

- Forming an audit opinion
- Communication of Key Audit Matters

Presented by FCPA SAID ABEID

Presentation outline

1. Introductory examples
2. Why change is important
3. Key benefits according to IAASB
4. What is new?
5. Key concepts
6. Forms of modified opinions
7. ISAs affected
8. Discussion on what is in the horizon?

Introductory examples



- Audit report in 1990
- Audit report in 2010
- Audit report in 2015
- Audit report in 2016

“ The IAASB has responded to calls from investors and others that it is in the Public interest for an auditor to provide greater transparency about the audit that was performed. Increasing the communicative value of the auditor’s report is critical to the perceived value of the financial statement audit

Dan Montgomery, former IAASB
Deputy Chair and Chair of the Auditor
reporting project

Source: IAASB press release dated 15 Jan 2015

Why is the change important



- Audit report is a key deliverable addressing the output of the audit process.
- Financial statements users need more informative report
- Auditors to provide more relevant information to users

Why is the change important (continued)



- Enhanced reporting will influence the value of the financial statement audit
- Increase transparency in the reporting
- It will ensure continued relevance of the auditing profession.

Key benefits according to IAASB



- Increased informational value of the auditor's report.
- Enhanced communications between investors and the auditor,
- Enhanced communication between the auditor and those charged with governance

Key benefits according to IAASB (continued)



- Increased attention by management to the disclosures in the financial statements to which reference is made in the auditor's report
- Renewed focus of the auditor on matters to be communicated in the auditor's report, which could indirectly result in an increase in professional skepticism.

What is new?

- **Dichotomy** - between listed and non listed entities.
Mandatory for audits of financial statements of listed entities, voluntarily application allowed for entities other than listed entities.
- **New KAM section** - to communicate key audit matters (KAM). KAM are those matters that, in the auditor's judgment, were of most significance in the audit of the current period financial statements.

What is new? contd.



- **Name of engagement Partner** - Disclosure of the name of the engagement partner.
- **Other changes** for all entities – see next slide.

What is new? contd.



Changes affecting all entities:-

- a) Report layout
- b) Going concern
- c) Auditor's independence
- d) Auditor's responsibilities

Report layout



- Opinion section required to be presented first.
- Basis for Opinion section comes second
- Typical layout
 - Title and addressee
 - Report of audit of the financial statements
 - Opinion
 - Basis for opinion
 - Key Audit Matters

Report layout (cont'd)



- Other information
- Responsibility of the directors for the financial statements
- Auditor's responsibility for the for the audit of the financial statements
- Report on other legal and regulatory requirements
- Engagement partner name and number
- Signature
- Place where registered
- Date

Note: Exemption to this format only if regulation prescribes otherwise

Going concern – ISA 570



- Enhanced auditor reporting on going concern
- Includes more description of the respective responsibilities of management and the auditor for going concern
- A separate section when a material uncertainty exists and is adequately disclosed, under the heading “Material Uncertainty Related to Going Concern”

Going concern – ISA 570 (continued)



- New requirement to challenge adequacy of disclosures, in view of the applicable financial reporting framework when events or conditions are identified that may cast significant doubt on an entity's ability to continue as a going concern

Auditor's independence



- Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities, with disclosure of the jurisdiction of origin of those requirements or reference to the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants.

Auditor's responsibilities

- Enhanced description of the auditor's responsibilities and key features of an audit. Certain components of the description of the auditor's responsibilities may be presented in an appendix to the auditor's report or, where law, regulation or national auditing standards expressly permit, by reference in the auditor's report to a website of an appropriate authority.

Key concepts to note



- a) Pervasive
- b) Key Audit Matters (KAM)
- c) Emphasis of matter
- d) Adverse opinion
- e) Disclaimer of opinion

Pervasive

Pervasive effect are those that in the auditors judgement:

- Are not confined to specific elements, accounts or items of the financial statements;
- If so confined, represent or could represent a substantial proportion of the financial statements; or
- In relation to disclosures, are fundamental to users' understanding of the financial statements

Pervasive cont.

Pervasiveness is a matter that confuses many new auditors as, it is a matter that requires **professional judgment**. In this case the judgment is whether the matter is **isolated** to specific components of the financial statements, or whether the matter **pervades many** elements of the financial statements, rendering them unreliable as a whole.

