

Audit Quality Assurance workshop

Audit Planning

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March 2017

Agenda



- ❖ Introduction
- ❖ Developing an audit strategy
- ❖ Setting audit materiality
- ❖ Understanding the entity and internal controls
- ❖ Q&A

Introduction



Before you build a better mousetrap, it helps to know if there are any mice out there.

When you're dying of thirst it's too late to think about digging a well.

Introduction: Audit life cycle



Engagement Setup

- ISA 210, Agreeing the Terms of Audit Engagements
- ISA 220, Quality Control for an Audit of Financial Statements
- ISA 300, Planning an Audit of Financial Statements

Risk Assessment

- ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements
- ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements
- ISA 300, Planning an Audit of Financial Statements
- ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment
- ISA 320, Materiality in Planning and Performing an Audit
- ISA 330, The Auditor's Responses to Assessed Risks
- ISA 600, Special considerations – audits of group financial statements
- ISA 610, Using the Work of Internal Auditors
- ISA 620, Using the Work of an Auditor's Expert

Phase 1- Planning

Introduction: Audit life cycle



Testing

- ISA 500, Audit Evidence
- ISA 501, Audit Evidence-Specific Considerations for Selected Items
- ISA 505, External Confirmations
- ISA 520, Analytical Procedures
- ISA 530, Audit Sampling
- ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures

Completion

- ISA 260, Communication with Those Charged with Governance
- ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management
- ISA 450, Evaluation of Misstatements Identified during the Audit
- ISA 560, Subsequent Events
- ISA 570, Going Concern
- ISA 580, Written Representations
- ISA 700, Forming an Opinion and Reporting on Financial Statements

Phase 2- Do/Execution

Phase 3- Conclusion

Audit Planning Process



Accept client and perform initial planning.

Understand the client's business and industry.

Assess client's business risk.

Perform preliminary analytical procedures.

Set materiality and assess acceptable audit risk
and inherent risk.

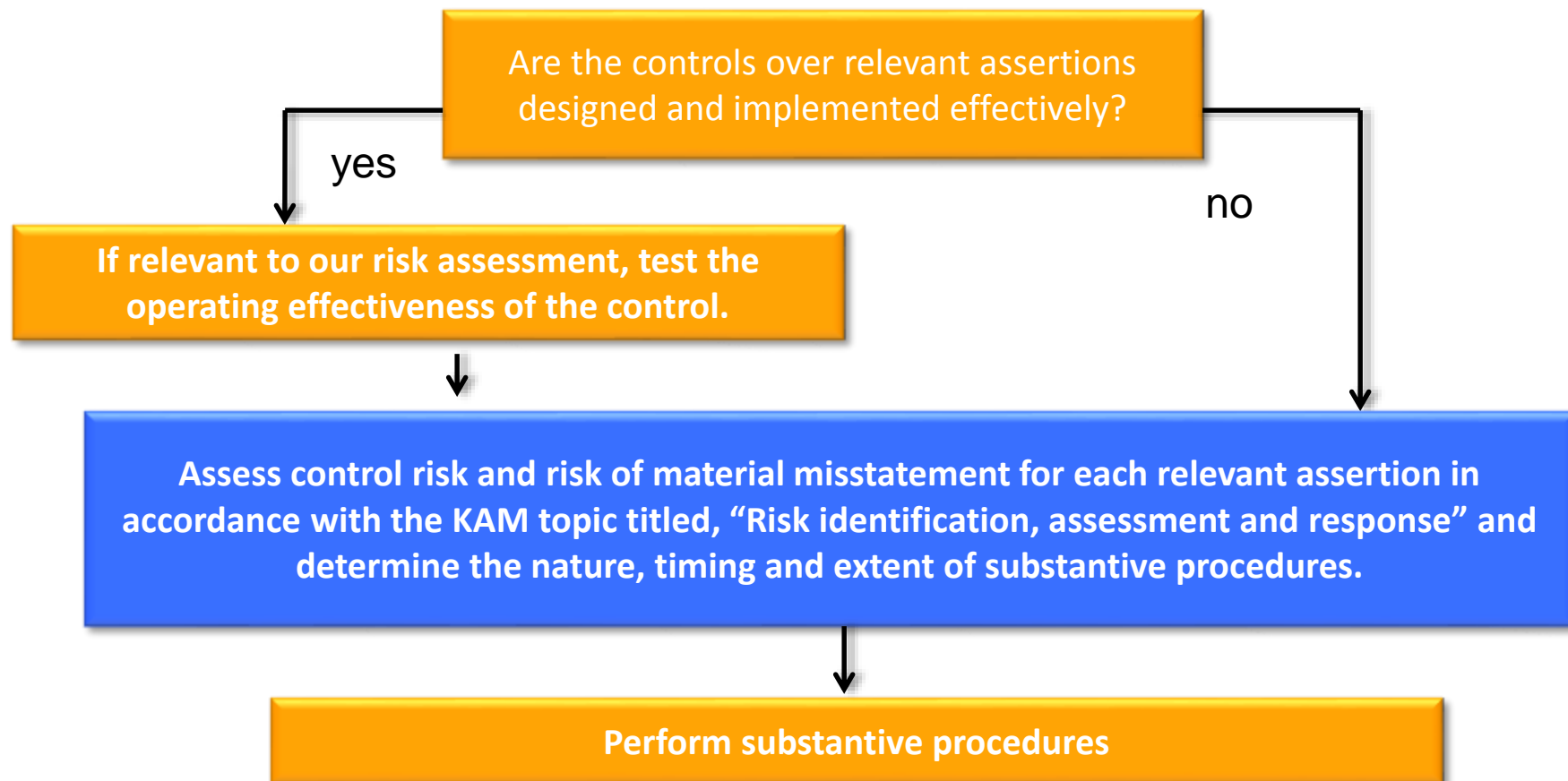
Understand internal control and assess control risk.

