

**Independent Auditors' Report**  
**To the Shareholders of ABC Limited**

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the consolidated financial statements of ABC Limited ("the Group") set out on pages **XX** to **YY**, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act, 2015.

***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Key Audit Matters**[Error! Reference source not found.](#)

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter	How the matter was addressed
<b>Impairment of loans and advances to customers</b>	
Impairment of loans and advances to customers is considered a key audit matter because the Directors make complex and subjective judgments over both timing of recognition of impairment and the estimation of the size of any such impairment.	Our audit procedures in this area included, among others: <ul style="list-style-type: none"><li>• Testing the key controls over the credit grading and monitoring process, to assess if the credit grades allocated to counterparties were appropriate and advances were appropriately identified, on a timely basis, as impaired.</li></ul>

The key audit matter	How the matter was addressed
<p>We focused our audit on the following areas of impairment specifically relating to:</p> <ul style="list-style-type: none"> <li>• Key assumptions and judgments made by the Directors that underlie the calculation of modelled impairment. Key assumptions and judgments include the emergence period used for unidentified impairment, the estimated cash flows calculation and the loss given default calculation.</li> <li>• The completeness of the customer accounts that are included in the impairment calculation, including how unidentified impairment (customers that have had a loss event that has not yet manifested itself in a missed payment or other indicator) are accounted for.</li> </ul> <p>See accounting policy note 4 - Significant accounting policies and disclosure note 18 – Loans and advances.</p>	<ul style="list-style-type: none"> <li>• Performing credit assessments on a sample of loans based on materiality levels. For these selected loans, we assessed the reasonableness of the forecast of recoverable cash flows, realisation of collateral and other possible sources of repayment. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environments.</li> <li>• Testing the key management controls over the input of underlying data into the impairment model.</li> <li>• Overall assessment and reasonableness of the portfolio impairment balance with respect to the qualitative and quantitative changes in the underlying portfolio.</li> <li>• For the specific impairment portfolio, our additional procedures in respect of the impaired exposures involved assessing the key judgments, relating to recovery, namely the likely price (estimated cash flows) and expected time to sell.</li> </ul>
<b>Goodwill</b>	
<p>Under IFRSs, the Group is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the assessment process is complex and highly judgmental and is based on assumptions that are affected by expected future market or economic conditions, particularly those in [<i>Countries X and Y</i>].</p> <p>The Group's disclosures about goodwill are included in Note 3, which specifically explains that small changes in the key assumptions used could give rise to an impairment of the goodwill balance in the future.</p>	<p>Our audit procedures included, among others,</p> <ul style="list-style-type: none"> <li>• Using a valuation expert to assist us in evaluating the assumptions and methodologies used by the Group, in particular those relating to the forecasted revenue growth and profit margins for [<i>name of business lines</i>].</li> <li>• We also focused on the adequacy of the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive, that is, those that have the most significant effect on the determination of the recoverable amount of goodwill.</li> </ul>

### *Other Information*

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### *Responsibilities of Management and Those Charged with Governance for the consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

*In the case of a group audit we shall also include the following:*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## **Report on Other Legal and Regulatory Requirements**

As required by the Kenyan Companies Act, 2015 we report to you based on our audit, that:

- (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (ii) in our opinion proper books of account have been kept by the Group, so far as appears from our examination of those books; and
- (iii) the Group's statement of financial position and statement of profit or loss and other comprehensive income of the Group are in agreement with the books of account.

*The Engagement Partner responsible for the audit resulting in this independent auditors' report is CPA WWWWWW – P/2xxxxx.*

XYX Certified Public Accountants

[Address]

[Date of report]