Booklet with Illustrations of Auditor’s report under International Standards on Auditing (ISA) that are endorsed by Saudi Organization of Chartered and Professional Accountants (SOCPA)

Booklet with Illustrations of Auditor’s Report

Introduction

In order to support the profession, SOCPA has developed this booklet, which provide illustrations of different types of auditor’s reports under ISA, in one document.

The requirements of ISA audit report are much greater than the previously used generally accepted auditing standards in the Kingdom of Saudi Arabia, especially with respect to audit of publicly listed entities. The most significant change is the introduction of ‘key audit matters’ in the auditor’s report on an audit of Listed – Joint Stock Companies, in which the auditor lists the areas of the audit that involve the most risk – and therefore require the most judgement – and explains the audit approach to those areas. In addition, the new standards reorder the audit report to put upfront the information that’s most relevant to users.

Disclaimer

This booklet has been prepared for illustration and general guidance purposes, and does not constitute professional advice or replacement of the requirements of ISA. Also this would not be considered a replacement of auditors’ responsibility to ensure compliance with the International Standards on Auditing. The actual auditor’s report need to be prepared with consideration to the circumstances of each audit engagement, understanding of the audit client and the detailed requirements of ISA. You should not act upon the information contained in this booklet without obtaining specific professional advice. Accordingly, to the extent permitted by law, SOCPA accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining from acting, in reliance on the information contained in this document or for any decision based on it, or for any consequential, special or similar damages even if advised of the possibility of such damages.

Criteria / Assumptions used in illustrations

Illustration 1	• Audit report on complete set of standalone financial statements • Audit of other than listed entity • Audit conclusion reached for unmodified opinion • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 2	• Audit report on complete set of consolidated financial statements • Audit of other than listed entity • Audit conclusion reached for unmodified opinion • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 3	• Audit report on complete set of standalone financial statements • Audit of listed – joint stock company • Audit conclusion reached for unmodified opinion • Entity using general purpose fair presentation framework • Examples for key audit matters included • Going concern assumption is appropriate
Illustration 4	• Audit report on complete set of consolidated financial statements • Audit of listed – joint stock company • Audit conclusion reached for unmodified opinion • Entity using general purpose fair presentation framework • Examples for key audit matters included • Going concern assumption is appropriate
Illustration 5	• Audit report on complete set of standalone financial statements • Audit of other than listed entity • Audit conclusion reached for qualified opinion • Qualification on material misstatement due to departure from requirements of relevant standards • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 6	• Audit report on complete set of consolidated financial statements • Audit of other than listed entity • Audit conclusion reached for qualified opinion • Multiple qualifications, including scope limitation • Entity using general purpose fair presentation framework • Going concern assumption is appropriate

Illustration 7	• Audit report on complete set of standalone financial statements • Audit of listed – joint stock company • Audit conclusion reached for qualified opinion • Qualification on material misstatement due to departure from requirements of relevant standards • Entity using general purpose fair presentation framework • Examples for key audit matters included • Going concern assumption is appropriate
Illustration 8	• Audit report on complete set of consolidated financial statements • Audit of listed – joint stock company • Audit conclusion reached for qualified opinion • Multiple qualifications, including scope limitation • Entity using general purpose fair presentation framework • Examples for key audit matters included • Going concern assumption is appropriate
Illustration 9	• Audit report on complete set of standalone financial statements • Audit of other than listed entity • Audit conclusion reached for adverse opinion • Multiple qualifications deemed to be pervasive to the financial statements. • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 10	• Audit report on complete set of standalone financial statements • Audit of other than listed entity • Audit conclusion reached for adverse opinion due to going concern • Going concern assumption is inappropriate due to continuing losses, negative equity and inability to pay debts, as well as, no resolution passed by the shareholders to support and continue the operations of the Company and such fact is not disclosed in the financial statements • Entity using general purpose fair presentation framework
Illustration 11	• Audit report on complete set of consolidated financial statements • Audit of other than listed entity • Audit conclusion reached for adverse opinion • Single qualification deemed to be having pervasive impact on the financial statements • Entity using general purpose fair presentation framework • Going concern assumption is appropriate

Illustration 12	• Audit report on complete set of standalone financial statements • Audit of listed – joint stock company • Audit conclusion reached for adverse opinion • Multiple qualifications deemed to be pervasive to the financial statements. • Entity using general purpose fair presentation framework • No key audit matters identified other than the matters appearing in 'Basis of Adverse Opinion' section of the audit report. • Going concern assumption is appropriate
Illustration 13	• Audit report on complete set of consolidated financial statements • Audit of listed – joint stock company • Audit conclusion reached for adverse opinion • Single qualification deemed to be having pervasive impact on the financial statements • Entity using general purpose fair presentation framework • Examples for key audit matters included • Going concern assumption is appropriate
Illustration 14	• Audit report on complete set of standalone financial statements • Audit of other than listed entity • Audit conclusion reached for disclaiming the opinion • Multiple scope limitation qualifications resulting in disclaimer • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 15	• Audit report on complete set of consolidated financial statements • Audit of other than listed entity • Audit conclusion reached for disclaiming the opinion • Single significant scope limitation qualification resulting in disclaimer of opinion • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 16	• Audit report on complete set of standalone financial statements • Audit of listed – joint stock company • Audit conclusion reached for disclaiming the opinion • Scope limitation qualification affecting multiple account balances and resulting in disclaimer of opinion • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 17	• Audit report on complete set of consolidated financial statements

	• Audit of listed – joint stock company • Audit conclusion reached for disclaiming the opinion • Single significant scope limitation qualification resulting in disclaimer of opinion • Entity using general purpose fair presentation framework • Going concern assumption is appropriate
Illustration 18	• Audit report on special purpose financial statements • Audit of other than listed entity • Audit conclusion reached for unmodified opinion • Financial statements prepared for management use for filing with tax authorities only
Illustration 19	• Audit report on special purpose financial statements • Audit of other than listed entity • Audit conclusion reached for qualified opinion • Qualification on scope limitation. • Financial statements prepared for management use for filing with tax authorities only
Illustration 20	• Audit report on special purpose financial statements • Audit of other than listed entity • Audit conclusion reached for adverse opinion • Single qualification affecting multiple account balances • Financial statements prepared for management internal use only
Illustration 21	• Audit report on special purpose financial statements • Audit conclusion reached for disclaiming the opinion • Single significant scope limitation qualification resulting in disclaimer of opinion • Financial statements prepared to assist the Company in complying with the financial reporting provisions of the contract X
Illustration 22	• Review report on interim condensed consolidated financial information • Review of listed – joint stock company • Review conclusion reached for unmodified conclusion • Going concern assumption is appropriate
Illustration 23	• Review report on complete set of general purpose standalone interim financial information • Review of listed – joint stock company • Review conclusion reached for unmodified conclusion • Going concern assumption is appropriate

Illustration 24	• Review report on interim condensed consolidated financial information • Review of listed – joint stock company • Review conclusion reached for qualified conclusion • Scope limitation qualification on single account balance • Going concern assumption is appropriate
Illustration 25	• Review report on complete set of general purpose standalone interim financial information • Review of listed – joint stock company • Review conclusion reached for qualified conclusion • Qualification on material misstatement due to departure from requirements of relevant standards • Going concern assumption is appropriate
Illustration 26	• Review report on interim condensed consolidated financial information • Review conclusion reached for adverse conclusion • Qualification affecting multiple account balances deemed to be pervasive to the financial information • Going concern assumption is appropriate
Illustration 27	• Review report on complete set of general purpose standalone interim financial information • Review conclusion reached for adverse conclusion • Qualification affecting multiple account balances deemed to be pervasive to the financial information • Going concern assumption is appropriate
Illustration 28	• Review report on interim condensed consolidated financial information • Review conclusion reached for disclaiming the conclusion • Single significant scope limitation qualification resulting in disclaimer of conclusion • Going concern assumption is appropriate
Illustration 29	• Review report on complete set of general purpose standalone interim financial information • Review conclusion reached for disclaiming the conclusion • Scope limitation affecting most of the account balances and resulting in disclaimer of conclusion • Going concern assumption is appropriate

Booklet with Illustrations of Auditor's Report

Illustration – 1: Unmodified opinion on standalone financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[2].

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[3]**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 International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[4], are responsible for overseeing the Company's financial reporting process.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
3. If other information e.g. annual report by management, is provided to the stake holders along with financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.
4. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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.

[5]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

---

5. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***‘Report on Other Legal and Regulatory Requirements’***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA’s Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor’s report would vary depending on the nature of the auditor’s other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like ‘Basis for Qualified Opinion’ and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor’s report.

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

Booklet with Illustrations of Auditor's Report

Illustration – 2: Unmodified opinion on consolidated financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[2].

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 20X8, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[3]**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 International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[4], are responsible for overseeing the Group's financial reporting process.

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
3. If other information e.g. annual report by management, is provided to the stake holders along with consolidated financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the consolidated financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.
4. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

[5]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

5. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor’s address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner’s name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

Booklet with Illustrations of Auditor's Report

Illustration – 3: Unmodified opinion on standalone financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[2].

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[3]**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 for 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.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
3. Key audit matters (KAMs) are different from entity to entity and industry to industry and are selected from the matters communicated with those charged with governance on the basis of having most significance in the audit of financial statements of the current period. The assessment of key audit matters, needs critical professional judgement from auditors. The examples given in the table are only for illustration purposes and not needed to be replicated in the auditor's report. The auditor needs to assess KAMs as per the requirements of ISA 701 that is endorsed in the Kingdom of Saudi Arabia and specific to the Company's circumstances.

Key Audit Matters	**How our audit addressed the key audit matter**
Revenue Recognition	
Revenue from main areas of activity (construction projects, general contracting projects and real estate projects) is recognized on the basis of percentage of completion (POC). We have considered this as a key audit matter as application of accounting standards for revenue recognition on percentage of completion basis involves significant scope for judgement by Management, which have material impact on the financial statements. Refer to material accounting policy information in note X for revenue recognition policy, and note XX for more detail of revenue.	Our audit focused on revenue recognition and, as part of this, due to the complexity of the projects, on the use of POC method. We have checked the logic and the systematic application of this approach to project valuations and revenue recognition and performed a critical assessment of the process. Our opinion is based on the following audit procedures: - We reviewed the internal reporting to Management and the Board of Directors. - We tabled questions at the Project Review Meetings. - We discussed selected projects with Management and the Audit Committee. - We tested the related key controls. The test of controls is the basis for the examination of the revenue projects. - During the audit we examined in depth numerous projects. We made a risk-based selection of projects for our samples by applying criteria that we defined, including: o The amount of the contribution margin in the financial year. o The amount of revenue in the financial year. o Change in the contribution margin compared to the prior year. o Material project related accruals. o The size of the projects. o Projects attracting particular attention from Management.

