

Client: Model File Limited	Prepared by: MK	Date: 30/03/17	5.02
Period ended: 31 <sup>st</sup> December 2016	Reviewed by: AB	Date: 30/03/17	
Subject: Overall Audit Strategy and Plan			

<b>A. Audit Strategy: Refer to Section 6.2.3 of the Manual for further guidance on completion of the Audit Strategy. See Appendix I - Section 6 on the matters that may be considered in developing an audit strategy.</b>	
<b>1. Scope of Audit Engagement:</b> Cover under the following headings the terms of the audit engagement and any specific legal and regulatory requirements and their impact on the engagement.	
<b>1.1. Terms of engagement - Section 5.2 of the Manual</b> The terms of the audit engagement are covered in the letter of engagement dated <u>1<sup>st</sup> March 2007</u> and require us to carry out a statutory audit and give an opinion on whether the financial statements comply with the requirements of the Kenyan Companies Act and International Financial Reporting Standards (IFRS).  <b>Additional scope (if any):</b> None	
<b>1.2. Review of independence - Section 5.1 and 5.3 of the Manual and Form 5.03</b>  The client acceptance questionnaire (5.03) has been completed and no matters affecting independence have been noted	
<b>1.3. Laws and regulatory requirements including Health and Safety, Employment, Licensing, Taxation - Section 9.2 and 9.3 of the Manual and Forms 3.12 and 5.08</b>  The client is subject to requirements of the Kenyan Companies Act, Income Tax Act and VAT Act.	
<b>2. Business and Regulatory Environment:</b> Cover under this heading any significant changes in industry conditions, changes in the entity's structure or operations and changes in reporting, legal and regulatory requirements and their impact on the engagement.	
<b>2.1. Changes in industry conditions - Section 7.4 of the Manual and Form 5.08</b>  No changes in industry conditions have been noted.	
<b>2.2. Changes in entity's business and governance structures including business developments - Section 7.4 of the Manual and Form 5.08</b>  None noted	
<b>2.3. Changes in accounting systems, financial reporting standards and regulations - Section 7.4 of the Manual and Form 5.08</b>  None noted	
<b>3. Entity Specific Issues:</b> Cover under this heading details of the entity including background information, nature of business and entity specific issues which may impact the engagement.	
<b>3.1. Issues arising from review of the last year's audit file, permanent audit file and correspondence file - Section 7.4 of the Manual and Forms 5.13, 5.14 and 5.15</b>  This is the first year of operations and audit for the company.	
<b>3.2. Other entity specific issues including the special circumstances, nature of business operations and structure - Section 7.4 and Form 5.08</b>  <ul style="list-style-type: none"> <li>- There are no special circumstances related to the entity.</li> <li>- The company trades in hardware, electrical and other related items. The company's key products are</li> </ul>	

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<p>plumbing works and construction material, tools, garden equipment and paints.</p> <ul style="list-style-type: none"> <li>- The company's operating structure is defined into its four main areas of operations viz: Administration, Finance, Sales and Marketing and Procurement and Logistics. The company's organisation chart is on Form 5.08.</li> </ul>
<p><b>3.3. Extent on reliance on the work of internal audit, any other experts or other auditors - Form 5.09</b></p> <p>The company does not have an internal audit department.</p>
<p><b>4. Reporting Objectives, Timing of the Audit and Communications Required:</b> Cover under this heading the reporting timeframes, nature of reports to be issued and outcomes of meetings with management and those charged with governance.</p>
<p><b>4.1. Nature and timing of reports - Include here any specific reporting deadlines</b></p> <p>The client specific requirements are to meet the following tax deadlines:</p> <ul style="list-style-type: none"> <li>➤ Payment of final tax by the 30<sup>th</sup> April 2017.</li> <li>➤ Payment of the 1<sup>st</sup> installment tax by 20<sup>th</sup> April 2017; and</li> <li>➤ Filing of the tax return by the 30<sup>th</sup> June 2017.</li> </ul>
<p><b>4.2. Key Issues arising from meeting with the client - Form 3.12</b></p> <p>The client carries out a lot of trading activity with related companies. To ensure that these are properly identified and disclosed.</p>
<p><b>4.3. Information to be issued with financial statements - Refer to Section 26 of the Manual and Form 2.04</b></p> <p>N/A</p>
<p><b>5. Direction of the Audit:</b> Cover under this heading issues that may affect the direction of the audit.</p>
<p><b>5.1. Materiality - Form 5.05</b></p> <p>Based on workings set out on Form 5.05, the planning level materiality is Shs. 613,000, while the individual area materiality is Shs 460,000.</p>
<p><b>5.2. Identification of key risks including risk of material misstatements and fraud and their impact on the direction, supervision and review of the engagement - Sections 7 and 8, and Forms 5.10 and 5.11</b></p> <p>Refer to Forms 5.10 and 5.11</p>
<p><b>5.3. Preliminary assessment on reliance on internal controls - Form 5.09</b></p> <p>Based on our assessment of internal control, we can obtain audit assurance from reliance on internal controls in the following areas:</p> <ul style="list-style-type: none"> <li>- Sales</li> <li>- Purchases</li> <li>- Inventories</li> <li>- Property, plant and equipment.</li> </ul> <p>The following conditions indicate risks of material misstatements in the financial statements:</p> <ul style="list-style-type: none"> <li>- High gearing indicating potential going concern issues.</li> </ul>

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- Significant related party transactions.

Assessment of the control environment has revealed that although the company is owner managed there is sufficient segregation of duties to prevent override of controls by one individual.

