



## Current developments in auditing and assurance services

# Audit Failures & Audit Quality

*List of the initiatives that have been suggested to improve audit quality as well as the transparency.*

1. Publication of audit engagement letters?
2. Shareholders' rights to question auditors?
3. Publication of auditor resignation statements?
4. Lead audit partner's signature on audit reports?
5. Active audit committee participation in evaluating the scope and results of the integrated audit of both ICF and financial statements?
6. Mandatory rotation of the audit firm every three/five to seven/nine years in the context of the quality of audit work performed by the firm and the audit efficacy?
7. Mandatory shareholder vote on the ratification of the independent auditor each year.

# Outline



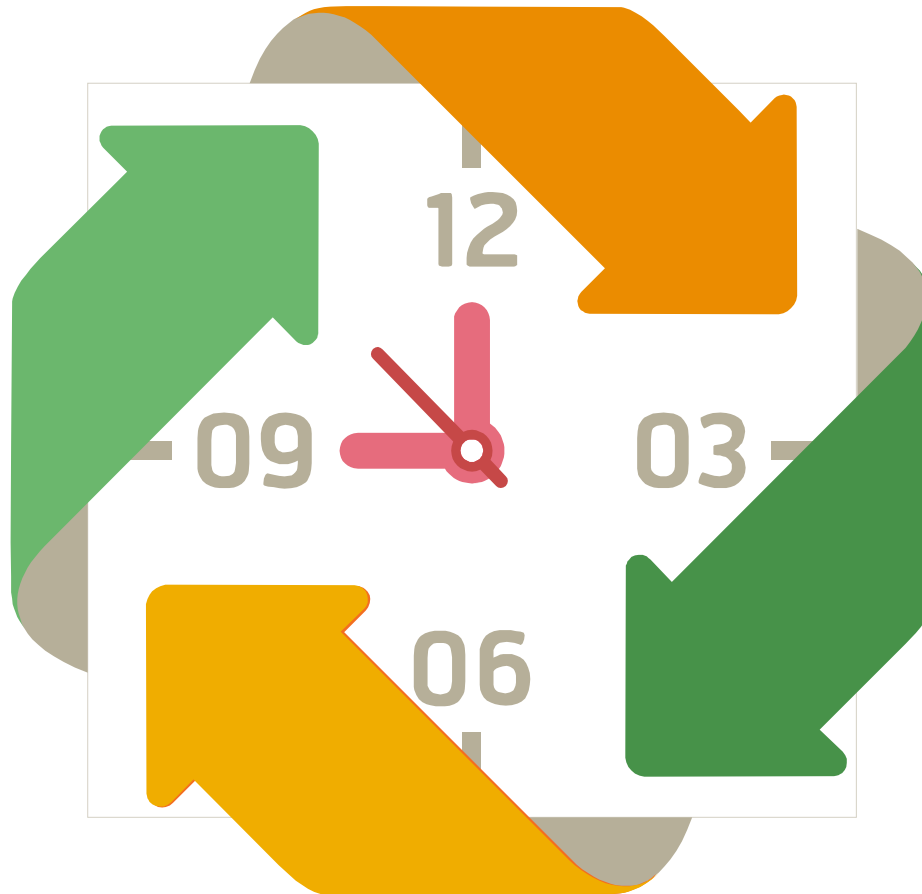
- Auditor reporting
- Other information contained or accompanying audited financial statements
- Companies Act 2015
- Anti Money Laundering

# Auditor Reporting

- Changes to the format
- Key audit matters
- Going concern consideration-ISA 570

# When do the new and revised auditing standards become effective?

Effective for audits of financial statements for periods ending on or after 15 December 2016



Therefore, effective for the first time on the audit of [insert name of client]'s [insert date] financial statements

# Which audit reports are affected?

*All International Standards on Auditing (ISA) audit reports, not just those for listed entities, will look different compared to current audit reports, for example:*

- Opinion first;
- Affirmative statement about the auditor's independence and fulfillment of relevant ethical responsibilities;
- Enhanced description of the responsibilities of the auditor and key features of an audit;
- Enhanced description of the respective responsibilities of management and the auditor regarding going concern;
- Material going concern uncertainty reported in a separate section in the audit report; and
- Revised reporting requirements relating to “other information” included in an entity's annual report