First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia	
For all periods up to and including the year ended December 31, 20X7, the Company prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. The Company prepared its first annual financial statements for the year ended December 31, 20X8 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing these financial statements, the Company's opening statement of financial position was prepared as of January 1, 20X7, which is the Company's date of transition to IFRS. We have considered this transition process as a key audit matter due to its pervasive impact on the financial statements in terms of management and disclosure. Refer to material accounting policy information in note X showing the basis of preparation under first time adoption of IFRS, and note XX for the transition adjustments and other details in connection with the transition to IFRS.	We have performed the following procedures to address this matter: - Obtained an understanding of the transition differences identified by the management between the generally accepted accounting standards in the Kingdom of Saudi Arabia and IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness. - Assessed the competence, objectivity and independence of the Management's expert involved in the IFRS transition process. - Evaluated the key decision made by the Company with respect to accounting policies, estimates and judgement in relation to the transition to the IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Company's business and its operations. - Tested the adjustments made as part of the transition process based on the differences identified. - Evaluated the adequacy and appropriateness of disclosures made in the financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.
Valuation of employees defined benefit liabilities	
The valuation of employee defined benefit liabilities requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of defined benefit plan obligations. Refer to material accounting policy information in note X for policy of employees defined benefit liabilities, and note XX for more detail of employees defined benefit liabilities.	We have performed the following procedures to address this matter: - Involved internal experts to assist in the evaluation of the assumptions used in the valuation of the Company's defined benefit pension plan obligations. - Understood the key assumptions used and the process followed to develop those. This included conference calls with the Company's external actuaries. - Compared the assumptions applied to those used in the prior year and understood the basis for any changes. - Independently checked samples of the employees' data provided to the actuaries and matched it with relevant employee personnel files. - Evaluated the independence and qualification of management's external actuaries involved in the valuation process. - Assessed the adequacy of the related disclosures.

<table>
<tr><td colspan="2">Valuation of aircraft maintenance obligations</td></tr>
<tr><td>The accounting for maintenance obligations under lease agreements, including the restoration and handback provision, is subject to management assumptions. These assumptions include the number of hours or cycles each engine will have flown at the return date and the cost of performing the required restoration work at that future date.

Refer to material accounting policy information in note X for policy of aircraft maintenance obligations, and note XX for more detail of aircraft maintenance obligations.</td><td>We have performed the following procedures to address this matter:

- Obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease.

- Confirmed there were no changes in lease or maintenance agreements during the year which would impact the aircraft restoration and handback provisions.

- Assessed management's assumptions as to the forecast usage of each asset at the return date through an analysis of historical flight data and current engine conditions. We corroborated the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices.

- For maintenance under power by the hour contracts, confirmed that the expense was recognised at the contractual flying hour rates and checked the actual flying hours in Company's operating system to confirm the completeness of the accruals for un-invoiced maintenance work.</td></tr>
<tr><td colspan="2">Adoption of IFRS 9</td></tr>
<tr><td>The international Accounting Standards Board (IASB) issued IFRS 9 – 'Financial Instruments' which replaces IAS 39 – 'Financial Instruments' in three phases as follows:

Phase 1 – Classification and measurement of financial assets and financial liabilities;

Phase 2 – Impairment methodology; and

Phase 3 – Hedge accounting.

Effective January 1, 20X8 the Company has adopted IFRS 9. As permitted by this standard, the requirements have been applied retrospectively without restating comparatives and adjusting the transition effects to the opening retained earnings as at January 1, 20X8.

The reconciliation between previously reported carrying amounts of financial instruments under IAS 39 and new carrying amounts of financial instruments under IFRS 9 has been presented under note XX to the financial statements and the material</td><td>With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following:

- Read the Company's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;

- Obtained an understanding and checked the Company's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI test) performed by the Company's consultant; and

- Ensured the appropriateness of the opening balance adjustments.

With respect to impairment methodology, our audit procedures comprised the following:

- Read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;

- Obtained an understanding of the Company's internal rating models for the financial assets and checked the report of</td></tr>
</table>

accounting policy information related to financial instruments are included in note X. This was considered as key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the loss allowance. Key judgement areas included are as follows: • The interpretation of the requirements to determine impairment under IFRS 9, which is reflected in the Company's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as financial condition of the counterparty, expected future cash flows & forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices, etc.) • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Company's consultant on these models to gain comfort that the discrimination and collaboration of the rating model is appropriate. Further, we also performed the procedures to ensure the competence, objectivity and independence of the Company's consultant; - Checked the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; - For a sample of exposures, checked the appropriateness of the Company's staging and exposure at default; - Checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Company to determine the impairment provisions; - For forward looking assumptions used by the Company's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; - Involved internal experts to assist in the evaluation of the assumptions used in the Company's impairment model including assessments of appropriate Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations; - Where relevant, used information systems specialists to gain comfort on data integrity; and - Ensured the appropriateness of the opening balance adjustments. With respect to hedge accounting, our audit procedures comprised the following: - Read the Company's IFRS 9 based hedge accounting policy and compared it with the requirements of IFRS 9; and - Ensured the appropriateness of the opening balance adjustments. We have also assessed the financial statements disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the standard.

Other Information[4]

Other information consists of the information included in the Company's 20X8 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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 identified above 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 Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[6], 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.

---

4. Only applicable if other information e.g. 'annual report by management', is provided to the stake holders along with financial statements or published by the Company together with the financial statements.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
6. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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, actions taken to eliminate threats or safeguards applied.

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.

[7] Report on Other Legal and Regulatory Requirements

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

---

7. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

Illustration – 4: Unmodified opinion on consolidated financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[2].

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 20X8, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

[3]**Key Audit Matters**

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

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
3. Key audit matters (KAMs) are different from entity to entity and industry to industry and are selected from the matters communicated with those charged with governance on the basis of having most significance in the audit of consolidated financial statements of the current period. The assessment of key audit matters, needs critical professional judgement from auditors. The examples given in the table are only for illustration purposes and not needed to be replicated in the auditor's report. The auditor needs to assess KAMs as per the requirements of ISA 701 that is endorsed in the Kingdom of Saudi Arabia and specific to the Group's circumstances.

Key Audit Matters	How our audit addressed the key audit matter
Impairment assessment: Goodwill and Intangible assets with indefinite useful lives	
The impairment assessment for goodwill and intangible assets with indefinite useful lives is considered as a key audit matter due to size of the balance (goodwill: SR XXX, Intangible assets: SR XXX) and the significant judgements involved by management. The main assumption relates to the future cash flows of the underlying businesses as well as the discount rates applied to derive the associated net present values. Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment. Refer to material accounting policy information in note X for goodwill and intangible assets impairment policy, and note XX for more details on goodwill and intangible assets.	We have obtained all impairment tests provided by management and performed following tests: - We ensured that the recoverable amount calculations are based on the latest business plans. Management follows a clearly documented process for estimating future cash flows covers the years 20X9 to 20XX. The 5-year business plan used to determine the recoverable amount is approved by the Board of Directors. - We have assessed the reasonableness of the business plan by comparing the implicit growth rates to the market and analyst forecasts. - We have further compared the current year actual results with the forecast figures included in the prior year impairment tests. - We assessed the extent to which management has reflected the result from the comparison of budgeted versus actual numbers in its current assessment and adjusted the actual revenue growth rates and operating margins in this year’s model. - We have compared the model inputs, such as the weighted average cost of capital, the long-term growth rate and other assumptions with observable market data. - We reperformed through sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that would be required for the goodwill to be impaired.

Revenue Recognition	
Revenue from main areas of activity (construction projects, general contracting projects and real estate projects) is recognized on the basis of percentage of completion (POC). We have considered this as a key audit matter as application of accounting standards for revenue recognition on percentage of completion basis involves significant scope for judgement by Management, which have material impact on the consolidated financial statements. Refer to material accounting policy information in note X for revenue recognition policy, and note XX for more detail of revenue.	Our audit focused on revenue recognition and, as part of this, due to the complexity of the projects, on the use of POC method. We have checked the logic and the systematic application of this approach to project valuations and revenue recognition and performed a critical assessment of the process. Our opinion is based on the following audit procedures: - We reviewed the internal reporting to Management and the Board of Directors. - We tabled questions at the Project Review Meetings. - We discussed selected projects with Management and the Audit Committee. - We tested the related key controls. The test of controls is the basis for the examination of the revenue projects. - During the audit we examined in depth numerous projects. We made a risk-based selection of projects for our samples by applying criteria that we defined, including: o The amount of the contribution margin in the financial year. o The amount of revenue in the financial year. o Change in the contribution margin compared to the prior year. o Material project related accruals. o The size of the projects. o Projects attracting particular attention from Management.

First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia	
For all periods up to and including the year ended December 31, 20X7, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. The Group prepared its first annual consolidated financial statements for the year ended December 31, 20X8 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing these consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 20X7, which is the Group's date of transition to IFRS. We have considered this transition process as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of management and disclosure. Refer to material accounting policy information in note X showing the basis of preparation under first time adoption of IFRS, and note XX for the transition adjustments and other details in connection with the transition to IFRS.	We have performed the following procedures to address this matter: - Obtained an understanding of the transition differences identified by the management between the generally accepted accounting standards in the Kingdom of Saudi Arabia and IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness. - Assessed the competence, objectivity and independence of the Management's expert involved in the IFRS transition process. - Evaluated the key decision made by the Management with respect to accounting policies, estimates and judgement in relation to the transition to the IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations. - Tested the adjustments made as part of the transition process based on the differences identified. - Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.
Valuation of employees defined benefit liabilities	
The valuation of employee defined benefit liabilities requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of defined benefit plan obligations. Refer to material accounting policy information in note X for policy of employees defined benefit liabilities, and note XX for more detail of employees defined benefit liabilities.	We have performed the following procedures to address this matter: - Involved internal experts to assist in the evaluation of the assumptions used in the valuation of the Group's defined benefit pension plan obligations. - Understood the key assumptions used and the process followed to develop those. This included conference calls with the Group's external actuaries. - Compared the assumptions applied to those used in the prior year and understood the basis for any changes. - Independently checked samples of the employees' data provided to the actuaries and matched it with relevant employee personnel files. - Evaluated the independence and qualification of management's external actuaries involved in the valuation process. - Assessed the adequacy of the related disclosures.

Valuation of aircraft maintenance obligations	
The accounting for maintenance obligations under lease agreements, including the restoration and handback provision, is subject to management assumptions. These assumptions include the number of hours or cycles each engine will have flown at the return date and the cost of performing the required restoration work at that future date. Refer to material accounting policy information in note X for policy of aircraft maintenance obligations, and note XX for more detail of aircraft maintenance obligations.	We have performed the following procedures to address this matter: - Obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease. - Confirmed there were no changes in lease or maintenance agreements during the year which would impact the aircraft restoration and handback provisions. - Assessed management's assumptions as to the forecast usage of each asset at the return date through an analysis of historical flight data and current engine conditions. We corroborated the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices. - For maintenance under power by the hour contracts, confirmed that the expense was recognised at the contractual flying hour rates and checked the actual flying hours in Group's operating system to confirm the completeness of the accruals for un-invoiced maintenance work.
Adoption of IFRS 9	
The international Accounting Standards Board (IASB) issued IFRS 9 – 'Financial Instruments' which replaces IAS 39 – 'Financial Instruments' in three phases as follows: Phase 1 – Classification and measurement of financial assets and financial liabilities; Phase 2 – Impairment methodology; and Phase 3 – Hedge accounting. Effective January 1, 20X8 the Group has adopted IFRS 9. As permitted by this standard, the requirements have been applied retrospectively without restating comparatives and adjusting the transition effects to the opening retained earnings as at January 1, 20X8. The reconciliation between previously reported carrying amounts of financial instruments under IAS 39 and new carrying amounts of financial instruments under IFRS 9 has been presented under note XX to the consolidated financial	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: - Read the Group's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9; - Obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI test) performed by the Group's consultant; and - Ensured the appropriateness of the opening balance adjustments. With respect to impairment methodology, our audit procedures comprised the following: - Read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; - Obtained an understanding of the Group's internal rating models for the financial assets and checked the report of

statements and the material accounting policy information related to financial instruments are included in note X. This was considered as key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the loss allowance. Key judgement areas included are as follows: • The interpretation of the requirements to determine impairment under IFRS 9, which is reflected in the Group's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as financial condition of the counterparty, expected future cash flows & forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices, etc.) • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Group's consultant on these models to gain comfort that the discrimination and collaboration of the rating model is appropriate. Further, we also performed the procedures to ensure the competence, objectivity and independence of the Group's consultant; - Checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; - For a sample of exposures, checked the appropriateness of the Group's staging and exposure at default; - Checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Group to determine the impairment provisions; - For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; - Involved internal experts to assist in the evaluation of the assumptions used in the Group's impairment model including assessments of appropriate Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations; - Where relevant, used information systems specialists to gain comfort on data integrity; and - Ensured the appropriateness of the opening balance adjustments. With respect to hedge accounting, our audit procedures comprised the following: - Read the Group's IFRS 9 based hedge accounting policy and compared it with the requirements of IFRS 9; and - Ensured the appropriateness of the opening balance adjustments. We have also assessed the financial statements disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the standard.

