparability in financial reporting and audit of Deposit Taking Sacco's (DTS's) to ensure proper understanding and identification of their true and fair position by members who are the end users of annual reports and audited financial statements to aide in making informed decisions.

Pursuant to section 40 of the Sacco Societies Act 2008 and Regulations 55 and 56 of the Sacco Societies (Deposit-Taking Sacco Business) Regulations 2010, the Authority wishes to inform all Deposit Taking Sacco's: -

1. that *ISA 701 - Communicating Key Audit Matters in the Independent Auditor's Report* is applicable to all Deposit Taking Saccos' and become effective for audits of financial statements for periods ending on or after December 15, 2016.
2. that the SASRA and ICPAK will require that a key audit matters section is included in the report of the independent auditor; and
3. that the Deposit-Taking Saccos' engage with the Authority on any significant issues which may negatively impact on their business whenever they encounter such issues.

For further enquiries, please do not hesitate to contact:

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