Pervasive cont.

The **bottom line** is that if the auditor believes that the financial statements may be relied upon in some part for decision making then the **matter is material** and **not pervasive**. If, however, they believe the financial statements **should not be relied upon at all for making decisions** then the matter **is pervasive**.

Emphasis of matter

EOM is rarely dealt with satisfactorily by some auditors. This is mainly because some auditors believe that EOM is linked to modifications of the opinion. This is not the case: EOM and modified opinions are separate matters.

EOM – A paragraph included in the auditor's report that refers to a **matter appropriately presented or disclosed** in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

Form of a modified audit opinion



- a) Circumstances leading to modified opinion
- b) Qualified opinion
- c) Adverse opinion
- d) Disclaimer of opinion
- e) Decision matrix

Circumstances leading to modification



The auditor shall modify the opinion in the auditor's report when:

- The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.

Decision matrix



Nature of matter	Auditors judgement on pervasiveness	
	Material but not pervasive	Material and pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Qualified opinion

The auditor shall express a qualified opinion when:

- The auditor, having obtained sufficient appropriate audit evidence, concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.

Adverse

- The auditor shall express an adverse opinion when the auditor, having obtained sufficient appropriate audit evidence, **concludes that misstatements,** individually or in the aggregate, **are both material and pervasive** to the financial statements.



Disclaimer

The auditor shall disclaim an opinion when the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and the auditor concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.

The auditor shall disclaim an opinion when, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.

Which ISAs are changing?

Contd.



- Forming an opinion and reporting on financial statements (ISA 700 Revised)
- Modified audit report (ISA 705 Revised)
- Emphasis of matter and other matters (ISA 706 Revised)
- Going concern (ISA 570 revised)
- Key Audit Matters (ISA 701 Revised)
- Auditors responsibility on other information (ISA 720 Revised)

Other considerations:

- Communication with those charged with Governance (ISA 260)
- Other ISAs changed for conformity.

ISA 700 Revised

Objectives of an auditor are:

- i. To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- ii. To express clearly that opinion through writing.

The auditor shall form an opinion on whether the financial statements are prepared, in all material respect, in accordance with the applicable financial reporting framework.

ISA 700 contd. (Forming an opinion)



In order to form that opinion, the auditor shall conclude as to whether the auditor has obtained reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. That conclusion shall take into account:

- i. The auditor conclusion in accordance with ISA 330, whether sufficient appropriate evidence has been obtained
- ii. The auditors conclusion in accordance with ISA 450 whether uncorrected misstatements are material, individually or in aggregate; and
- iii. The financial statements have been presented in all material respect in accordance with the requirements of the applicable framework

ISA 700 contd. (Format of an audit report)



- Title (clearly indicate it is the report of the independent auditor)
- Addressee (The auditors report shall be addressed as appropriate)
- Auditors opinion
- Basis of opinion (state the audit was conducted in accordance with ISAs, Refer to section in the audit report that describes the auditors responsibilities, include a statement that the auditor is independent of the entity, state whether audit evidence was sufficient and appropriate)
- Going concern (to report in accordance with ISA 570)
- Key Audit Matters (for listed entities and certain regulated entities, proposed ISA 701)
- Other information (to report in accordance with ISA 720)
- Responsibilities for the financial statements

ISA 700 contd. (Format of an audit report (contd))



- Auditors responsibilities for the financial statements
- Other reporting responsibilities
- Name of engagement (required for listed companies in rare circumstances such disclosure is reasonably expected to lead to a significant security threat)
- Auditors address
- Date of the auditors report

ISA 705 revised

Objectives of the auditor is to express an appropriately modified opinion on the financial statements that is necessary when:

- i. The auditor concludes, based on audit evidence, that the financial statements as a whole are not free from material misstatements; or
- ii. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement

ISA 706 - Emphasis of Matter



The objective of the auditor, having formed an opinion on the financial statements, is to draw users' attention, when in the auditor's judgment it is necessary to do so, by way of clear additional communication in the auditor's report, to:

- i. A matter, although **appropriately presented** or **disclosed** in the financial statements, that is of such importance that it is fundamental to users' understanding of the financial statements; or
- ii. As appropriate, any other matter that is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

ISA 706 Examples of circumstances requiring emphasis of matter



- an uncertainty relating to the future outcome of exceptional litigation or regulatory action.
- A new accounting standard (for example, a new International Financial Reporting Standard) that is not yet effective but is expected to have a material effect on the financial statements
- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.
- A significant subsequent event that occurs between the date of the financial statements and the date of the auditor's report.