Other Information[4]
Other information consists of the information included in the Group's 20X8 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[6], are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentations, or the override of internal control.

---

4. Only applicable if other information e.g. 'annual report by management', is provided to the stake holders along with the consolidated financial statements or published by the Group together with the consolidated financial statements.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
6. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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 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 auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

[7] Report on Other Legal and Regulatory Requirements

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

7. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

Illustration – 5: Qualified opinion on standalone financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[3].

In our opinion, except for the effects of the matter[2] described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at XX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards[3]. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of XX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by XX, and income tax, net income and shareholders' equity would have been reduced by XX, XX and XX, respectively.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. In case any qualification relates to audit scope limitation, then use *'except for the possible effects of the matter(s)'*.
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

[4]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 International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[6], 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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.

---

4. If other information e.g. annual report by management, is provided to the stake holders along with financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
6. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

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.

[7]Report on Other Legal and Regulatory Requirements
Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

7. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 6: Qualified opinion on consolidated financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[3].

In our opinion, except for the possible effects of the matters[2] described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 20X8, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Qualified Opinion

1. The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at XX on the consolidated statement of financial position as at December 31, 20X8, and ABC's share of XYZ's net income of XX is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X8 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.
2. The Group's inventories are carried in the consolidated statement of financial position at XX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The Group's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of XX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by XX, and income tax, net income and shareholders' equity would have been reduced by XX, XX and XX, respectively.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. These terms are used when any one of the qualifications relates to audit scope limitation, if the qualifications only relates to material misstatement where the misstatement amounts are quantified in the qualification paragraph, then should say *'except for the effects of the matter(s)'*
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

[4]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 International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[6], are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

4. If other information e.g. annual report by management, is provided to the stake holders along with consolidated financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the consolidated financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
6. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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.

[7]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

7. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 7: Qualified opinion on standalone financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[3].

In our opinion, except for the effects of the matter[2] described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Qualified Opinion

The Company's inventories are carried in the statement of financial position at XX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards[3]. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of XX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by XX, and income tax, net income and shareholders' equity would have been reduced by XX, XX and XX, respectively.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. In case any qualification relates to audit scope limitation, then use *'except for the possible effects of the matter(s)'*.
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

[4]Other Information

Other information consists of the information included in the Company's 20X8 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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 identified above 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. As described in the *Basis for Qualified Opinion* section above, management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which also results in the other information being materially misstated with respect to this matter.

[5]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 for 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. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

4. Only applicable if other information e.g. 'annual report by management', is provided to the stake holders along with financial statements or published by the Company together with the financial statements.
5. Key audit matters (KAMs) are different from entity to entity and industry to industry and are selected from the matters communicated with those charged with governance on the basis of having most significance in the audit of financial statements of the current period. The assessment of key audit matters, needs critical professional judgement from auditors. The examples given in the table are only for illustration purposes and not needed to be replicated in the auditor's report. The auditor needs to assess KAMs as per the requirements of ISA 701 that is endorsed in the Kingdom of Saudi Arabia and specific to the Company's circumstances.

Key Audit Matters	How our audit addressed the key audit matter
Revenue Recognition	
Revenue from main areas of activity (construction projects, general contracting projects and real estate projects) is recognized on the basis of percentage of completion (POC). We have considered this as a key audit matter as application of accounting standards for revenue recognition on percentage of completion basis involves significant scope for judgement by Management, which have material impact on the financial statements. Refer to material accounting policy information in note X for revenue recognition policy, and note XX for more detail of revenue.	Our audit focused on revenue recognition and, as part of this, due to the complexity of the projects, on the use of POC method. We have checked the logic and the systematic application of this approach to project valuations and revenue recognition and performed a critical assessment of the process. Our opinion is based on the following audit procedures: - We reviewed the internal reporting to Management and the Board of Directors. - We tabled questions at the Project Review Meetings. - We discussed selected projects with Management and the Audit Committee. - We tested the related key controls. The test of controls is the basis for the examination of the revenue projects. - During the audit we examined in depth numerous projects. We made a risk-based selection of projects for our samples by applying criteria that we defined, including: o The amount of the contribution margin in the financial year. o The amount of revenue in the financial year. o Change in the contribution margin compared to the prior year. o Material project related accruals. o The size of the projects. o Projects attracting particular attention from Management.

First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia	
For all periods up to and including the year ended December 31, 20X7, the Company prepared its financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. The Company prepared its first annual financial statements for the year ended December 31, 20X8 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing these financial statements, the Company's opening statement of financial position was prepared as of January 1, 20X7, which is the Company's date of transition to IFRS. We have considered this transition process as a key audit matter due to its pervasive impact on the financial statements in terms of management and disclosure. Refer to material accounting policy information in note X showing the basis of preparation under first time adoption of IFRS, and note XX for the transition adjustments and other details in connection with the transition to IFRS.	We have performed the following procedures to address this matter: - Obtained an understanding of the transition differences identified by the management between the generally accepted accounting standards in the Kingdom of Saudi Arabia and IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness. - Assessed the competence, objectivity and independence of the Management's expert involved in the IFRS transition process. - Evaluated the key decision made by the Company with respect to accounting policies, estimates and judgement in relation to the transition to the IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Company's business and its operations. - Tested the adjustments made as part of the transition process based on the differences identified. - Evaluated the adequacy and appropriateness of disclosures made in the financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.
Valuation of employees defined benefit liabilities	
The valuation of employee defined benefit liabilities requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of defined benefit plan obligations. Refer to material accounting policy information in note X for policy of employees defined benefit liabilities, and note XX for more detail of employees defined benefit liabilities.	We have performed the following procedures to address this matter: - Involved internal experts to assist in the evaluation of the assumptions used in the valuation of the Company's defined benefit pension plan obligations. - Understood the key assumptions used and the process followed to develop those. This included conference calls with the Company's external actuaries. - Compared the assumptions applied to those used in the prior year and understood the basis for any changes. - Independently checked samples of the employees' data provided to the actuaries and matched it with relevant employee personnel files. - Evaluated the independence and qualification of management's external actuaries involved in the valuation process. - Assessed the adequacy of the related disclosures.

Valuation of aircraft maintenance obligations	
The accounting for maintenance obligations under lease agreements, including the restoration and handback provision, is subject to management assumptions. These assumptions include the number of hours or cycles each engine will have flown at the return date and the cost of performing the required restoration work at that future date. Refer to material accounting policy information in note X for policy of aircraft maintenance obligations, and note XX for more detail of aircraft maintenance obligations.	We have performed the following procedures to address this matter: - Obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease. - Confirmed there were no changes in lease or maintenance agreements during the year which would impact the aircraft restoration and handback provisions. - Assessed management's assumptions as to the forecast usage of each asset at the return date through an analysis of historical flight data and current engine conditions. We corroborated the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices. - For maintenance under power by the hour contracts, confirmed that the expense was recognised at the contractual flying hour rates and checked the actual flying hours in Company's operating system to confirm the completeness of the accruals for un-invoiced maintenance work.
Adoption of IFRS 9	
The international Accounting Standards Board (IASB) issued IFRS 9 – 'Financial Instruments' which replaces IAS 39 – 'Financial Instruments' in three phases as follows: Phase 1 – Classification and measurement of financial assets and financial liabilities; Phase 2 – Impairment methodology; and Phase 3 – Hedge accounting. Effective January 1, 20X8 the Company has adopted IFRS 9. As permitted by this standard, the requirements have been applied retrospectively without restating comparatives and adjusting the transition effects to the opening retained earnings as at January 1, 20X8. The reconciliation between previously reported carrying amounts of financial instruments under IAS 39 and new carrying amounts of financial instruments under IFRS 9 has been presented under note XX to the financial statements and the	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: - Read the Company's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9; - Obtained an understanding and checked the Company's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI test) performed by the Company's consultant; and - Ensured the appropriateness of the opening balance adjustments. With respect to impairment methodology, our audit procedures comprised the following: - Read the Company's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; - Obtained an understanding of the Company's internal rating models for the financial assets and checked the report of

material accounting policy information related to financial instruments are included in note X. This was considered as key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the loss allowance. Key judgement areas included are as follows: • The interpretation of the requirements to determine impairment under IFRS 9, which is reflected in the Company's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as financial condition of the counterparty, expected future cash flows & forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices, etc.) • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Company's consultant on these models to gain comfort that the discrimination and collaboration of the rating model is appropriate. Further, we also performed the procedures to ensure the competence, objectivity and independence of the Company's consultant; - Checked the appropriateness of the Company's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; - For a sample of exposures, checked the appropriateness of the Company's staging and exposure at default; - Checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Company to determine the impairment provisions; - For forward looking assumptions used by the Company's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; - Involved internal experts to assist in the evaluation of the assumptions used in the Company's impairment model including assessments of appropriate Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations; - Where relevant, used information systems specialists to gain comfort on data integrity; and - Ensured the appropriateness of the opening balance adjustments. With respect to hedge accounting, our audit procedures comprised the following: - Read the Company's IFRS 9 based hedge accounting policy and compared it with the requirements of IFRS 9; and - Ensured the appropriateness of the opening balance adjustments. We have also assessed the financial statements disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the standard.

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 International Financial Reporting Standards[6] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[7], 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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.

---

6. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
7. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

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, actions taken to eliminate threats or safeguards applied.

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.

[8] **Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

8. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 8: Qualified opinion on consolidated financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Consolidated Financial Statements

Qualified Opinion

We have audited the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[3].

In our opinion, except for the possible effects of the matters[2] described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 20X8, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Qualified Opinion

1. The Group's investment in XYZ Company, a foreign associate acquired during the year and accounted for by the equity method, is carried at XX on the consolidated statement of financial position as at December 31, 20X8, and ABC's share of XYZ's net income of XX is included in ABC's income for the year then ended. We were unable to obtain sufficient appropriate audit evidence about the carrying amount of ABC's investment in XYZ as at December 31, 20X8 and ABC's share of XYZ's net income for the year because we were denied access to the financial information, management, and the auditors of XYZ. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

2. The Group's inventories are carried in the consolidated statement of financial position at XX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The Group's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of XX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by XX, and income tax, net income and shareholders' equity would have been reduced by XX, XX and XX, respectively.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. These terms are used when any one of the qualifications relates to audit scope limitation, if the qualifications only relates to material misstatement where the misstatement amounts are quantified in the qualification paragraph, then should say *'except for the effects of the matter(s)'*
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

[4]Other Information

Other information consists of the information included in the Group’s 20X8 annual report, other than the consolidated financial statements and our auditor’s report thereon. Management is responsible for the other information in its annual report.