In addition, audit reports on **listed entity** financial statements will include “key audit matters” (KAMs) – a significant change

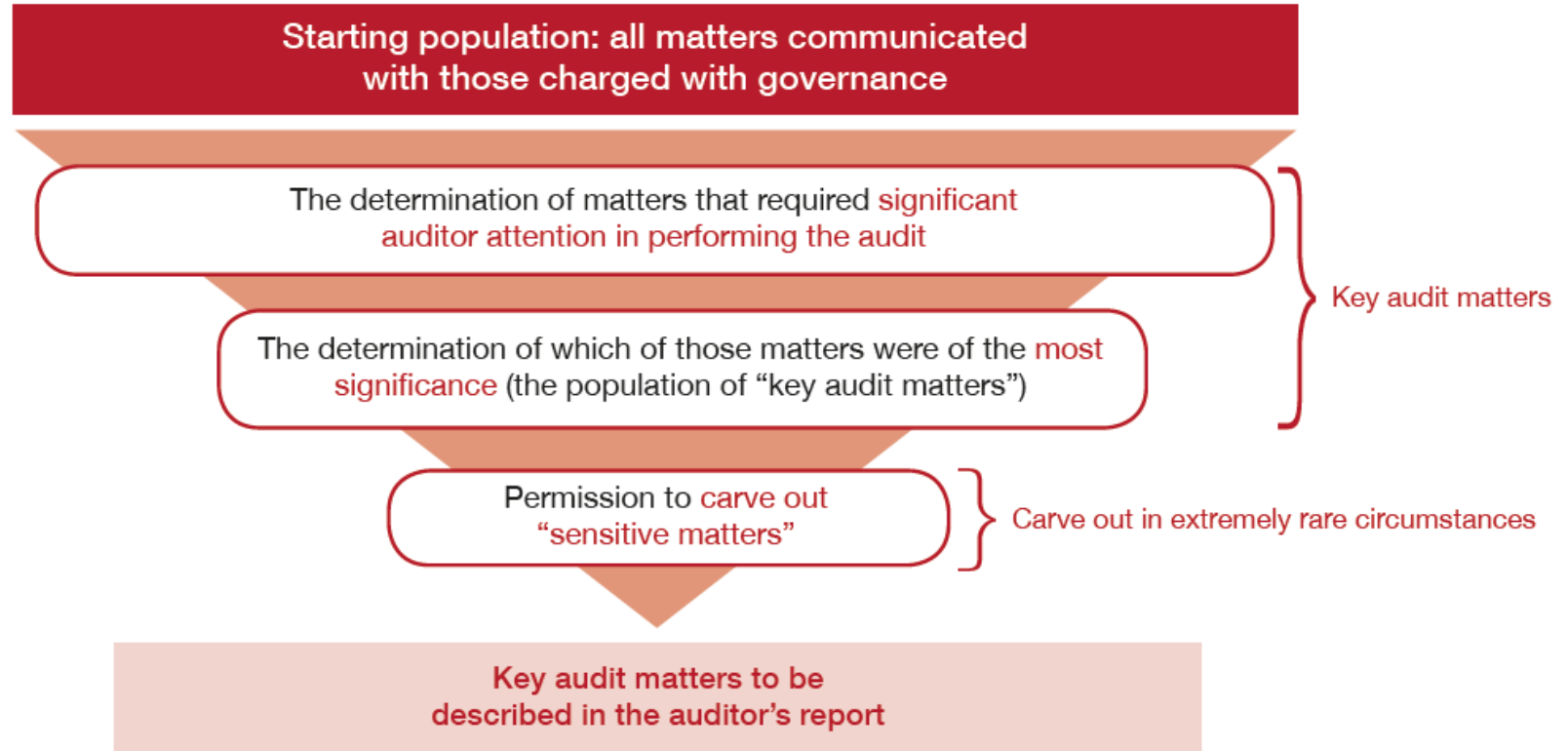
# What are key audit matters

Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements for the current period.

KAMs are selected from matters communicated with those charged with governance.

