INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF UGANDA

AUDITOR REPORTING: ILLUSTRATIVE AUDITOR'S REPORT

This publication has been prepared by the Accountants in Public Practice Sub Committee. It does not constitute an authoritative pronouncement of the Council of the Institute of Certified Public Accountants of Uganda nor does it amend or override Practice Statement PS 1/16 or the International Standards on Auditing (ISAs). Further, this publication is not meant to be exhaustive and reading this publication is not a substitute for reading the ISAs.

1.1 Introduction

The IAASB's new and revised Auditor Reporting standards were issued in January 2015 and are effective for audits of financial statements for periods ending on or after 15 December 2016. Accountants in Public Practice Sub-Committee has developed this publication to provide illustration on the implementation of the new standards ISAs. This publication is not meant to be exhaustive, other responsibilities of the auditor that may be exist in laws or regulations are not covered in this publication.

1.2 Practice Statement PS 1/16: Forming and Opinion and Reporting on Financial Statements

In 2016, Council of the Institute issued a Practice Statement (PS 1/16: Forming and Opinion and Reporting on Financial Statements) to clarify and promote consistency of application of the requirements of the new auditor reporting standards.

As highlighted in the Practice Statement, the new and revised standards introduce new requirements for auditor's reports, including requirements to report on auditor independence, going concern and key audit matters.

The Practice Statement extended requirements from reporting on key audit matters to other publicly accountable entities in Uganda, besides the listed entities stipulated within the revised standards.

In order to provide more time for preparation and client engagement in readiness for implementation of the reporting on KAM, the Council extended <u>the effective date of implementation of the requirement to report on key audit matters for other publicly accountable entities</u>. Therefore the requirement in section 3.0 of the Practice Statement will become effective on 15 December 2017. All other requirements contained in the practice statement are applicable.

Readers are encouraged to read all the requirements of ISAs and the Practice Statement.

1.3 Signature of the Auditor

As required by section 6.0 of the Practice Statement, the auditor's report shall include a unique identification mark assigned by the ICPAU. Every practicing accountant will obtain a seal directly from the Institute's designated supplier.

These seals have been designed under direction and approval of ICPAU and are therefore the regulatory property of ICPAU. Practicing accountants are required to ensure the safe custody of these seals.

Should a practicing accountant cease to practice accountancy, he or she will be required to return the seal to the Institute.

2.0 ILLUSTRATION OF THE AUDITOR'S REPORT

Auditor's Report on Financial Statements of a Listed/Publicly Accountable Entity Prepared in Accordance with a Fair Presentation Framework

For purposes of this illustrative auditor's report, the following circumstances are assumed:

- Audit of a complete set of financial statements of a listed entity using a fair presentation framework. The audit is not a group audit (i.e., ISA 600 does not apply).
- The financial statements are prepared by management of the entity in accordance with IFRSs (a general purpose framework).
- The terms of the audit engagement reflect the description of management's responsibility for the financial statements in ISA 210.
- The auditor has concluded an unmodified (i.e., "clean") opinion is appropriate based on the audit evidence obtained.
- The relevant ethical requirements that apply to the audit comprise the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* together with the ICPAU Professional Code of Ethics.
- Based on the audit evidence obtained, the auditor has concluded that a material uncertainty does not exist related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern in accordance with ISA 570 (Revised).
- Key audit matters have been communicated in accordance with ISA 701.
- Those responsible for oversight of the financial statements differ from those responsible for the preparation of the financial statements.
- In addition to the audit of the financial statements, the auditor has other reporting responsibilities required under the Companies Act, 2012.

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF ABC (U) LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC (U) Limited (the Company), which comprise the statement of financial position as at 31 December 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, 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 ABC (U) Limited as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and Companies Act, 2012.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and Guidelines issued by the Institute of Certified Public Accountants of Uganda. 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 Uganda, 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

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.

Carrying Value of Goodwill	
Under IFRSs, the company is required to annually test the amount of goodwill for impairment. This annual impairment test was significant to our audit because the balance of UGX 60 million as of 31 December 2016 is material to the financial statements. In addition, management's assessment process is complex and highly judgmental and is based on assumptions which are affected by expected future market or economic conditions, particularly those in Uganda.	Our audit procedures included, among others, using a valuation expert to assist us in evaluating the assumptions and methodologies used by the company, in particular those relating to the forecasted revenue growth and profit margins for the service business line. We also focused on the adequacy of the company'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.
The Company'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.	*Based on our procedures we noted no exceptions and consider management assumptions to be within reasonable range.*
Revenue Recognition	
There is an inherent risk around the accuracy of revenue recorded given the complexity of systems and the impact of changing pricing models to revenue recognition (tariff structures, incentive arrangements, discounts etc.). The application of revenue recognition accounting standards is complex and involves a number of key judgements and estimates.	Our audit procedures to address the risk of material misstatement relating to revenue recognition, which was considered to be a significant risk, included: • Testing of controls, assisted by our own IT specialists, including, among others, those over: input of individual advertising campaigns' terms and pricing; comparison of those terms and pricing data against the related overarching contracts with advertising agencies; and linkage to viewer data; and • Detailed analysis of revenue and the timing of its recognition based on expectations derived from our industry knowledge and external market data, following up variances from our expectations.
The Company's disclosures about its revenue recognition are included in Note 5.	*Based on our work, we noted no significant issues on the accuracy of the revenue recorded in the year.*
Recoverability of intangible assets	

The recovery of the company's intangible assets depends on a combination of achieving sufficiently profitable business in the future as well as the ability of customers to pay amounts due under contracts often over a long period of time. The company's intangible assets are more prone to the risk of impairment in the early years as the company's market position is established.	We tested the controls designed and applied by the company to provide assurance that the assumptions used in preparing the impairment calculations are regularly updated, that changes are monitored, scrutinised and approved by appropriate personnel and that the final assumptions used in impairment testing have been appropriately approved. We also challenged the appropriateness of the key assumptions in the impairment test and tested the mathematical accuracy of the impairment calculations.
The Company's disclosures about its intangible assets are included in Note 9.	*No issues were noted from our testing.*
Disposal of a Component	
During the year management disposed off the Masaka Plant as part of its strategic realignment. The Masaka plan was significant component of the company's business	We have involved our valuation, financial instruments and tax specialists in addressing this matter and focused our work on: • Assessing the appropriateness of the fair values assigned to each element of the consideration received by referring to third-party data as applicable; and • Critically assessing the fair value of Masaka Plant and the related allocation of the purchase price to the assets and liabilities acquired by evaluating the key assumptions used.
The Company's disclosures about its disposal of the Masaka plan are included in Note 5.	*Based on our procedures we noted no exceptions.*

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, 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 financial statements, management is 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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.

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 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 our 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 auditor's 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 Companies Act, 2012, we report to you based on our audit, that:

1. 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;
2. In our opinion, proper books of account have been kept by the Company so far as appears from our examination of those books; and
3. The Company's statement of financial position and statement of comprehensive income are in agreement with the books of account.

The engagement partner on the audit resulting in this independent auditor's report is CPA Charles Okello – P0012.

Charles Okello

ABC & Associates

ABC & Associates
Certified Public Accountants of Uganda
Jinja, Uganda
Wednesday, 25 January 2017

(INSERT SEAL OF THE ENGAGEMENT PARTNER)