

IBRAHIM & COMPANY
Certified Public Accountants



Audit Planning & Preparation

ICPAK Coast Branch Practitioners Forum

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Objectives of an audit plan

- ❑ The main objective is to develop a suitable audit plan as required by International Standards of Auditing.
- ❑ To minimize audit risks.
- ❑ To manage the audit engagement so that it's performed in an effective and efficient manner.

“If you are failing to plan, you are planning to fail.” Tariq Siddique



Client acceptance/continuation procedures

The objective is to ensure sufficient information has been obtained to enable the firm to decide whether to accept the entity as a client of the firm.

- ☐ Reputation and integrity of the client and those charged with governance.
- ☐ Risks associated with the client engagement arising from acceptance.
- ☐ Availability of competent resources available to deal with the assignment.
- ☐ Conflicts of interest.
- ☐ Independence and available safeguards available.
- ☐ Evidence of disputes with other professional advisors. Understand the reason for changing advisors.
- ☐ Fee considerations.
- ☐ compliance with the Code of Ethics

Terms of engagement

- ☐ The terms of the audit engagement are covered in the letter of engagement (LOE).
- ☐ Objective and scope of audit engagement.
- ☐ Responsibilities of the auditor.
- ☐ Responsibilities of the management.
- ☐ Applicable financial reporting framework.
- ☐ Ensure LOE is accepted and signed



Points brought forward from previous audit

- ☐ Ensure that points forward schedule from the previous year are brought forward and properly dealt with.
- ☐ The left-hand side should record the points and the right-hand side its eventual clearance during the following year's audit.

POINTS	W/P REF.	CLEARANCE Initial/Date

Pre-planning meeting & team discussion

Pre-planning meeting with client

- Major variances noted.
- Changes which have occurred since the previous audit.
- Occurrence/allegations of fraud during the year.
- Agree with client on audit timelines.
- Agreement regarding audit fees.
- Arrangement of logistics.
- Implementation of prior year management letter issues.
- Review of points brought forward from previous audit.

Team discussion

- Identifying risks of material misstatement and procedures to mitigate them.
- The applicable financial reporting framework to the entity.
- Changes which have occurred since the previous audit.
- Consideration of fraud risk.
- Share relevant information obtained about the entity's related parties.
- Evaluate the degree of estimation uncertainty associated with an accounting estimate.
- Emphasize the need to maintain professional scepticism throughout the audit.

Permanent audit file review

- ✓ Update details of all client locations.
- ✓ File copies of latest management letter with client comments.
- ✓ File updated copies of the Memorandum & Articles of Association.
- ✓ Update extracts of directors' / shareholders' meeting minutes of continuing audit significance.
- ✓ File copies of debentures / charges created / discharged during the year.
- ✓ Verify the audit engagement letter and ensure that it is still relevant.
- ✓ File copies of all leases, property titles and other agreements.

Storage of Work Papers



- **Permanent File:**
 - Keeps information that is relevant for multiple years on recurring engagements.
- **Current File:**
 - Information relevant for a given audit project/engagement.