Key Audit Matters are no  
Management Letter issues

# How are KAM determined?





# How many KAMs will be reported in the audit report?

- ❑ The auditing standards neither prescribe the number of KAMs that should be reported nor provide a suggested range of number of KAMs
- ❑ KAMs are selected based on the auditor's professional judgment
- ❑ The standards state that the greater the number of KAMs that are initially determined, the more auditor should reconsider which of those matters were of most significance to the audit

# What happens if the auditor does not identify KAMs?

- The relevant auditing standard envisages that this will be rare: The determination of KAMs involves making a judgment about the **relative importance** of matters that required significant auditor attention
- The audit report must still contain a “Key audit matters” section which must state that the auditor has determined that there are no key audit matters
- Audit documentation must include the rationale for the auditor’s determination that there are no key audit matters to communicate in the auditor’s report

# ISA 720 (Revised 2015)-other information

- The auditor's work effort with respect to other information
- The auditor is required to read the other information and:
  - Consider whether there is a material inconsistency between the other information and the financial statements; and
  - Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit

# ISA 720 (Revised 2015)

**Using the heading “Other Information” or other appropriate heading, the auditor’s report will include:**

- A statement that management is responsible for the other information.
- Identification of the other information obtained prior to the date of the auditor’s report. In the
  - case of a listed entity, the auditor is also required to identify any other information expected to be obtained after the date of the auditor’s report
- A statement that the auditor’s opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon
- A description of the auditor’s responsibilities relating to reading, considering and reporting on other information as required by ISA 720 (Revised).
- When other information has been obtained prior to the date of the auditor’s report, either :
  - i. A statement that the auditor has nothing to report; or
  - ii. If the auditor has concluded that there is an uncorrected material misstatement of the other information, a statement that describes the uncorrected material misstatement of the other information

# Example

- See ISA 720 (Revised) for more illustratives

Note: The following is an example of reporting when the auditor has obtained all of the other information prior to the date of the auditor's report and has not identified a material misstatement of the other information.

Other Information [or another title if appropriate, such as "Information Other than the Financial Statements and Auditor's Report Thereon"]

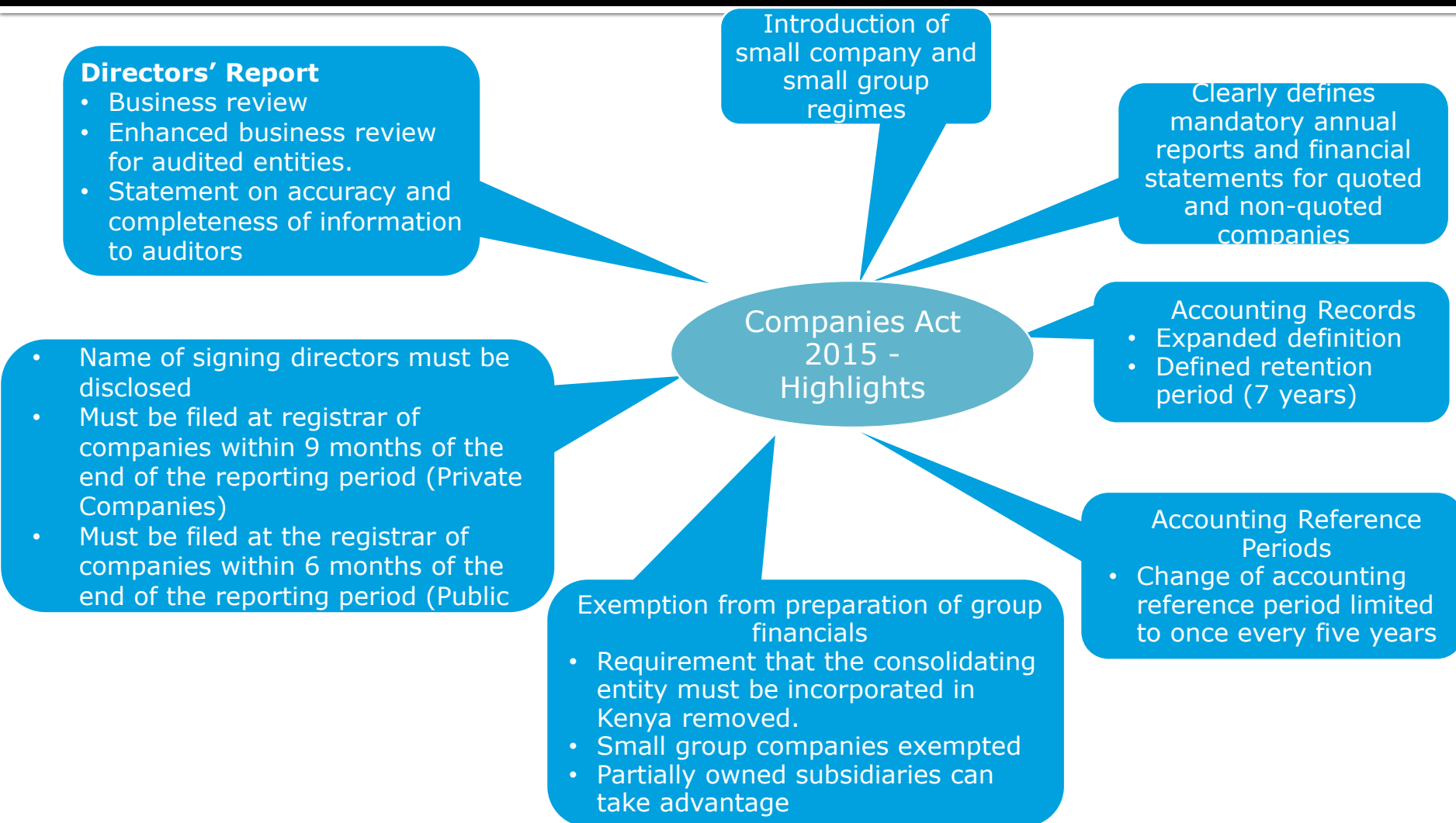
Management is responsible for the other information. The other information comprises the [information included in the X report,\* but does not include the financial statements and our auditor's report thereon.]