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 consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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. As described in paragraph number 1 of the *Basis for Qualified Opinion* section above, we were unable to obtain sufficient appropriate evidence about the carrying amount of ABC’s investment in XYZ as at December 31, 20X8 and ABC’s share of XYZ’s net income for the year. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter. Further, as described below, we have concluded that such a material misstatement of the other information exists:

1. As described in paragraph number 2 of the *Basis for Qualified Opinion* section above, management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which also results in the other information being materially misstated with respect to this matter.

2. The reasoning provided in the Group’s 20X8 annual report with respect to decrease in profitability doesn’t corroborate to the knowledge obtained in the audit.

3. The expected growth rate used in the Group’s 20X8 annual report with respect to forecasted revenues presented for the next 3 years, seems highly aggressive compared to the expected growth rates in market and considering the currently available resources for the company based on our knowledge obtained in the audit.

[5]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 for 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. In addition to the matters described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

---

4. Only applicable if other information e.g. ‘annual report by management’, is provided to the stake holders along with financial statements or published by the Company together with the financial statements.
5. Key audit matters (KAMs) are different from entity to entity and industry to industry and are selected from the matters communicated with those charged with governance on the basis of having most significance in the audit of financial statements of the current period. The assessment of key audit matters, needs critical professional judgement from auditors. The examples given in the table are only for illustration purposes and not needed to be replicated in the auditor’s report. The auditor needs to assess KAMs as per the requirements of ISA 701 that is endorsed in the Kingdom of Saudi Arabia and specific to the Company’s circumstances.

<table>
<tr><th>Key Audit Matters</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td colspan="2">Impairment assessment: Goodwill and Intangible assets with indefinite useful lives</td></tr>
<tr><td>The impairment assessment for goodwill and intangible assets with indefinite useful lives is considered as a key audit matter due to size of the balance (goodwill: SR XXX, Intangible assets: SR XXX) and the significant judgements involved by management. The main assumption relates to the future cash flows of the underlying businesses as well as the discount rates applied to derive the associated net present values.

Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment.

Refer to material accounting policy information in note X for goodwill and intangible assets impairment policy, and note XX for more details on goodwill and intangible assets.</td><td>We have obtained all impairment tests provided by management and performed following tests:

- We ensured that the recoverable amount calculations are based on the latest business plans. Management follows a clearly documented process for estimating future cash flows covers the years 20X9 to 20XX. The 5-year business plan used to determine the recoverable amount is approved by the Board of Directors.

- We have assessed the reasonableness of the business plan by comparing the implicit growth rates to the market and analyst forecasts.

- We have further compared the current year actual results with the forecast figures included in the prior year impairment tests.

- We assessed the extent to which management has reflected the result from the comparison of budgeted versus actual numbers in its current assessment and adjusted the actual revenue growth rates and operating margins in this year's model.

- We have compared the model inputs, such as the weighted average cost of capital, the long-term growth rate and other assumptions with observable market data.

- We reperformed through sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that would be required for the goodwill to be impaired.</td></tr>
</table>

Revenue Recognition	
Revenue from main areas of activity (construction projects, general contracting projects and real estate projects) is recognized on the basis of percentage of completion (POC). We have considered this as a key audit matter as application of accounting standards for revenue recognition on percentage of completion basis involves significant scope for judgement by Management, which have material impact on the consolidated financial statements. Refer to material accounting policy information in note X for revenue recognition policy, and note XX for more detail of revenue.	Our audit focused on revenue recognition and, as part of this, due to the complexity of the projects, on the use of POC method. We have checked the logic and the systematic application of this approach to project valuations and revenue recognition and performed a critical assessment of the process. Our opinion is based on the following audit procedures: - We reviewed the internal reporting to Management and the Board of Directors. - We tabled questions at the Project Review Meetings. - We discussed selected projects with Management and the Audit Committee. - We tested the related key controls. The test of controls is the basis for the examination of the revenue projects. - During the audit we examined in depth numerous projects. We made a risk-based selection of projects for our samples by applying criteria that we defined, including: o The amount of the contribution margin in the financial year. o The amount of revenue in the financial year. o Change in the contribution margin compared to the prior year. o Material project related accruals. o The size of the projects. o Projects attracting particular attention from Management.

<table>
<tr><td colspan="2">First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia</td></tr>
<tr><td>For all periods up to and including the year ended December 31, 20X7, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. The Group prepared its first annual consolidated financial statements for the year ended December 31, 20X8 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing these consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 20X7, which is the Group's date of transition to IFRS.

We have considered this transition process as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of management and disclosure.

Refer to material accounting policy information in note X showing the basis of preparation under first time adoption of IFRS, and note XX for the transition adjustments and other details in connection with the transition to IFRS.</td><td>We have performed the following procedures to address this matter:

- Obtained an understanding of the transition differences identified by the management between the generally accepted accounting standards in the Kingdom of Saudi Arabia and IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness.

- Assessed the competence, objectivity and independence of the Management's expert involved in the IFRS transition process.

- Evaluated the key decision made by the Management with respect to accounting policies, estimates and judgement in relation to the transition to the IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations.

- Tested the adjustments made as part of the transition process based on the differences identified.

- Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.</td></tr>
<tr><td colspan="2"><u>Valuation of employees defined benefit liabilities</u></td></tr>
<tr><td>The valuation of employee defined benefit liabilities requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of defined benefit plan obligations.

Refer to material accounting policy information in note X for policy of employees defined benefit liabilities, and note XX for more detail of employees defined benefit liabilities.</td><td>We have performed the following procedures to address this matter:

- Involved internal experts to assist in the evaluation of the assumptions used in the valuation of the Group's defined benefit pension plan obligations.

- Understood the key assumptions used and the process followed to develop those. This included conference calls with the Group's external actuaries.

- Compared the assumptions applied to those used in the prior year and understood the basis for any changes.

- Independently checked samples of the employees' data provided to the actuaries and matched it with relevant employee personnel files.

- Evaluated the independence and qualification of management's external actuaries involved in the valuation process.

- Assessed the adequacy of the related disclosures.</td></tr>
</table>

Valuation of aircraft maintenance obligations	
The accounting for maintenance obligations under lease agreements, including the restoration and handback provision, is subject to management assumptions. These assumptions include the number of hours or cycles each engine will have flown at the return date and the cost of performing the required restoration work at that future date. Refer to material accounting policy information in note X for policy of aircraft maintenance obligations, and note XX for more detail of aircraft maintenance obligations.	We have performed the following procedures to address this matter: - Obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease. - Confirmed there were no changes in lease or maintenance agreements during the year which would impact the aircraft restoration and handback provisions. - Assessed management's assumptions as to the forecast usage of each asset at the return date through an analysis of historical flight data and current engine conditions. We corroborated the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices. - For maintenance under power by the hour contracts, confirmed that the expense was recognised at the contractual flying hour rates and checked the actual flying hours in Group's operating system to confirm the completeness of the accruals for un-invoiced maintenance work.
Adoption of IFRS 9	
The international Accounting Standards Board (IASB) issued IFRS 9 – 'Financial Instruments' which replaces IAS 39 – 'Financial Instruments' in three phases as follows: Phase 1 – Classification and measurement of financial assets and financial liabilities; Phase 2 – Impairment methodology; and Phase 3 – Hedge accounting. Effective January 1, 20X8 the Group has adopted IFRS 9. As permitted by this standard, the requirements have been applied retrospectively without restating comparatives and adjusting the transition effects to the opening retained earnings as at January 1, 20X8. The reconciliation between previously reported carrying amounts of financial instruments under IAS 39 and new carrying amounts of financial instruments under IFRS 9 has been presented under note XX to the consolidated financial	With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following: - Read the Group's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9; - Obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI test) performed by the Group's consultant; and - Ensured the appropriateness of the opening balance adjustments. With respect to impairment methodology, our audit procedures comprised the following: - Read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9; - Obtained an understanding of the Group's internal rating models for the financial assets and checked the report of

statements and the material accounting policy information related to financial instruments are included in note X. This was considered as key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the loss allowance. Key judgement areas included are as follows: • The interpretation of the requirements to determine impairment under IFRS 9, which is reflected in the Group's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as financial condition of the counterparty, expected future cash flows & forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices, etc.) • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	Group's consultant on these models to gain comfort that the discrimination and collaboration of the rating model is appropriate. Further, we also performed the procedures to ensure the competence, objectivity and independence of the Group's consultant; - Checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; - For a sample of exposures, checked the appropriateness of the Group's staging and exposure at default; - Checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Group to determine the impairment provisions; - For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; - Involved internal experts to assist in the evaluation of the assumptions used in the Group's impairment model including assessments of appropriate Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations; - Where relevant, used information systems specialists to gain comfort on data integrity; and - Ensured the appropriateness of the opening balance adjustments. With respect to hedge accounting, our audit procedures comprised the following: - Read the Group's IFRS 9 based hedge accounting policy and compared it with the requirements of IFRS 9; and - Ensured the appropriateness of the opening balance adjustments. We have also assessed the financial statements disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the standard.

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 International Financial Reporting Standards[6] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[7], are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

---

6. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
7. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

[8] **Report on Other Legal and Regulatory Requirements**
Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

8. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Qualified Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 9: Adverse opinion on standalone financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[2].

In our opinion, because of the significance of the matters discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Adverse Opinion

1. Included in accounts receivable shown on the statement of financial position is an amount of XX due from XYZ Company, a company that has ceased operations and represents --% of the total accounts receivable balance as at December 31, 20X8. The Company has no security for this debt. On the basis that no security has been obtained and no cash has been received during the financial year and as of the date of the audit report, in our opinion the Company should make a full provision of the customer's outstanding balance as of December 31, 20X8. Had the Company correctly recorded the provision for the doubtful receivables, the accounts receivable balance as at December 31, 20X8 would have been reduced by XX and the retained earnings and the net profit for the year would have been reduced by the same amount.

2. As disclosed in Note X to the financial statements, no depreciation has been provided in the financial statements on the property, plant and equipment, which constitutes a departure from International Financial Reporting Standards. The charge for depreciation for the year ended December 31, 20X8 should be XX based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the property, plant and equipment would have been reduced by accumulated depreciation of XX and the profit for the year and retained earnings would have been reduced by XX and XX respectively.

3. The Company's inventories are carried in the statement of financial position at XX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of XX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by XX, and income tax, net income and shareholders' equity would have been reduced by XX, XX and XX, respectively.

4. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia. Further, we were neither provided with the loan agreement nor the loan confirmation for this amount and we were also unable to satisfy ourselves by any alternative means with respect to this balance. Accordingly, we are unable to obtain sufficient appropriate audit evidence for this balance due from a board member.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

[3]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 International Financial Reporting Standards[4] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[5], 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

3. If other information e.g. annual report by management, is provided to the stake holders along with financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.
4. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
5. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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.

[6]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, in addition to non-compliance that had a material impact on the financial statements and resulted in modification of our opinion as described in paragraph 4 of the *Basis for Adverse Opinion* section of our report, we have noted following non-compliance of the Company Law, having no material impact on the financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

6. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Adverse Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 10: Adverse opinion on standalone FS of non-listed entity due to Going Concern

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Financial Statements

Adverse Opinion
We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[2].