Develop overall audit plan and audit program.

Developing audit strategy/approach



- Test controls, Substantive testing or both?



What Do We Consider?



Is it more efficient to test controls than to perform substantive procedures alone?

Can substantive procedures alone provide sufficient appropriate audit evidence?

Significant risk of fraud or error

Existing control framework

RoMM at the assertion level

Results of procedures in prior periods

Prior period evidence

Audit team experience

IT environment

Specialist resources

To Test Controls... Or Not to Test Controls

- We test the operating effectiveness of controls:
 - When it is more efficient than performing substantive procedures alone; and
 - When substantive procedures alone are insufficient to provide sufficient appropriate audit evidence.

Is it more efficient to test controls than to perform substantive procedures alone?

Can substantive procedures alone provide sufficient appropriate audit evidence?

To Test Controls... Or Not to Test Controls



Is it more efficient to test controls than to perform substantive procedures alone?

- Can you think of an example from one of your clients where it was more efficient to test controls?
- Can you think of an example where it was more efficient NOT to test controls?



Are Substantive Procedures Insufficient?

- In what circumstances would substantive procedures alone be **insufficient** to provide sufficient appropriate audit evidence?

Can substantive procedures alone provide sufficient appropriate audit evidence?

Significant Risk of Fraud or Error

**Significant risk of
fraud or error**

- How may a significant risk of fraud or error impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

Existing Control Framework

Existing control framework

- How does our understanding of the controls currently in place impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

RoMM at the Assertion Level

RoMM at the assertion level

- How does our assessment of RoMM at the assertion level impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

RoMM at the Assertion Level



- How do we take credit for testing the operating effectiveness of controls?

Impact on RoMM



Effective controls mean we can measure control risk as “Lower”

		Control Risk	
		Higher	Lower
Inherent Risk	Significant	High	Moderate/Low
	Not Significant	Moderate/Low	Low

Reducing RoMM at the Assertion Level



- What is our RoMM before we consider controls and what substantive procedures would we need to perform?
- Reducing our assessment of RoMM may therefore change:

Nature

- For example, substantive analytical procedure instead of test of details

Timing

- For example, perform substantive procedures at interim date

Extent

- For example, reduce the sample size when performing test of details

Results of Procedures in Prior Periods

Results of procedures in prior periods

- How may the results of procedures in the prior period impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

Prior Period Evidence



Prior period evidence

- How may the existence of prior period evidence impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

Audit Team Experience



Audit team experience

- How might the experience of the audit team impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

IT Environment

IT environment

- How may the existing IT environment impact our audit approach?
- What examples do you have of when you have seen this on your engagements?

Specialist Resources

Specialist resources

- How might you adjust your audit approach given the availability of specialists within the firm?
- What examples do you have of when you have seen this on your engagements?

Materiality



- Concept of materiality comes from the financial reporting framework
- Misstatements and omissions are material if they can influence economic decisions of users taken on the basis of financial statements
- The auditor's determination of materiality is a matter of professional judgment

Materiality



- Materiality is set for the financial statements as a whole.
- Performance materiality means the amount set by the auditor at less than materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Materiality



- The auditor also sets the audit misstatement posting threshold above which misstatements need to be accumulated.
- Materiality is assessed from the perspective of the users of financial statements.
- A percentage is applied to a chosen benchmark (for example, assets, liabilities, equity, revenue, expenses)

Materiality



- A percentage is applied to a chosen benchmark based on professional judgment.
 - 5% of profit before tax
 - 1% of revenue

Determining Materiality



- Use professional judgment and based on reasonable person
- Considers both
 - Quantitative and qualitative factors
- Materiality used in
 - Planning the audit
 - At the overall financial statement level
 - Allocate to individual accounts
 - Evaluating audit findings

Materiality Recap



- Based on professional judgment.
- Not just a simple mathematical calculation.
- Consider both nature and size.
- Engagement Partner involvement.

