

(NBAA)
THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS
TANZANIA



TECHNICAL PRONOUNCEMENT NO. 2 OF 2016

**THE SCOPE OF APPLICABILITY OF ISA 701: COMMUNICATING KEY AUDIT
MATTERS IN THE INDEPENDENT AUDITOR'S REPORT**

Introduction.

In 2004 Tanzania decided to fully adopt the International Auditing Standards (ISA) issued by the International Auditing and Assurance Standards Board (IAASB).

The National Board of Accountants and Auditors has been issuing Technical Pronouncements with the view of improving the implementation of those standards in Tanzania as and where necessary.

In an effort to enhance statutory financial reporting in the country, the Board according to the powers conferred under Auditors and Accountants (Registration) Act.No.33 of 1972, as amended by Act.No.2 of 1995, requires an inclusion of the section of the Key Audit Matters (KAM) in the Auditor's Report of the reporting entities having public accountability. Auditor's Report shall also state the reasons for the audit matter to be reported as KAM.

Key Audit Matters as per ISA 701, are those matters in the auditor's professional judgement, were of the most significance during the audit of financial statements.

Reporting entity having public accountability includes: -

- a. Any entity that its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or
- b. All entities that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, investment banks and pension funds)

In determining KAM auditor shall consider the followings:

- Areas of high assessed risk of material misstatement, or significant risks.
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty.
- The effect on the audit of significant events or transactions that occurred during the period.

Advantages of Communicating KAM: -

- Enhance the communicative value of the auditor's report by providing greater transparency about the audit performed.
- Provides additional information to users of the financial statements to assist them in understanding those matters that in the auditor's professional judgement, were of the most significance during the audit of financial statements.
- Assist users in understanding the entity and areas of significant management judgement in the audited financial statements.
- Enhance communications between the auditor and those charged with governance about those matters, and may increase attention by management and those charged with governance on their disclosures in the financial statements to which reference is made in the auditor's report

This pronouncement will become effective for the financial statements for the period ending on or after 31st December 2016.

For further information and clarification please contact:

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