In our opinion, because of the omission of the information mentioned in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Adverse Opinion
The Company incurred a net loss of XX during the year ended December 31, 20X8 and its accumulated losses exceeded the share capital of the Company by XX as of that date and the Company's current liabilities exceeded its total assets by XX. Further, the Company's financing arrangements expired and the amount outstanding was payable on December 31, 20X8. The Company has been unable to conclude re-negotiations or obtain replacement financing and the shareholders have not met to decide whether to continue the operations of the Company through their support or dissolve the company, as required by Article 182 of the Companies Law in the Kingdom of Saudi Arabia. This situation indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. The financial statements do not adequately disclose this fact.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

[3]**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 International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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.

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
3. If other information e.g. annual report by management, is provided to the stake holders along with financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.

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, i.e. the Board of Directors[4], 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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.

4. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

[5]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, in addition to non-compliance that had a material impact on the financial statements and resulted in modification of our opinion as described in *Basis for Adverse Opinion* section of our report, we have noted following non-compliance of the Company Law, having no material impact on the financial statements:

1. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

5. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Adverse Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 11: Adverse opinion on consolidated financial statements of non-listed entity

INDEPENDENT AUDITOR’S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Consolidated Financial Statements

Adverse Opinion
We have audited the consolidated financial statements of ABC Company (“the Company”) and its subsidiaries (together “the Group”), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[2].

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not present fairly, the consolidated financial position of the Group as at December 31, 20X8, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (“SOCPA”).

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X8 because it has not yet been able to determine the fair values of certain of the subsidiary’s material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *‘consolidated statement of profit or loss, consolidated statement of comprehensive income’*.
2. Put name of the appropriate frame work e.g. *‘International Financial Reporting Standards for Small and Medium-sized Entities’*. Where framework used other than IFRS than instead of *‘material accounting policy information’* use *‘a summary of significant accounting policies’*.

[3]**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 International Financial Reporting Standards[4] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[5], are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

---

3. If other information e.g. annual report by management, is provided to the stake holders along with consolidated financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the consolidated financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format for listed entities'.
4. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
5. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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.

[6]**Report on Other Legal and Regulatory Requirements**
Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

6. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Adverse Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 12: Adverse opinion on standalone financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[2].

In our opinion, because of the significance of the matters discussed in the *Basis for Adverse Opinion* section of our report, the accompanying financial statements do not present fairly, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Adverse Opinion

1. Included in accounts receivable shown on the statement of financial position is an amount of XX due from XYZ Company, a company that has ceased operations and represents --% of the total accounts receivable balance as at December 31, 20X8. The Company has no security for this debt. On the basis that no security has been obtained and no cash has been received during the financial year and as of the date of the audit report, in our opinion the Company should make a full provision of the customer's outstanding balance as of December 31, 20X8. Had the Company correctly recorded the provision for the doubtful receivables, the accounts receivable balance as at December 31, 20X8 would have been reduced by XX and the retained earnings and the net profit for the year would have been reduced by the same amount.

2. As disclosed in Note X to the financial statements, no depreciation has been provided in the financial statements on the property, plant and equipment, which constitutes a departure from International Financial Reporting Standards. The charge for depreciation for the year ended December 31, 20X8 should be XX based on the straight-line method of depreciation using annual rates of 5% for the building and 20% for the equipment. Accordingly, the property, plant and equipment would have been reduced by accumulated depreciation of XX and the profit for the year and retained earnings would have been reduced by XX and XX respectively.

3. The Company's inventories are carried in the statement of financial position at XX. Management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost, which constitutes a departure from International Financial Reporting Standards. The Company's records indicate that, had management stated the inventories at the lower of cost and net realizable value, an amount of XX would have been required to write the inventories down to their net realizable value. Accordingly, cost of sales would have been increased by XX, and income tax, net income and shareholders' equity would have been reduced by XX, XX and XX, respectively.

4. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia. Further, we were neither provided with the loan agreement nor the loan confirmation for this amount and we were also unable to satisfy ourselves by any alternative means with respect to this balance. Accordingly, we are unable to obtain sufficient appropriate audit evidence for this balance due from a board member.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. 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 Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

[3]Other Information

Other information consists of the information included in the Company's 20X8 annual report, other than the financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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 identified above 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. As described in the *Basis for Adverse Opinion* section above, management has not recognized depreciation on its property, plant and equipment and also underprovided the provision for doubtful receivables. In addition, management has not stated the inventories at the lower of cost and net realizable value but has stated them solely at cost. These items also result in the other information being materially misstated.

[4]Key Audit Matters

Except for the matters described in the *Basis for Adverse Opinion* section, we have determined that there are no other key audit matters to communicate in our report.

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 International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[6], are responsible for overseeing the Company's financial reporting process.

---

3. Only applicable if other information e.g. 'annual report by management', is provided to the stake holders along with financial statements or published by the Company together with the financial statements.
4. Key audit matters (KAMs) are different from entity to entity and industry to industry and are selected from the matters communicated with those charged with governance on the basis of having most significance in the audit of financial statements of the current period. The assessment of key audit matters, needs critical professional judgement from auditors. For illustrative examples of key audit matters refer to 'audit report format for consolidated financial statements of listed entities'.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
6. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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, actions taken to eliminate threats or safeguards applied.

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.

[7] **Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, except for the non-compliance that had a material impact on the financial statements and resulted in modification of our opinion as described in paragraph 4 of the *Basis for Adverse Opinion* section of our report, we have not noted other non-compliances of the terms of the Company Law or the terms of the Articles of Association of the Company.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

7. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Adverse Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter.

Illustration – 13: Adverse opinion on consolidated financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Consolidated Financial Statements

Adverse Opinion

We have audited the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[2].

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying consolidated financial statements do not present fairly, the consolidated financial position of the Group as at December 31, 20X8, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Basis for Adverse Opinion

As explained in Note X, the Group has not consolidated subsidiary XYZ Company that the Group acquired during 20X8 because it has not yet been able to determine the fair values of certain of the subsidiary's material assets and liabilities at the acquisition date. This investment is therefore accounted for on a cost basis. Under International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia, the Company should have consolidated this subsidiary and accounted for the acquisition based on provisional amounts. Had XYZ Company been consolidated, many elements in the accompanying consolidated financial statements would have been materially affected. The effects on the consolidated financial statements of the failure to consolidate have not been determined.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

[3]**Other Information**

Other information consists of the information included in the Group's 20X8 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information in its annual report.

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

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
3. Only applicable if other information e.g. 'annual report by management', is provided to the stake holders along with financial statements or published by the Company together with the financial statements.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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. As described in the *Basis for Adverse Opinion* section above, the Group should have consolidated XYZ Company and accounted for the acquisition based on provisional amounts. We have concluded that the other information is materially misstated for the same reason with respect to the amounts or other items in the Group's 20X8 annual report affected by the failure to consolidate XYZ Company.

[4]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 for 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. In addition to the matter described in the *Basis for Adverse Opinion* section we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matters	How our audit addressed the key audit matter
Impairment assessment: Goodwill and Intangible assets with indefinite useful lives	
The impairment assessment for goodwill and intangible assets with indefinite useful lives is considered as a key audit matter due to size of the balance (goodwill: SR XXX, Intangible assets: SR XXX) and the significant judgements involved by management. The main assumption relates to the future cash flows of the underlying businesses as well as the discount rates applied to derive the associated net present values. Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment. Refer to material accounting policy information in note X for goodwill and intangible assets impairment policy, and note XX for more details on goodwill and intangible assets.	We have obtained all impairment tests provided by management and performed following tests: - We ensured that the recoverable amount calculations are based on the latest business plans. Management follows a clearly documented process for estimating future cash flows covers the years 20X9 to 20XX. The 5-year business plan used to determine the recoverable amount is approved by the Board of Directors. - We have assessed the reasonableness of the business plan by comparing the implicit growth rates to the market and analyst forecasts. - We have further compared the current year actual results with the forecast figures included in the prior year impairment tests. - We assessed the extent to which management has reflected the result from the comparison of budgeted versus actual numbers in its current assessment and adjusted the actual revenue growth rates and operating margins in this year's model. - We have compared the model inputs, such as the weighted average cost of capital, the long-term growth rate and other assumptions with observable market data. - We reperformed through sensitivity analysis on the key assumptions to ascertain the extent of change in those assumptions that would be required for the goodwill to be impaired.

4. Key audit matters (KAMs) are different from entity to entity and industry to industry and are selected from the matters communicated with those charged with governance on the basis of having most significance in the audit of financial statements of the current period. The assessment of key audit matters, needs critical professional judgement from auditors. The examples given in the table are only for illustration purposes and not needed to be replicated in the auditor's report. The auditor needs to assess KAMs as per the requirements of ISA 701 that is endorsed in the Kingdom of Saudi Arabia and specific to the Company's circumstances.

Revenue Recognition	
Revenue from main areas of activity (construction projects, general contracting projects and real estate projects) is recognized on the basis of percentage of completion (POC). We have considered this as a key audit matter as application of accounting standards for revenue recognition on percentage of completion basis involves significant scope for judgement by Management, which have material impact on the consolidated financial statements. Refer to material accounting policy information in note X for revenue recognition policy, and note XX for more detail of revenue.	Our audit focused on revenue recognition and, as part of this, due to the complexity of the projects, on the use of POC method. We have checked the logic and the systematic application of this approach to project valuations and revenue recognition and performed a critical assessment of the process. Our opinion is based on the following audit procedures: - We reviewed the internal reporting to Management and the Board of Directors. - We tabled questions at the Project Review Meetings. - We discussed selected projects with Management and the Audit Committee. - We tested the related key controls. The test of controls is the basis for the examination of the revenue projects. - During the audit we examined in depth numerous projects. We made a risk-based selection of projects for our samples by applying criteria that we defined, including: o The amount of the contribution margin in the financial year. o The amount of revenue in the financial year. o Change in the contribution margin compared to the prior year. o Material project related accruals. o The size of the projects. o Projects attracting particular attention from Management.

<table>
<tr><td colspan="2">First time adoption of International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia</td></tr>
<tr><td>For all periods up to and including the year ended December 31, 20X7, the Group prepared its consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA. The Group prepared its first annual consolidated financial statements for the year ended December 31, 20X8 in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. In preparing these consolidated financial statements, the Group's opening statement of consolidated financial position was prepared as of January 1, 20X7, which is the Group's date of transition to IFRS.

We have considered this transition process as a key audit matter due to its pervasive impact on the consolidated financial statements in terms of management and disclosure.

Refer to material accounting policy information in note X showing the basis of preparation under first time adoption of IFRS, and note XX for the transition adjustments and other details in connection with the transition to IFRS.</td><td>We have performed the following procedures to address this matter:

- Obtained an understanding of the transition differences identified by the management between the generally accepted accounting standards in the Kingdom of Saudi Arabia and IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed its completeness and appropriateness.

- Assessed the competence, objectivity and independence of the Management's expert involved in the IFRS transition process.

- Evaluated the key decision made by the Management with respect to accounting policies, estimates and judgement in relation to the transition to the IFRS that are endorsed in the Kingdom of Saudi Arabia, and assessed their appropriateness based on our understanding of the Group's business and its operations.

- Tested the adjustments made as part of the transition process based on the differences identified.