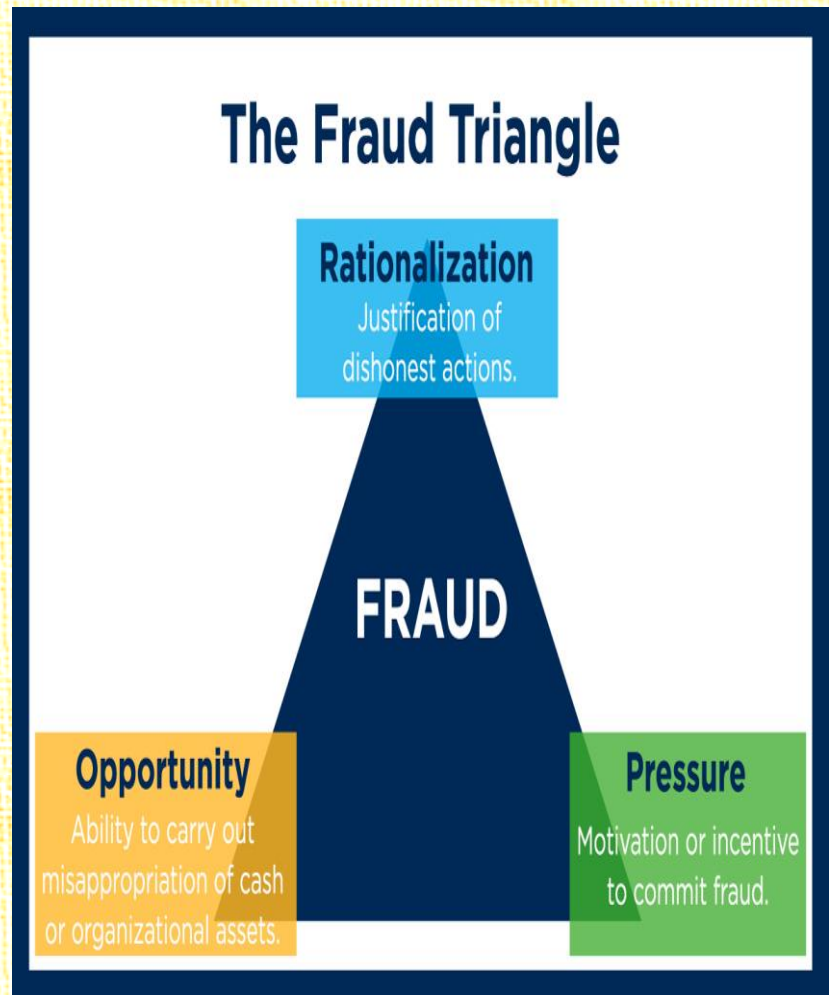
Understanding the Entity and its Internal Control

The objective is to have a comprehensive understanding of the entity and its business.

- Document the names and ownership % of principal Shareholders.
- Document the names of directors and their board responsibilities.
- Obtain organization chart and key management.
- Business details i.e. key products, industry, registered office, bankers.
- Details of major competitors.
- Details of major customers.
- Details of major suppliers.
- Related party details and transactions.
- Banking facilities.
- Laws and regulations applicable.
- Accounting, IT and payroll systems in place.
- Key business processes: Sales, purchases, payroll, fixed assets, cash and bank, journal entries etc.

Assessment of Fraud Risk

- Identification of areas that may be susceptible to fraud.
- Consideration of risk of management override of controls.
- There is a presumption that there are risks of fraud in revenue recognition.
- Consideration of any allegations of fraud and approach to deal with these.
- Management's process of identifying and responding to the risks of fraud.
- Unusual or unexpected relationships identified during the preliminary analytical.
- Inquiries within the entity to determine instances of fraud within the entity, and how these have been dealt with.



Preliminary analytical review

- ❑ Objective is to identify unusual relationships and major deviations from expectations that may identify potential errors and risks.
- ❑ Expectations from budgets, prior years, industry averages, knowledge of business etc.
- ❑ Done by simple comparison and also by use of ratio analysis.

Golden rules of AR

1. Develop an expectation.
2. Set the acceptable error level. Consider materiality.
3. Calculate a prediction and compare with recorded amounts.
4. Investigate the significant differences.
5. Document any explanation received.

Preliminary analytical review (Cont.)

(Insert name of client)			Prepared By			
Preliminary Analytical Review			Reviewed By			
For the year ended			Reviewed By			
STATEMENT OF PROFIT OR LOSS						
	2013	2012	Change	%ge	Comment	Significant risk
	Shs	Shs	Shs	change	on AR	noted from PAR
Revenue						
Cost of sales						
Gross profit						
GP margin						

Key controls

Identify key controls. Obtain an understanding of specific control activates in classes of transactions, account balances .

Perform walkthrough tests to assess design and implementation of controls.

We must evaluate controls relating to:

- ❖ Significant risks which is an identified and assessed risk of material misstatement that, in the auditor's judgment, requires special audit consideration.
- ❖ Risks where substantive procedures alone are insufficient i.e. Highly automated process. If we are unable to test controls we are unlikely to be able to carry out the audit.