Obtain an Understanding of the Client and its Environment



- Perform risk assessment procedures, including
 - Inquiries of management and others within the entity
 - Analytical procedures
 - Observation and inspection relating to client activities, operations, documents, reports and premises.
 - Other procedures, such as inquiries of others outside the company (e.g., legal counsel, valuation experts) and reviewing information from external sources such as analysts, banks, rating organizations, journals.

Understanding the Client's Business— Nature of the Client



- Competitive position
- Organizational structure
- Accounting policies and procedures
- Ownership
- Capital structure
- Product and service lines
- Critical business processes
- Internal control

Understanding the Client's Business, Industry, Regulatory, and Other Factors



- Competitive environment
- Supplier and customer relationships
- Technology developments
- Major laws and regulations
- Economic conditions
- Attractiveness of the industry
 - Barriers to entry
 - Strength of competitors
 - Bargaining power of suppliers of raw materials and labor
 - Bargaining power of customers

Understanding the Client's Business— Objectives, Strategies & Business Risks



- Objectives—Overall plans
- Operating and financial strategies—Operational actions to achieve objectives
- Business risks—Threats to achieving objectives

Understanding the Client's Business – Internal Control

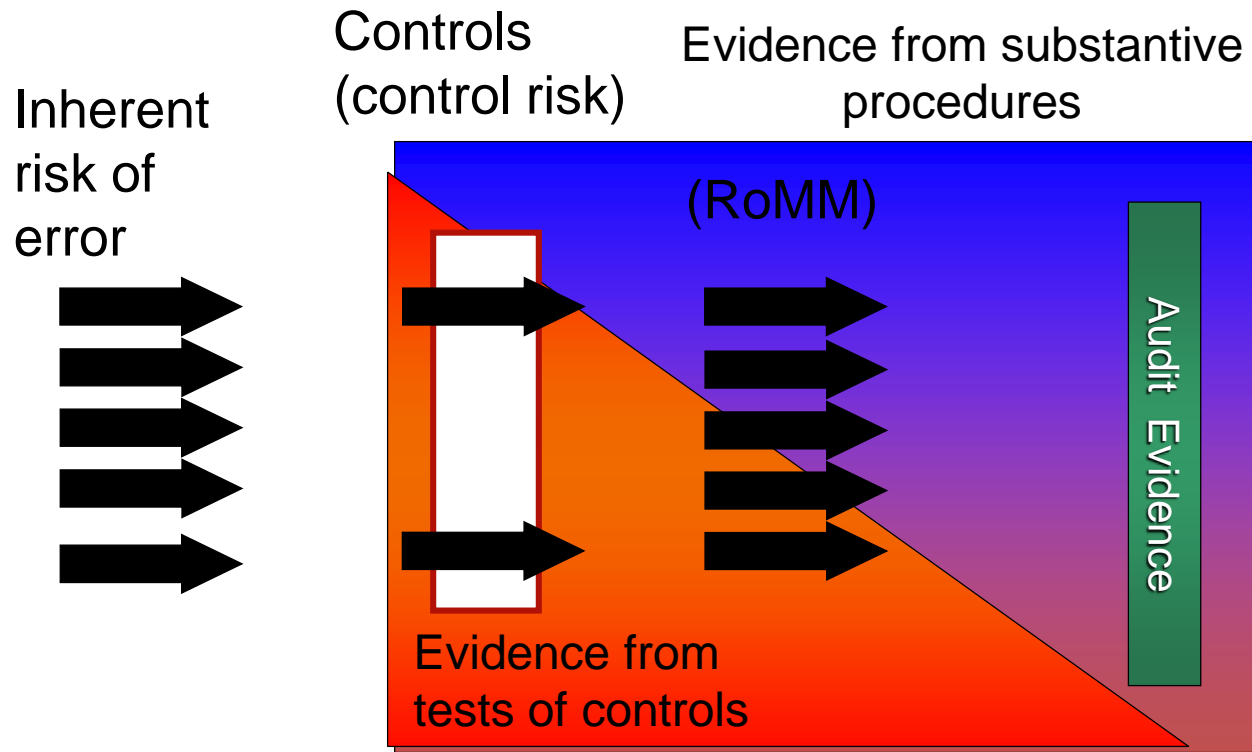


- Need knowledge and understanding of how a client's internal control works:
 - What controls exists
 - Who performs them
 - How various types of transactions are processed and recorded
 - What accounting records and supporting documentation exist

Determining the Planned Audit Approach



Audit Evidence



Interactive Session



Conclusion



To be prepared is half the victory

Contacts



Thank you

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