- Evaluated the adequacy and appropriateness of disclosures made in the consolidated financial statements in relation to transition to IFRS that are endorsed in the Kingdom of Saudi Arabia.</td></tr>
<tr><td colspan="2">Valuation of employees defined benefit liabilities</td></tr>
<tr><td>The valuation of employee defined benefit liabilities requires significant levels of judgement and technical expertise to select appropriate valuation assumptions. Changes in the key assumptions (discount rate, salary increases, retirement assumptions and demographic assumptions) can have a material impact on the valuation of defined benefit plan obligations.

Refer to material accounting policy information in note X for policy of employees defined benefit liabilities, and note XX for more detail of employees defined benefit liabilities.</td><td>We have performed the following procedures to address this matter:

- Involved internal experts to assist in the evaluation of the assumptions used in the valuation of the Group's defined benefit pension plan obligations.

- Understood the key assumptions used and the process followed to develop those. This included conference calls with the Group's external actuaries.

- Compared the assumptions applied to those used in the prior year and understood the basis for any changes.

- Independently checked samples of the employees' data provided to the actuaries and matched it with relevant employee personnel files.

- Evaluated the independence and qualification of management's external actuaries involved in the valuation process.

- Assessed the adequacy of the related disclosures.</td></tr>
<tr><td colspan="2"></td></tr>
</table>

<table>
<tr><td colspan="2">Valuation of aircraft maintenance obligations</td></tr>
<tr><td>The accounting for maintenance obligations under lease agreements, including the restoration and handback provision, is subject to management assumptions. These assumptions include the number of hours or cycles each engine will have flown at the return date and the cost of performing the required restoration work at that future date.

Refer to material accounting policy information in note X for policy of aircraft maintenance obligations, and note XX for more detail of aircraft maintenance obligations.</td><td>We have performed the following procedures to address this matter:

- Obtained and inspected the engine, airframe and other asset lease agreements to check the completeness of the liabilities for obligations for restoration and hand back at the end of the lease.

- Confirmed there were no changes in lease or maintenance agreements during the year which would impact the aircraft restoration and handback provisions.

- Assessed management's assumptions as to the forecast usage of each asset at the return date through an analysis of historical flight data and current engine conditions. We corroborated the estimate of the cost of maintenance work to third party price lists and quotes, or to historic invoices.

- For maintenance under power by the hour contracts, confirmed that the expense was recognised at the contractual flying hour rates and checked the actual flying hours in Group's operating system to confirm the completeness of the accruals for un-invoiced maintenance work.</td></tr>
<tr><td colspan="2">Adoption of IFRS 9</td></tr>
<tr><td>The international Accounting Standards Board (IASB) issued IFRS 9 – 'Financial Instruments' which replaces IAS 39 – 'Financial Instruments' in three phases as follows:

Phase 1 – Classification and measurement of financial assets and financial liabilities;

Phase 2 – Impairment methodology; and

Phase 3 – Hedge accounting.

Effective January 1, 20X8 the Group has adopted IFRS 9. As permitted by this standard, the requirements have been applied retrospectively without restating comparatives and adjusting the transition effects to the opening retained earnings as at January 1, 20X8.

The reconciliation between previously reported carrying amounts of financial instruments under IAS 39 and new carrying amounts of financial instruments under IFRS 9 has been presented under note XX to the consolidated financial statements and the material accounting policy</td><td>With respect to classification and measurement of financial assets and financial liabilities, our audit procedures comprised the following:

- Read the Group's IFRS 9 based classification and measurement of financial assets and financial liabilities policy and compared it with the requirements of IFRS 9;

- Obtained an understanding and checked the Group's business model assessment and the test on the contractual cash flows, which give rise to cash flows that are 'solely payments of principal and interest' (SPPI test) performed by the Group's consultant; and

- Ensured the appropriateness of the opening balance adjustments.

With respect to impairment methodology, our audit procedures comprised the following:

- Read the Group's IFRS 9 based impairment provisioning policy and compared it with the requirements of IFRS 9;

- Obtained an understanding of the Group's internal rating models for the financial assets and checked the report of Group's consultant on these models to gain comfort that the discrimination and collaboration of the rating model is appropriate. Further, we also performed the procedures to ensure</td></tr>
</table>

information related to financial instruments are included in note X. This was considered as key audit matter as IFRS 9 is a new and complex accounting standard which requires significant judgement to determine the loss allowance. Key judgement areas included are as follows: • The interpretation of the requirements to determine impairment under IFRS 9, which is reflected in the Group's expected credit loss model. • The identification of exposures with a significant deterioration in credit quality. • Assumptions used in the expected credit loss model such as financial condition of the counterparty, expected future cash flows & forward looking macroeconomic factors (e.g. unemployment rates, interest rates, gross domestic product growth, property prices, etc.) • The need to apply additional overlays to reflect current or future external factors that are not appropriately captured by the expected credit loss model.	the competence, objectivity and independence of the Group's consultant; - Checked the appropriateness of the Group's determination of significant increase in credit risk and the resultant basis for classification of exposures into various stages; - For a sample of exposures, checked the appropriateness of the Group's staging and exposure at default; - Checked and understood the key data sources and assumptions for data used in the Expected Credit Loss (ECL) models used by the Group to determine the impairment provisions; - For forward looking assumptions used by the Group's management in its ECL calculations, we held discussions with management and corroborated the assumptions using publicly available information; - Involved internal experts to assist in the evaluation of the assumptions used in the Group's impairment model including assessments of appropriate Probability of Default (PD) and Loss Given Default (LGD) used in the ECL calculations; - Where relevant, used information systems specialists to gain comfort on data integrity; and - Ensured the appropriateness of the opening balance adjustments. With respect to hedge accounting, our audit procedures comprised the following: - Read the Group's IFRS 9 based hedge accounting policy and compared it with the requirements of IFRS 9; and - Ensured the appropriateness of the opening balance adjustments. We have also assessed the financial statements disclosures arising on adoption of IFRS 9 to determine if they were in accordance with the requirements of the standard.

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 International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[6], are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 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 auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
6. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

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, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

[7]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

7. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Adverse Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 14: Disclaimer of opinion on standalone financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Financial Statements

Disclaimer of Opinion
We were engaged to audit the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[2].

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion

1. We were not appointed as auditors of the Company until after December 31, 20X8 and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X7 and 20X8, which are stated in the statements of financial position at XX and XX, respectively.

2. The Company during the year introduced new computerized accounts receivable system in September 20X8 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of XX as at December 31, 20X8.

3. As at December 31, 20X8, other liabilities presented in the statement of financial position includes suspense accounts related to unidentified deposits amounting to XX for which the management of the Company were unable to identify to which customers they relate. Further, we were not able to validate the related supporting documents for these amounts and unable to satisfy ourselves by any alternative means concerning these unidentified deposits.

As a result of above matters, we were unable to determine whether any adjustments might have been found necessary in respect of these matters, and the elements making up the statement of profit or loss and other comprehensive income,[1], statement of changes in equity and statement of cash flows.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

[3]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 International Financial Reporting Standards[4] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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, i.e. the Board of Directors[5], are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements.

[6]Report on Other Legal and Regulatory Requirements

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

---

3. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by ISA 705, the auditor's report does not include a section addressing the other information.
4. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*.
5. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.
6. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Disclaimer of Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

Illustration – 15: Disclaimer of opinion on consolidated financial statements of non-listed entity

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion
We were engaged to audit the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[3].

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion
The Group's investment in its joint venture XYZ Company is carried at XX on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X8. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

[2]**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 International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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.

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by ISA 705, the auditor's report does not include a section addressing the other information.
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

Those charged with governance, i.e. the Board of Directors[4], are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements.

[5]**Report on Other Legal and Regulatory Requirements**
Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

4. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.
5. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Disclaimer of Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 16: Disclaimer of opinion on standalone financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Financial Statements

Disclaimer of Opinion
We were engaged to audit the financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of profit or loss and other comprehensive income,[1] statement of changes in equity and statement of cash flows for the year then ended and notes to the financial statements, including material accounting policy information[3].

We do not express an opinion on the accompanying financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for Disclaimer of Opinion
We were not appointed as auditors of the Company until after December 31, 20XX and thus did not observe the counting of physical inventories at the beginning and end of the year. We were unable to satisfy ourselves by alternative means concerning the inventory quantities held at December 31, 20X7 and 20X8, which are stated in the statements of financial position at XX and XX, respectively. In addition, the introduction of a new computerized accounts receivable system in September 20X8 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of XX as at December 31, 20X1. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories and accounts receivable, and the elements making up the statement of profit or loss and other comprehensive income,[1], statement of changes in equity and statement of cash flows.

[2]**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 International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association 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.

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'statement of profit or loss, statement of comprehensive income'*.
2. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by ISA 705, the auditor's report does not include a section addressing the key audit matters and other information.
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.

Those charged with governance, i.e. the Board of Directors[4], are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to conduct an audit of the Company's financial statements in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements.

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, actions taken to eliminate threats or safeguards applied.

[5]**Report on Other Legal and Regulatory Requirements**

Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the financial statements, we have noted following non-compliances of the Company Law, having no material impact on the financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

---

4. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

5. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the financial statements, this would need to be included in the relevant sections of report like 'Basis for Disclaimer of Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 17: Disclaimer of opinion on consolidated financial statements of listed company

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of ABC Company

Report on the Audit of the Consolidated Financial Statements

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of ABC Company ("the Company") and its subsidiaries (together "the Group"), which comprise the consolidated statement of financial position as at December 31, 20X8, and the consolidated statement of profit or loss and other comprehensive income,[1] consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information[3].

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

The Group's investment in its joint venture XYZ Company is carried at XX on the Group's consolidated statement of financial position, which represents over 90% of the Group's net assets as at December 31, 20X8. We were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement.

[2]**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 International Financial Reporting Standards[3] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA and Regulations for Companies and the Company's Bylaws / Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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, i.e. the Board of Directors[4], are responsible for overseeing the Group's financial reporting process.

---

1. Under IFRS if two separate statements are presented for profit or loss and for comprehensive income, then should say, *'consolidated statement of profit or loss, consolidated statement of comprehensive income'*.
2. When the auditor disclaims an opinion on the financial statements, providing further details about the audit, including a section to address other information may overshadow the disclaimer of opinion on the financial statements as a whole. Accordingly, in those circumstances, as required by ISA 705, the auditor's report does not include a section addressing the key audit matters and other information.
3. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*.
4. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and to issue an auditor's report. However, because of the matter described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the consolidated financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements.

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, actions taken to eliminate threats or safeguards applied.

[5]**Report on Other Legal and Regulatory Requirements**
Article 20 of the Companies Law requires that the auditor includes in his report what might come to his attention with respect to non-compliance of the terms of the Company Law or the terms of the Articles of Association of the Company. During the course of our current audit of the consolidated financial statements, we have noted following non-compliances of the Company Law, having no material impact on the consolidated financial statements:

1. The shareholders of the Company held a meeting on _____________ and resolved to continue the operations of the Company and to provide financial support to the Company. This meeting was not convened within the time-period specified in the Companies Law (Article 132 or 182, as applicable) in the Kingdom of Saudi Arabia.

2. As at December 31, 20X8, the Company has a balance due from a board member amounting to SR XX representing a loan, which is a non-compliance of Companies Law (Article 72 or 144, as applicable) in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 14X0]
[(Date in Gregorian) ___, 20X8]

5. As per ISA the auditor is required to report on other legal and regulatory matters affecting the Company under audit. This would be added at the end of the audit report under the heading ***'Report on Other Legal and Regulatory Requirements'***, if applicable. When there is no non-compliance noted by auditor, there is choice either not include this heading in the audit report or use the wordings suggested in the clarification document issued by SOCPA's Audit Standards Committee dated February 18, 2018. The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by Laws and Regulations prevailing in the Kingdom of Saudi Arabia. If any non-compliance from legal or regulatory matter give rise to material misstatement in the consolidated financial statements, this would need to be included in the relevant sections of report like 'Basis for Disclaimer of Opinion' and will be dealt with in accordance with the requirements of ISA 705 and the clarification issued by SOCPA on this subject matter. The examples given are only for illustration purposes and not needed to be replicated in the auditor's report.