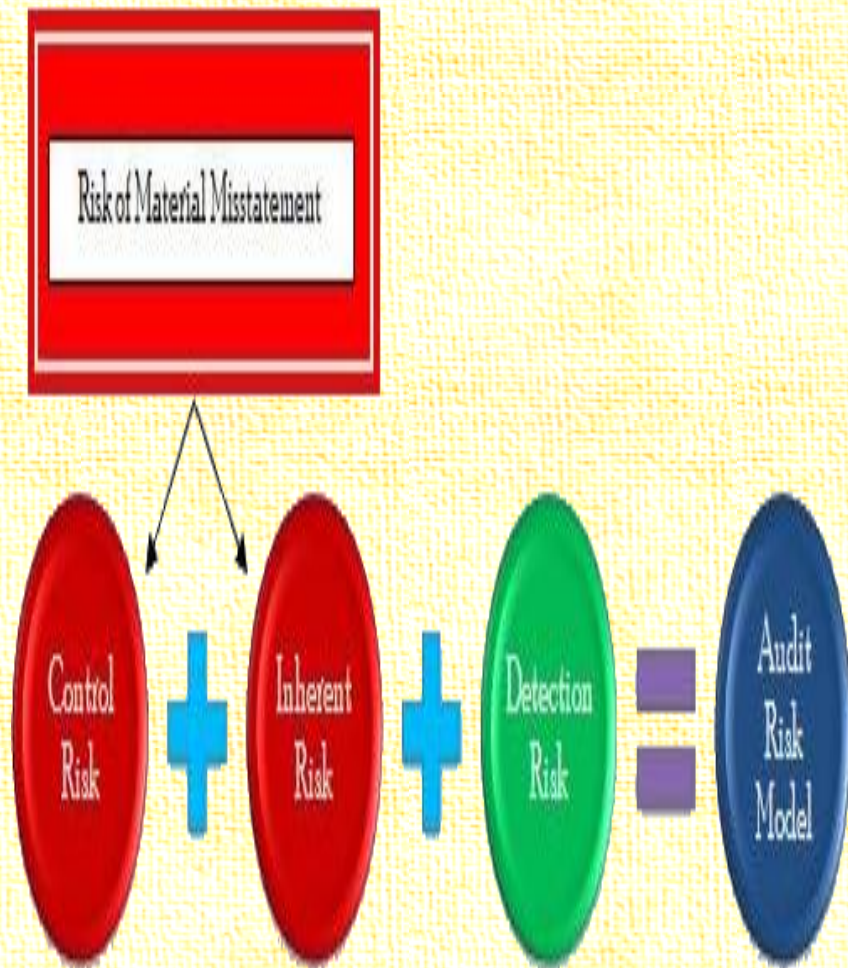
Audit risks

Audit Risk is the risk that an auditor expresses an inappropriate opinion on the financial statements.

1. Inherent Risk - arises due to error or omission as a result of factors other than the failure of controls. Higher where a high degree of judgment and estimation is involved.

2. Control Risk - arises due to absence or failure in the operation of relevant controls of the entity.

3. Detection Risk is the risk that the auditors fail to detect a material misstatement in the financial statements i.e. misapplication of audit procedure.



Risk Assessment

We are only interested in risks which may lead to a material misstatement of the financial statement.

❑ Overall financial statement level risks - risks which impact at the level of the financial statements as a whole.

❑ Assertion level risks. Assertion are representations by management. Only affect specific account balance.

Assertions

- Existence/Occurrence
- Rights and obligations
- Completeness
- Accuracy
- Valuation
- Classification and understandability

Risk Assessment (Cont.)

Financial statement level risks

- Management override of controls.
- Fraud.
- Management lack of competence.
- Integrity of management.
- Reliability of financial records.
- Going concern.

Assertion level risks

- Recoverability of trade receivables
- Completeness of trade payables.
- Impairment of property, plant and equipment.
- Completeness of income.
- Existence of expenses.