**B. Audit Plan: Refer to Section 6.2.4 of the Manual for further guidance on completion of the Audit Strategy. See Appendix II - Section 6 on the contents of an audit plan. The plan should cover the key issues arising from each section below, the impact on the engagement and the approach to the audit.**

**1. Preliminary Analytical Review - Form 5.06**

- GP margin - Currently at 10.5%. As per our notes under Schedule 5.08, average GP margin is approximately 11.25%. Therefore, there is a possibility of cut-off errors or under-valuation of inventories / overstatement of purchases.
- Borrowings - the company is highly geared and there could be potential going concern problems.
- Repairs and maintenance expenses appear to be very high. There is a possibility of inclusion of capital items herein.

**2. Preliminary Review of Risk including Fraud Risk - Forms 5.10 and 5.11**

Refer to Forms 5.10 and 5.11

**3. Source of Reliance - Section 12**

- Bank balances, loans and related party balances - Independent third party confirmation and directors' representation.
- Receivables, payables and deposits - Internal evidence and balance confirmation circularisation.
- Contingent liabilities - Independent confirmations from lawyers and professional advisors, internal evidence and directors' representation.
- Property, plant and equipment and intangible assets - Internal evidence, ownership documents and directors' representation.
- Inventories - internal evidence and ownership documents.
- Sales, purchases and expenses - internal evidence.

**4. Response to Assessed Risk - Forms 5.10 and 5.11**

Refer to Forms 5.10 and 5.11.

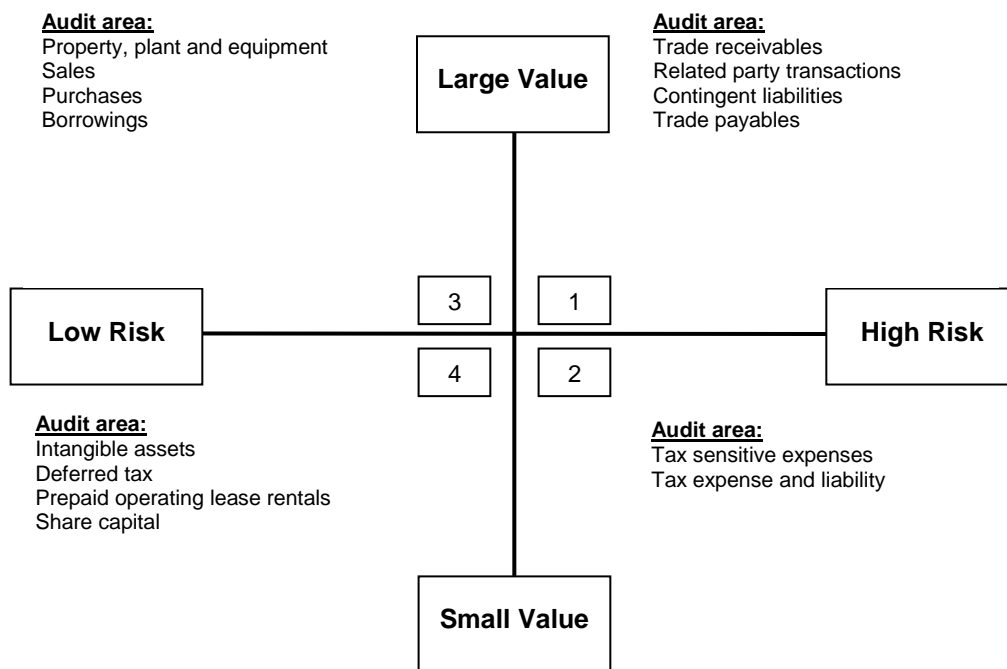
**5. Sampling Techniques - Section 16**

Random sampling to be used. Basis of sampling is judgmental.

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## 6. Key Audit Areas

In order to focus the audit efforts to high risk areas, we will use the following risk quadrant:



Approximate time allocation based on areas identified:

- Planning: 20%
- Quadrant 1: 35% (with focus on tests of controls, analytical review and test of balances)
- Quadrant 2: 5% (with focus on independent confirmations and review of tax correspondence)
- Quadrant 3: 15% (with focus on test of balances, independent confirmations and analytical review)
- Quadrant 4: 5% or less (independent confirmation and verification)
- Finalisation: 20%.

## 7. Amendments to the Plan as a Result of Unexpected Events, Changes in Conditions and Evidence Obtained from Audit Procedures

No amendments

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<b>A. Administration and Budgets</b>		
<b>1. Engagement team</b>		
<b><u>Name</u></b>	<b><u>Initials</u></b>	<b><u>Sign Off</u></b>
Engagement partner: Ali Salim Karani	<b>ASK</b>	
Quality control reviewer:	-	-
Manager: Alphonse Bob	<b>AB</b>	
Engagement senior: Michelle Karanja	<b>MK</b>	
Team member: Amani Peter	<b>AP</b>	
Team member: Fiona Taabu	<b>FT</b>	
<b>2. Budgets</b>		
Refer to Form 5.04		
<b>3. Timetable</b>		
Audit commencement date	2 <sup>nd</sup> April 2017	
Field work completion date	6 <sup>th</sup> April 2017	
Date file to be submitted to partner	12 <sup>th</sup> April 2017	

**Note: Each member of the engagement team is required to sign off under A.1. Engagement Team. In signing off, each member of the engagement team confirms that the Audit Strategy and Plan has been fully read by each member of the team before the commencement of the engagement, and further confirm that each team member is independent of the engagement and will comply to the Code of Ethics and all applicable ethical standards and requirements as promulgated by the ICPAK.**