Illustration – 18: Unmodified opinion on special purpose financial statements

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Special Purpose Financial Statements

Opinion
We have audited the special purpose financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of income, statement of cash flows and statement of changes in shareholders' equity[1] for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying special purpose financial statements of the Company for the year ended December 31, 20X8 are prepared, in all material respects,[2] in accordance with the basis of accounting used for the preparation of the special purpose financial statements as described in note X to the special purpose financial statements.

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's special purpose financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use
We draw attention to note X to the special purpose financial statements, which describes the basis of accounting used for the preparation of the special purpose financial statements. The accompanying special purpose financial statements have been prepared for management use only for filing the Company's Zakat and tax return with the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia[3]. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for that purpose and should not be used by or distributed to any other parties. Our opinion is not modified in respect of this matter.

[4]**Other Matter**
The Company prepares a separate set of general purpose financial statements for the year ended December 31, 20X8 in accordance with International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia.

---

1. Include the name and sequence of the statements, as appearing in the special purpose financial statements.
2. If the special purpose financial statements are prepared on a fair presentation framework e.g. financial reporting framework prepared by a regulator, then can alternatively say, *'present fairly, in all material respects, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended'*.
3. Need to specify the purpose of preparation of these special purpose financial statements as per the circumstances of the Company, e.g. if need to submit to specific authority, or to special committee, etc. Alternately if this is only for management internal use, then say *'for management's internal use only'*.
4. Only applicable if the entity is required to prepare the general purpose financial statements by law.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*, under which the general purpose financial statements are presented.

[6]Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements

Management is responsible for the preparation of the special purpose financial statements in accordance with the accounting policies disclosed in Note X, prepared for management use only, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose 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, i.e. the Board of Directors[7], are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

Our objectives are to obtain reasonable assurance about whether the special purpose 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 special purpose financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.
- 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

6. If other information e.g. any report by management, is provided to the stake holders along with the special purpose financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the special purpose financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format on general purpose framework for listed entities'.
7. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- [8]Obtain sufficient appropriate audit evidence regarding the financial information of the Company's investments to express an opinion on the special purpose 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.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

8. Only applicable if the Company has investments in subsidiaries, associates and joint ventures, otherwise this paragraph should be deleted.

Illustration – 19: Qualified opinion on special purpose financial statements

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Special Purpose Financial Statements

Qualified Opinion
We have audited the special purpose financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of income, statement of cash flows and statement of changes in shareholders' equity[1] for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter[2] described in the *Basis for Qualified Opinion* section of our report, the accompanying special purpose financial statements of the Company for the year ended December 31, 20X8 are prepared, in all material respects,[3] in accordance with the basis of accounting used for the preparation of the special purpose financial statements as described in note X to the special purpose financial statements.

Basis for Qualified Opinion
We are unable to obtain sufficient appropriate audit evidence about the sufficiency of provision for zakat / income tax as at December 31, 20X8, zakat status disclosure and the zakat / tax expense for the year, because we were not provided with confirmation from the zakat / tax advisor for Company's zakat / tax status with the Zakat, Tax and Customs Authority and the sufficiency of provision for zakat / income tax as at December 31, 20X8 and we were unable to verify these through performing alternative audit procedures. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's special purpose financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use
We draw attention to note X to the special purpose financial statements, which describes the basis of accounting used for the preparation of the special purpose financial statements. The accompanying special purpose financial statements have been prepared for management use only for filing the Company's Zakat and tax return with the Zakat, Tax and Customs Authority in the Kingdom of Saudi Arabia[4]. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for that purpose and should not be used by or distributed to any other parties. Our opinion is not modified in respect of this matter.

---

1. Include the name and sequence of the statements, as appearing in the special purpose financial statements.
2. These terms are used when any one of the qualifications relates to audit scope limitation, if the qualifications only relates to material misstatement where the misstatement amounts are quantified in the qualification paragraph, then should say *'except for the effects of the matter(s)'*.
3. If the special purpose financial statements are prepared on a fair presentation framework e.g. financial reporting framework prepared by a regulator, then can alternatively say, *'present fairly, in all material respects, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended'*.
4. Need to specify the purpose of preparation of these special purpose financial statements as per the circumstances of the Company, e.g. if need to submit to specific authority, or to special committee, etc. Alternately if this is only for management internal use, then say *'for management's internal use only'*.

[5]**Other Matter**
The Company prepares a separate set of general purpose financial statements for the year ended December 31, 20X8 in accordance with International Financial Reporting Standards[6] that are endorsed in the Kingdom of Saudi Arabia.

[7]**Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements**
Management is responsible for the preparation of the special purpose financial statements in accordance with the accounting policies disclosed in Note X, prepared for management use only, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose 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, i.e. the Board of Directors[8], are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements
Our objectives are to obtain reasonable assurance about whether the special purpose 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 special purpose financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.

---

5. Only applicable if the entity is required to prepare the general purpose financial statements by law.
6. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*, under which the general purpose financial statements are presented.
7. If other information e.g. any report by management, is provided to the stake holders along with the special purpose financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the special purpose financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format on general purpose framework for listed entities'.
8. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- [9]Obtain sufficient appropriate audit evidence regarding the financial information of the Company's investments to express an opinion on the special purpose 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.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

9. Only applicable if the Company has investments in subsidiaries, associates and joint ventures, otherwise this paragraph should be deleted.

Illustration – 20: Adverse opinion on special purpose financial statements

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Special Purpose Financial Statements

Adverse Opinion
We have audited the special purpose financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of income, statement of cash flows and statement of changes in shareholders' equity[1] for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion* section of our report, the accompanying special purpose financial statements of the Company for the year ended December 31, 20X8 are not prepared, in all material respects,[2] in accordance with the basis of accounting used for the preparation of the special purpose financial statements as described in note X to the special purpose financial statements.

Basis for Adverse Opinion
During the year, there was a major fire incident in the Company's main factory, which majorly affected all the plant and machinery of the Company and the inventories stored in the factory premises. The management of the Company has not yet completed the procedures for determining the potential impairment losses due to the fire over the property, plant and equipment and inventories, hence we were unable to complete our audit of property, plant and equipment and inventories amounting to XX and XX respectively, included in the statement of financial position and comprises of X% of the total assets. Had we been able to complete our audit procedures on property, plant and equipment and inventories with respect to the assessment of impairment losses, the accompanying special purpose financial statements would have been materially different.

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's special purpose financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use
We draw attention to note X to the special purpose financial statements, which describes the basis of accounting used for the preparation of the special purpose financial statements. The accompanying special purpose financial statements have been prepared for management's internal use only[3]. Our report is intended solely for the management of the Company and should not be distributed to or used by parties other than the management of the Company. Our opinion is not modified in respect of this matter.

---

1. Include the name and sequence of the statements, as appearing in the special purpose financial statements.
2. If the special purpose financial statements are prepared on a fair presentation framework e.g. financial reporting framework prepared by a regulator, then can alternatively say, *'do not present fairly, the financial position of the Company as at December 31, 20X8, and its financial performance and its cash flows for the year then ended'*.
3. Need to specify the purpose of preparation of these special purpose financial statements as per the circumstances of the Company.

[4]Other Matter
The Company prepares a separate set of general purpose financial statements for the year ended December 31, 20X8 in accordance with International Financial Reporting Standards[5] that are endorsed in the Kingdom of Saudi Arabia.

[6]Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements
Management is responsible for the preparation of the special purpose financial statements in accordance with the accounting policies disclosed in Note X, prepared for management use only, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose 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, i.e. the Board of Directors[7], are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements
Our objectives are to obtain reasonable assurance about whether the special purpose 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia 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 special purpose financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement 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 the one resulting from error, as fraud may involve collusion, forgery, intentional omission, 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 internal control.

---

4. Only applicable if the entity is required to prepare the general purpose financial statements by law.
5. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*, under which the general purpose financial statements are presented.
6. If other information e.g. any report by management, is provided to the stake holders along with the special purpose financial statements, then another heading above this section should be added in the audit report namely ***'Information other than the special purpose financial statements and Auditor's report thereon'***. For format of this section refer to 'audit report format on general purpose framework for listed entities'.
7. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

- 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 appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- [8]Obtain sufficient appropriate audit evidence regarding the financial information of the Company's investments to express an opinion on the special purpose 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.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

8. Only applicable if the Company has investments in subsidiaries, associates and joint ventures, otherwise this paragraph should be deleted.

Booklet with Illustrations of Auditor's Report

Illustration – 21: Disclaimer of opinion on special purpose financial statements (FS)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders / Partners
ABC Company

Report on the Audit of the Special Purpose Financial Statements

Disclaimer of Opinion
We were engaged to audit the special purpose financial statements of ABC Company ("the Company"), which comprise the statement of financial position as at December 31, 20X8, and the statement of income, statement of cash flows and statement of changes in shareholders' equity[1] for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying special purpose financial statements of the Company. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these special purpose financial statements.

Basis for Disclaimer of Opinion
We were not provided with appropriate workings, calculations, explanations, and supporting documentation for verification of contract revenues and contract costs for contract X, on the basis of the percentage of completion method amounting to XX and XX, respectively, for the year ended December 31, 20X8. Correspondingly, in the absence of these data, we were unable to verify the revenues recognized in excess of billings amounting to XX and the accrued project costs amounting to XX. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded revenues recognized in excess of billings and accrued project costs, and the elements making up the statement of income, statement of cash flows and statement of changes in shareholders' equity[1].

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use
We draw attention to note X to the special purpose financial statements, which describes the basis of accounting used for the preparation of the special purpose financial statements. The accompanying special purpose financial statements are prepared to assist the Company in complying with the financial reporting provisions of the contract X dated ___________ between the Company and DEF Company ("the Contract")[2]. As a result, the special purpose financial statements may not be suitable for another purpose. Our report is intended solely for the Company and DEF Company and should not be distributed to or used by parties other than the Company or DEF Company.

Responsibilities of Management and Those Charged with Governance for the Special Purpose Financial Statements
Management is responsible for the preparation of the special purpose financial statements in accordance with the financial reporting provisions of the Contract, and for such internal control as management determines is necessary to enable the preparation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose 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.

1. Include the name and sequence of the statements, as appearing in the special purpose financial statements.
2. Need to specify the purpose of preparation of these financial statements as per the circumstances of the Company, e.g. if need to submit to specific authority, or compliance with specific contract, etc. Alternately if this is only for management internal use, then say *'for management's internal use only'*.

Those charged with governance, i.e. the Board of Directors[3], are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Special Purpose Financial Statements

Our responsibility is to conduct an audit of the Company's special purpose financial statements in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and to issue an auditor's report. However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these special purpose financial statements.

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the Company's special purpose financial statements and we have fulfilled our ethical responsibilities in accordance with these requirements.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

3. As per the International Standards on Auditing (ISA) endorsement document issued by SOCPA, the auditor is required to specifically identify those charge with governance. The highlighted wordings need to be adjusted based on the Company's circumstances.