ISA 720 Other matters paragraph



- Other matter' paragraphs are used to refer to matters that have not been disclosed in the financial statements that the auditor believes are significant to user understanding. One usage of these paragraphs is where the auditor concludes that there is a material inconsistency between the audited financial statements and the other (unaudited) information contained within the annual report and accounts, as required by ISA 720, The Auditor's Responsibilities Relating to Other Information in Documents Containing Audited Financial Statements.

ISA 701 Key Audit Matters



- Key audit matters - 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(TCWG). (ISA 260)

KAM is not:



- A substitute for disclosures in the financial statements
- A substitute for the auditor to express a modified opinion
- A substitute for reporting any matters relating to going concern,
- A separate opinion on an individual matter

ISA 701 Determining Key Audit Matters



The auditor shall determine which of the matters communicated with those charged with governance are the key audit matters. In making this determination, the auditor shall take into account areas of significant auditor attention in performing the audit, including:

- Areas identified as significant risks in accordance with ISA 315 (Revised)
- Areas in which the auditor encountered significant difficulty during the audit, including with respect to obtaining sufficient appropriate audit evidence.
- Circumstances that required significant modification of the auditor's planned approach to the audit, including as a result of the identification of a significant deficiency in internal control.

ISA 701 Communication of Key Audit Matters



- The auditor shall communicate the key audit matters determined in accordance with paragraph 8 in a separate section of the auditor's report under the heading "Key Audit Matters."
- NB- the descriptions of KAM should be clear, concise, understandable and entity-specific

KAM relates to



- Significant complex matters disclosed in the financial statements e,g
- Valuation of goodwill and other long term assets,
- Valuation of financial instruments,
- Difficult or unique aspects of revenue recognition,
- Accounting for significant acquisitions,

SURVEY IN UK, done by UK Financial reporting Council



- In a survey of more than 150 auditor report, it was found the top five KAMs most reported in UK were,
- Impairment of assets,
- Tax,
- Goodwill impairment
- Management override of controls,
- Fraud in revenue recognition,

Is a KAM a form of qualification??



- Stakeholders are used to the binary “ pass/ fail” opinion. With KAM reporting, the stakeholders might perceive it as a piecemeal qualification on matters determined to be KAMs. The description of auditors procedures contained in the KAM section of the auditors report might be misunderstood without proper context

OTHER CONCERNS ON KAM



- ➡ Will KAMs make the auditors report as the primary source of “red flags” such as going concern
- ➡ How will KAMs be interpreted by stakeholders and the market?
- ➡ Would it trigger a negative reponse?
- ➡ Will stakeholders perceive matters highlighted as KAMs as areas where manangement and TCWG failed to discharge their responsibilities properly,

WAY FORWARD ON KAM



- ➡ Convey important message to stakeholders that KAMs, are not avenue for the auditor to express qualification on matters highlighted,
- ➡ KAMs are addressed in the context of the audit of the financial statements as a whole, and the auditor does not provide a separate opinion on these matters
- ➡ **FINALY**, stakeholders education is critical, through ICPAK, authorities/ regulators (SASRA), etc,



THANK YOU,



ANY QUESTIONS ?

REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the accounts as set out on pages 4 to 10 of Velji Shamji Constructions Limited, for the year ended 31st December, 1990. The accounts are in agreement with the books which have been properly kept. We obtained all the information and explanations we required.

In our opinion, the accounts give a true and fair view of the state of affairs of the company as at 31st December, 1990 and of its results and sources and applications of funds for the year ended on that date and comply with the companies act (Cap 486).

Certified Public Accountants.

...26th SEP 1991

MOMBASA.

