

*Accounting and Auditing Organization for  
Islamic Financial Institutions (AAOIFI):*

*Professional Auditing Standards  
Committee (PASC)*

*Guidance Note (GN) No. 01*

*“Communication of key audit matters in  
the independent auditor’s report”*

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## Introduction

1. *This Guidance Note (GN) intends to provide guidance relating to communication of key audit matters in the independent auditor's report in line with the global best practices, as applicable to Islamic financial institutions.*

## Issue

2. *AAOIFI Auditing Standard for Islamic Financial Institutions (ASIFI) 2 "Auditors' Report" provides the reporting principles along with illustrative contents of different report paragraphs and an illustrative format of report for the audits of Islamic financial institutions. In the jurisdictions adopting AAOIFI standards, such report format becomes a regulatory requirement to be followed by the auditors of Islamic financial institutions for rendering their opinion on the truth and fairness of the financial statements.*
3. *Paragraph 7 of the ASIFI 1 "Objectives and Principles of Auditing" provides that, the auditor shall consider the requirements of the professional bodies in addition to the ASIFIs in so far as these do not contravene Shari'ah. It additionally and specifically provides that, the International Standards on Auditing (ISAs) shall apply in respect of matters not covered in detail by ASIFIs provided these do not contravene Islamic rules and principles.*
4. *With the adoption of ISA 701 "Communication of Key Audit Matters in the Independent Auditor's Report", by the International Auditing and Assurance Standards Board (IAASB), it now needs clarification:*
  - a. *as to whether, and to what extent, the requirements of such standard with regard to communication of key audit matters shall be applicable on Islamic financial institutions following the ASIFIs; and*
  - b. *as to whether there is a conflict between such requirements and the auditing framework provided by ASIFIs, and if so, which one shall prevail?*

## Conclusion

### Applicability of the requirements

5. *The requirements of global best practices with regard to the communication of key audit matters in the auditors' report under global best practices of auditing are supplementary and not contrary to the requirements of ASIFIs. These are intended to enhance the communicative value of the auditors' report to the intended users of the auditor's report and the audited financial statements.*
6. *The nature of illustrative report paragraphs and the illustrative auditor's report format are the principle-based guidance and not hard-set rules. Since such requirements do not constitute a contradiction with the requirements of ASIFI 2, hence, amendments to ASIFI 2 are not needed to allow reporting of the key audit matters by the auditors of Islamic financial institutions.*
7. *The auditors of Islamic financial institutions shall apply additional heading(s) and caption(s) to the illustrative auditor's report format provided in ASIFI 2 and adding additional informative paragraphs in line with global best practices of auditing to report the key audit matters*

including key risks, significant auditor's judgments and the effects of significant events during the reporting period of the audit.

#### Key audit matters related to opinion on Shari'ah matters

8. Auditor's scope of work and accordingly the auditor's opinion under ASIFIs [particularly ASIFI 2 (read with ASIFI 1 and ASIFI 4 "Testing for Compliance with Shari'ah Rules and Principles by an External Auditor")] comprise of two parts, as follows:
  - a. first is the normal financial audit opinion i.e. the opinion on the truth and fairness of the financial statements of the IFI in line with the accounting framework primarily comprising AAOIFI Financial Accounting Standards (FAS); and
  - b. second part of the opinion is the auditors' opinion on the IFI's state of compliance with the Shari'ah principles and rules.
9. The requirements under global best practices apply to the auditor's opinion on the truth and fairness of the financial statements. Accordingly, it is clarified that the key matters related to compliance with Shari'ah principles shall be included in the auditor's report if, and only if, they are considered to be a key matter from financial audit perspective as a key risk or observation having a material impact on the financial statements or are significant from the perspective of auditor's consideration of compliance with laws and regulations under best practices of auditing.

#### Date of issue

10. This PASC Guidance Note is issued by AAOIFI on 04 January 2017.

#### Effective date

11. An auditor of an Islamic financial institution shall apply this PASC Guidance Note for the audits for annual periods beginning on or after 01 January 2017.
12. Earlier application of this Guidance Note is encouraged.

#### Publishing mode

13. This PASC Guidance Note is a public document, to be read in conjunction with ASIFI 2.

#### Authoritative status

14. AAOIFI PASC is an authorized joint committee of AAOIFI Accounting Board (AAB) and AAOIFI Governance and Ethics Board (AGEB). It is intended to support both the boards in developing and updating professional auditing standards, as needed and is authorized to issue such Guidance Notes for the auditing profession as needed.