Illustration – 22: Unmodified review report on interim condensed consolidated financial information

**INDEPENDENT AUDITOR'S REVIEW REPORT ON THE
INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

To the Shareholders of ABC Company

Introduction
We have reviewed the accompanying interim condensed consolidated statement of financial position of ABC Company ("the Company") and its subsidiaries (together "the Group") as of June 30, 20X8 and the related interim condensed consolidated statement of profit or loss and other comprehensive income,[1] for the three-month and six-month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standards 34 – "Interim Financial Reporting" (IAS 34) that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'condensed consolidated statement of profit or loss, statement of comprehensive income'*.

Illustration – 23: Unmodified review report on complete set of general purpose standalone FS

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction

We have reviewed the accompanying interim statement of financial position of ABC Company ('the Company') as of March 31, 20X8 and the related interim statements of profit or loss and other comprehensive income,[1] changes in equity and cash flows for the three-month period then ended, and notes to the interim financial information, including material accounting policy information[2] and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the entity as at March 31, 20X8, and of its financial performance and its cash flows for the three month period then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

[Name of the audit firm]
[Auditor's address]
[Name of city, where audit report is issued]
[Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

---

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*. The complete set of interim financial information should be fully compliant with all requirements of IFRS or other framework as applicable, in order to be stated here as being complaint with these standards. If this interim financial information is not fully compliant with the full set of IFRS or other framework as applicable, then use the format for 'review report of interim condensed financial information', if the interim financial information complies with minimum requirements of International Accounting Standard 34 - 'Interim Financial Reporting'.

Illustration – 24: Qualified review report on interim condensed consolidated financial information

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of ABC Company ("the Company") and its subsidiaries (together "the Group") as of June 30, 20X8 and the related interim condensed consolidated statement of profit or loss and other comprehensive income,[1] for the three-month and six-month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standards 34 – "Interim Financial Reporting" (IAS 34) that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

As a result of a fire in a branch office on __________ that destroyed its accounts receivable records, we were unable to complete our review of accounts receivable totaling XX included in the interim condensed consolidated financial information. The entity is in the process of reconstructing these records and is uncertain as to whether these records will support the amount shown above and the related allowance for uncollectible accounts. Had we been able to complete our review of accounts receivable, matters might have come to our attention indicating that adjustments might be necessary to the interim condensed consolidated financial information.

Qualified Conclusion

Except for the adjustments to the interim condensed consolidated financial information that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

[Name and address of the audit firm]
[Name of city, Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'condensed consolidated statement of profit or loss, statement of comprehensive income'*.

Illustration – 25: Qualified review report on complete set of general purpose standalone FS

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction

We have reviewed the accompanying interim statement of financial position of ABC Company ('the Company') as of March 31, 20X8 and the related interim statements of profit or loss and other comprehensive income,[1] changes in equity and cash flows for the three-month period then ended, and notes to the interim financial information, including material accounting policy information[2] and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Qualified Conclusion

Based on information provided to us by management, ABC Company has excluded from property and long-term debt certain lease obligations that we believe should be capitalized to conform with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia. This information indicates that if these lease obligations were capitalized at March 31, 20X8, property would be increased by XX, long-term debt by XX, and net income and earnings per share would be increased (decreased) by XX and X respectively for the three-month period then ended.

Qualified Conclusion

Based on our review, with the exception of the matter described in the preceding paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not present fairly, in all material respects, the financial position of the entity as at March 31, 20X8, and of its financial performance and its cash flows for the three month period then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants.

[Name and address of the audit firm]
[Name of city, Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*. The complete set of interim financial information should be fully compliant with all requirements of IFRS or other framework as applicable, in order to be stated here as being complaint with these standards. If this interim financial information is not fully compliant with the full set of IFRS or other framework as applicable, then use the format for 'review report of interim condensed financial information', if the interim financial information complies with minimum requirements of International Accounting Standard 34 - 'Interim Financial Reporting'.

Illustration – 26: Adverse review report on interim condensed consolidated financial information

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of ABC Company ("the Company") and its subsidiaries (together "the Group") as of June 30, 20X8 and the related interim condensed consolidated statement of profit or loss and other comprehensive income,[1] for the three-month and six-month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standards 34 – "Interim Financial Reporting" (IAS 34) that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Adverse Conclusion

During the period there was a major fire incident in the Company's main factory, which majorly affected all the plant and machinery of the Company and the inventories stored in the factory premises. The management of the Company has not yet completed the procedures for determining the potential impairment losses due to the fire over the property, plant and equipment and inventories, hence we were unable to complete our review of property, plant and equipment and inventories amounting to XX and XX respectively, included in the interim condensed consolidated financial information. Had we been able to complete our review of property, plant and equipment and inventories with respect to the assessment of impairment losses, the interim condensed consolidated financial information would have been materially different.

Adverse Conclusion

Our review indicates that, because the Company's property, plant and equipment and inventories, which comprises of --% of total assets, are not adjusted for impairment caused by a major fire incident in the Company's main factory, as described in the preceding paragraph, this interim condensed consolidated financial information is not prepared, in all material respects, in accordance with IAS 34 that is endorsed in the Kingdom of Saudi Arabia.

[Name and address of the audit firm]
[Name of city, Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'condensed consolidated statement of profit or loss, statement of comprehensive income'*.

Illustration – 27: Adverse review report on complete set of general purpose standalone FS

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction

We have reviewed the accompanying interim statement of financial position of ABC Company ('the Company') as of March 31, 20X8 and the related interim statements of profit or loss and other comprehensive income,[1] changes in equity and cash flows for the three-month period then ended, and notes to the interim financial information, including material accounting policy information[2] and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

Except as explained in the following paragraph, we conducted our review in accordance with International Standard on Review Engagements 2410, *'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'* that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for Adverse Conclusion

During the period there was a major fire incident in the Company's main factory, which majorly affected all the plant and machinery of the Company and the inventories stored in the factory premises. The management of the Company has not yet completed the procedures for determining the potential impairment losses due to the fire over the property, plant and equipment and inventories, hence we were unable to complete our review of property, plant and equipment and inventories amounting to XX and XX respectively, included in the interim condensed consolidated financial information. Had we been able to complete our review of property, plant and equipment and inventories with respect to the assessment of impairment losses, the interim condensed consolidated financial information would have been materially different.

Adverse Conclusion

Our review indicates that, because the Company's property, plant and equipment and inventories, which comprises of --% of total assets, are not adjusted for impairment caused by a major fire incident in the Company's main factory, as described in the preceding paragraph, this interim financial information does not present fairly, in all material respects, the financial position of the entity as at March 31, 20X8, and of its financial performance and its cash flows for the three month period then ended in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

[Name and address of the audit firm, including name of city]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

---

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim FS and should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*. The complete set of interim financial information should be fully compliant with all requirements of IFRS or other framework as applicable, in order to be stated here as being complaint with these standards. If this interim financial information is not fully compliant with the full set of IFRS or other framework as applicable, then use the format for 'review report of interim condensed financial information', if the interim financial information complies with minimum requirements of International Accounting Standard 34 - 'Interim Financial Reporting'.

Illustration – 28: Disclaimed review report on interim condensed consolidated financial information

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction

We were engaged to review the accompanying interim condensed consolidated statement of financial position of ABC Company ("the Company") and its subsidiaries (together "the Group") as of June 30, 20X8 and the related interim condensed consolidated statement of profit or loss and other comprehensive income,[1] for the three-month and six-month periods then ended, and the interim condensed consolidated statements of changes in equity and cash flows for the six-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standards 34 – "Interim Financial Reporting" (IAS 34) that is endorsed in the Kingdom of Saudi Arabia.

Scope of Review

Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review. However, because of the matter described in the *Basis for Disclaimer of Conclusion* section below, we were not able to carry out sufficient procedures to provide a basis for a review conclusion on this interim condensed consolidated financial information.

Basis for Disclaimer of Conclusion

The Group's investment in its joint venture XYZ Company is carried at XX on the Group's interim condensed consolidated financial information, which represents over 90% of the Group's net assets as at June 30, 20X8. During our annual audit last year and during this review period, we were not allowed access to the management and the auditors of XYZ Company, including XYZ Company's auditors' audit documentation. As a result, we were unable to determine whether any adjustments were necessary in respect of the Group's proportional share of XYZ Company's assets that it controls jointly, its proportional share of XYZ Company's liabilities for which it is jointly responsible, its proportional share of XYZ's income and expenses for the year, and the elements making up the consolidated statement of changes in equity and the consolidated cash flow statement. We have also disclaimed our audit opinion for the year ended December 31, 20X7 in respect of this matter.

Disclaimer of Conclusion

We do not express a conclusion on the accompanying interim condensed consolidated financial information of the Group. Because of the significance of the matter described in the *Basis for Disclaimer of Conclusion* section above, we have not been able to carry out sufficient procedures to provide a basis for a review conclusion on this interim condensed consolidated financial information.

[Name and address of the audit firm]
[Name of city, Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

---

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'condensed consolidated statement of profit or loss, statement of comprehensive income'*.

Illustration – 29: Disclaimed review report on complete set of general purpose standalone FS

INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL INFORMATION

To the Shareholders of ABC Company

Introduction
We were engaged to review the accompanying interim statement of financial position of ABC Company ('the Company') as of March 31, 20X8 and the related interim statements of profit or loss and other comprehensive income,[1] changes in equity and cash flows for the three-month period then ended, and notes to the interim financial information, including material accounting policy information[2] and other explanatory notes. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Scope of Review
Our responsibility is to express a conclusion on this interim financial information based on our review. However, because of the matter described in the *Basis for Disclaimer of Conclusion* section below, we were not able to carry out sufficient procedures to provide a basis for a review conclusion on this interim condensed consolidated financial information.

Basis for Disclaimer of Conclusion
During the period there was a major fire incident in the Company's Head Office, which resulted in loss of majority of the accounting record of the Company. The management of the Company is working on re-developing of its accounting records and has compiled the accompanying interim financial information based on the recovered data. However, the recovered data is not sufficient for us to carry out required review procedures in accordance with International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. Hence, we are unable to determine whether any adjustments were necessary in the accompanying interim financial information in order for them to comply with the requirements of International Financial Reporting Standards[2] that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants ("SOCPA").

Disclaimer of Conclusion
We do not express a conclusion on the accompanying interim financial information of the Company. Because of the significance of the matter described in the *Basis for Disclaimer of Conclusion* section above, we have not been able to carry out sufficient procedures to provide a basis for a review conclusion on this interim financial information.

[Name and address of the audit firm]
[Name of city, Kingdom of Saudi Arabia]

[(Partner's name)]
[License No. ___]

[(Date in Hijri) ____, 1440]
[(Date in Gregorian) ___, 2018]

---

1. In the annual financial statements under IFRS, if two separate statements are presented for profit or loss and for comprehensive income, then should also present two statements in the interim financial information and should say, *'statement of profit or loss, statement of comprehensive income'*.
2. Put name of the appropriate frame work e.g. *'International Financial Reporting Standards for Small and Medium-sized Entities'*. Where framework used other than IFRS than instead of *'material accounting policy information'* use *'a summary of significant accounting policies'*. The complete set of interim financial information should be fully compliant with all requirements of IFRS or other framework as applicable, in order to be stated here as being complaint with these standards. If this interim financial information is not fully compliant with the full set of IFRS or other framework as applicable, then use the format for 'review report of interim condensed financial information', if the interim financial information complies with minimum requirements of International Accounting Standard 34 - 'Interim Financial Reporting'.