Kenya Limited
Report of the independent auditor to the members of Kenya Limited
For the year ended 31st December 2015

Report on the financial statements

We have audited the accompanying financial statements of Kenya Limited, set out on pages _ to _, which comprise the balance sheet as at 31st December 2015, and the profit and loss account, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

CA

Report on other legal requirements

As required by the Kenyan Companies Act 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 purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

ICPAK

The engagement partner responsible for the audit resulting in this independent auditor's report was **[F]/CPA**
[name of partner], Practising Certificate No.

Certified Public Accountants
Nairobi

..... 2016

Opinion

We have audited the accompanying financial statements of Kenya Limited (the company), set out on pages _ to _, which comprise the balance sheet as at 31st December 2017, the profit and loss account and statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

CA/727 In our opinion the accompanying financial statements give a true and fair view of the financial position of the company as at 31st December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company 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 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.

Other information

ISA 720 The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

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

CA - 728 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.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Kenya Limited**Report of the independent auditor to the members of Kenya Limited
For the year ended 31st December 2017****Auditor's responsibilities for the audit of the financial statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 company'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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 the auditor's report. However, future events or conditions may cause the company 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.

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.

Report on other matters prescribed by the Kenyan Companies Act, 2015

CA#728 In our opinion the information given in the report of the directors on page 2 is consistent with the financial statements.

CA#730(2) *[If, in reporting on the financial statements the auditor forms the opinion:*

- a) That the company has not kept adequate accounting records; or*
 - b) The company's financial statements are not in agreement with the company's accounting records;*
- the auditor shall state that opinion in this section of the report.]*

ICPAK
CA#735 The engagement partner responsible for the audit resulting in this independent auditor's report was *[F]* CPA *[name of partner]*, Practising Certificate No.

CA#735
Certified Public Accountants
Nairobi

..... 2018

[Note: this specimen applies only to companies that are not required to include key audit matters in the auditor's report, and only to financial years ending on or after 15th June 2017. It is illustrative of an 'unmodified' opinion given in accordance with ISA 700.]

Kenya SME Limited
Report of the independent auditor to the members of Kenya SME Limited
For the year ended 31st December 2010

Report on the financial statements

We have audited the accompanying financial statements of Kenya SME Limited, set out on pages _ to _ , which comprise the balance sheet as at 31st December 2010, the profit and loss account, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the company as at 31st December 2010 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the Kenyan Companies Act.

CA

Report on other legal requirements

As required by the Kenyan Companies Act 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 purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

Certified Public Accountants
Nairobi

..... 2011

Kenya SME Limited
Report of the independent auditor to the members of Kenya SME Limited
For the year ended 31st December 2016

Opinion

We have audited the accompanying financial statements of Kenya SME Limited (the company), set out on pages 1 to 10, which comprise the balance sheet as at 31st December 2016, the profit and loss account and statements of changes in equity and cash flows for the year then ended, and notes, including a summary of significant accounting policies.

In our opinion the accompanying financial statements give a true and fair view of the financial position of the company as at 31st December 2016 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the company 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 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.

Other information

ISA 720

The directors are responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the 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.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's 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 auditor's 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.

Kenya SME Limited**Report of the independent auditor to the members of Kenya SME Limited
For the year ended 31st December 2016****Auditor's responsibilities for the audit of the financial statements (continued)**

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism 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 company'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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 the auditor's report. However, future events or conditions may cause the company 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.

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.

CA

Report on other legal 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 purposes of our audit;
- ii) in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and
- iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

ICPAK

The engagement partner responsible for the audit resulting in this independent auditor's report was *[F/CPA
[name of partner]*, Practising Certificate No.

**Certified Public Accountants
Nairobi**

..... 2017

* In accordance with Sections 42 and 56 of the Sixth Schedule, Transitional and Saving Provisions, of the Companies Act, 2015 the company's financial statements and this report have been prepared in accordance with Sections 147 to 163 and 197 of the repealed Companies Act, as if that repeal had not taken effect.

[Note: this specimen applies only to companies not required to include key audit matters in the auditor's report, and only to financial years ending between 15 December 2016 and 15 June 2017. It is illustrative of an 'unmodified' opinion given in accordance with ISA 700.]