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 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.

\* A more specific description of the other information, such as "the management report and chairman's statement," may be used to identify the other information.

# Overview of the Companies Act 2015



# Anti Money Laundering

- Money laundering defined
- The legal requirements and consequences.
- How to fight money laundering and terrorist financing as well as protect yourself and the Institute.
- Proceeds of Crime and Anti Money Laundering Act, 2009 and Regulations 2013

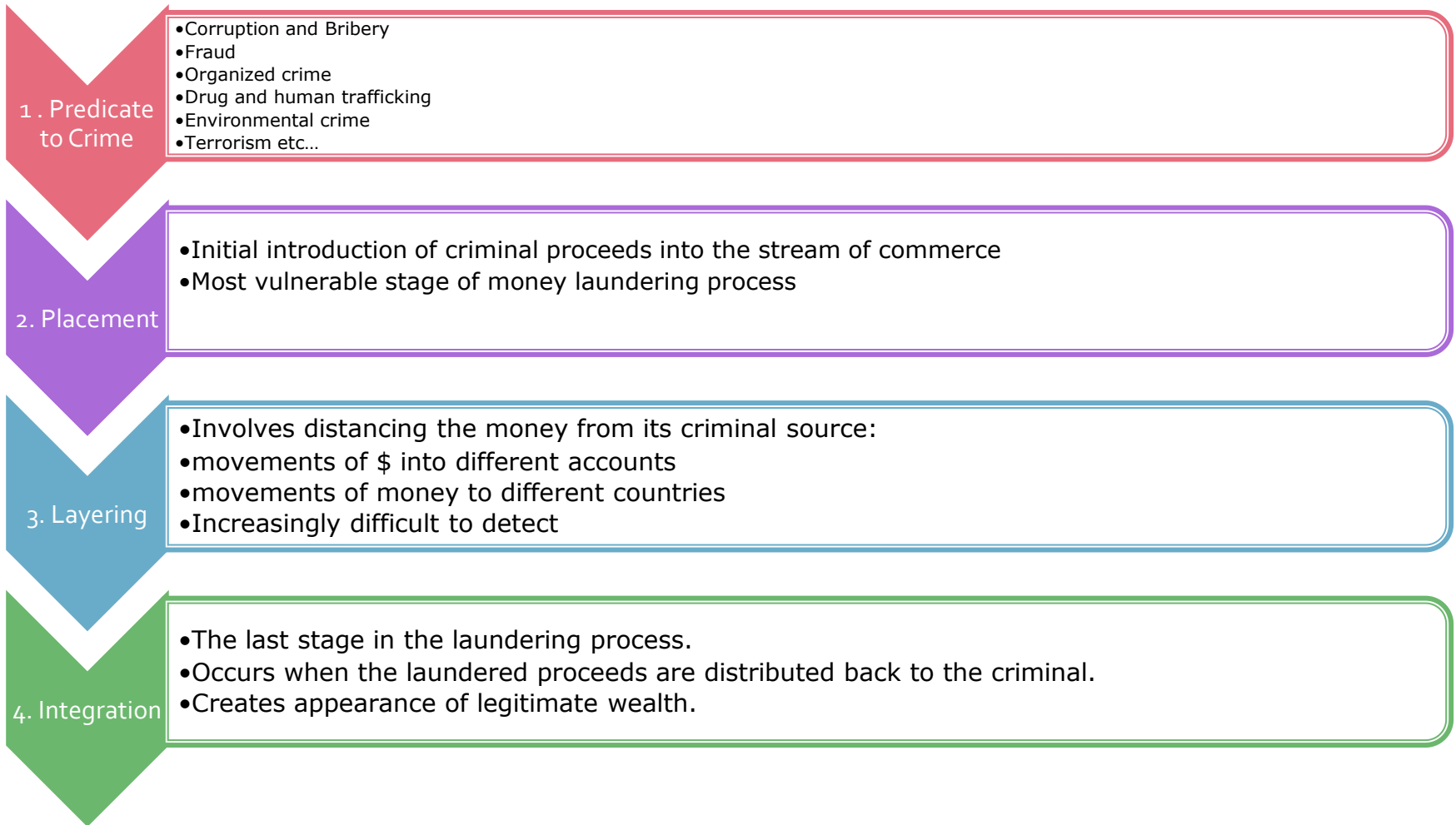
# Money Laundering defined

- **Definition:** The process of disguising the proceeds of crime in an effort to conceal their illicit origins and legitimize their future use.
- **Objective:** To conceal true ownership and origin of the proceeds, a desire to maintain control, a need to change the form of the proceeds.
- **Techniques:** They can be simple, diverse, complex, subtle, but secret.

*Proceeds = any economic advantage derived directly or indirectly from criminal offenses*



# Money Laundering stages



# Key provisions

Section 2 of the Proceeds of Crime and Anti Money Laundering Act provides that

***designated non-financial businesses or professions” means—***

- a. casinos (including internet casinos);*
- b. real estate agencies;*
- c. dealing in precious metals;*
- d. dealing in precious stones;*
- e. **accountants, who are sole practitioners or are partners in their professional firms;***
- f. non-governmental organisations;*
- g. such other business or profession in which the risk of money laundering exists as the Minister may, on the advice of the Centre, declare;*

# Key provisions

Section 48 specifies the situation in which the accountant has reporting obligations:-

## 48 *Application of reporting obligations*

*The reporting obligations under this Part shall apply to accountants when preparing or carrying out transactions for their clients in the following situations—*

- a. buying and selling of real estate;*
- b. managing of client money, securities or other assets;*
- c. management of bank, savings or securities accounts;*
- d. organisation of contributions for the creation, operation or management of companies;*
- e. creation, operation or management of buying and selling of business entities.*

# Penalties

- Natural person – fine ranging from KES 500,000 to KES 5 million or the amount of the value of the property involved in the offence, whichever is the higher; or to imprisonment for a term ranging from <2 years to 14 years or both.
- Body corporate - a fine ranging from KES <5 million to KES <25 million, or the amount of the value of the property involved in the offence, whichever is the higher.
- *Where any offence under this Part is committed by a body corporate with the consent or connivance of any director, manager, secretary or any other officer of the body corporate, or any person purporting to act in such capacity, that person, as well as the body corporate, shall be prosecuted in accordance with the provisions of this Act.*

# QA



## Presenter's Contacts