Financial statement level risks

Ref	Financial statement level risk	Related control	Response to the risk/ Impact on audit	Conclusions

Assertion level risks

Risk	Reference	Assertion	Related control	Likelihood H/M/L	Response to the risk	Conclusions

Planning Materiality

- Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
- Forms the basis for determining the nature and extent of risk assessment procedures.
- The materiality level set at the planning stage is primarily used for determining sample sizes.
- “Performance materiality refers to the amount set by the auditor at less than the materiality level 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” ISA 320.
- The auditor’s determination of materiality is a matter of professional judgment.
- Revenue for the year ended 31 Dec 2016 – Shs 71,079,831. While profit before tax was Shs 2,001,991. Finally, total assets amounted to Shs 25,864,068. Calculate base materiality, performance materiality and Trivial level

<i>(Insert name of client)</i>				
<i>For the year ended</i>				

PLANNING MATERIALITY CALCULATION

	Shs	Rate	Shs
Turnover	71,079,831	1%	710,798
Results before tax	2,001,991	5%	100,100
Gross assets	25,864,068	2%	517,281
Base Materiality			442,726
Profit and loss Materiality			405,449
Performance Materiality	75%	of base Materiality	332,045
Trivial level	5%	of base Materiality	22,136

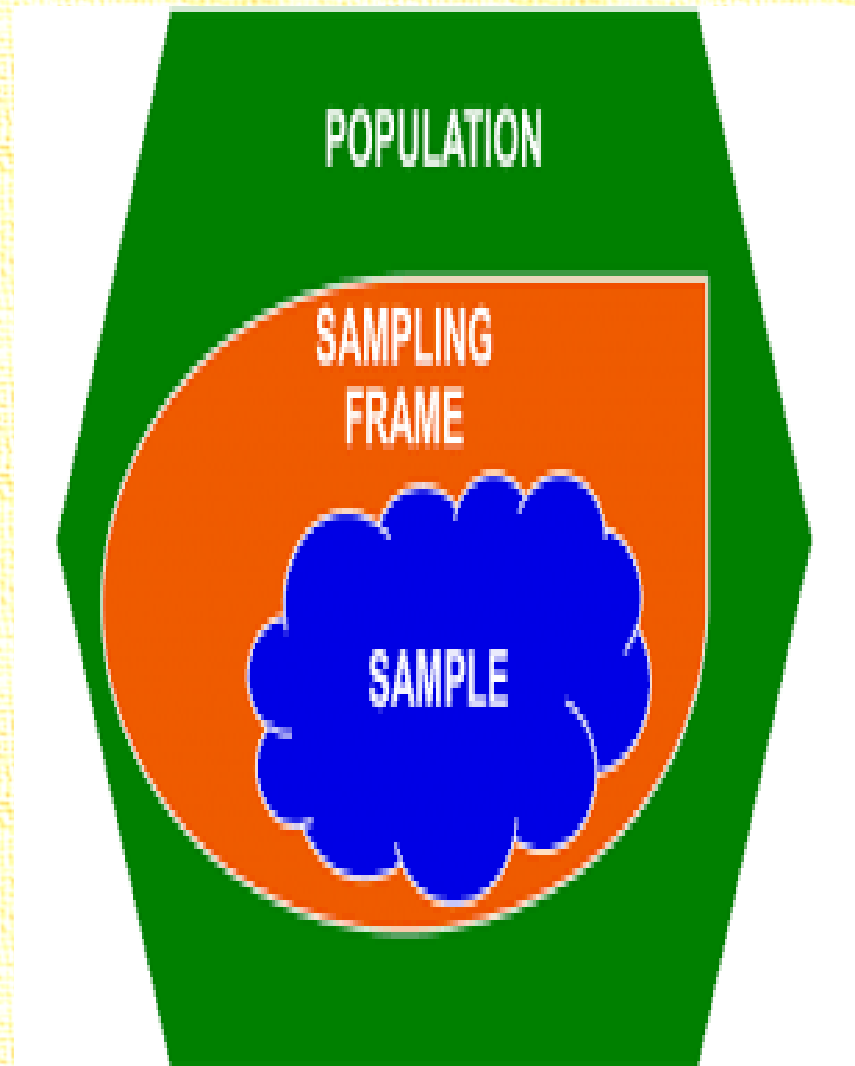
JUSTIFICATION

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Prepared by:	Date:	
Manager approval:	Date:	
Partner approval:	Date:	

Sampling

- Involves application of audit procedures to less than 100% of the items within a class of transaction such that all sampling units have a chance of selection. Different methods of sampling are:
 - ✓ Random method
 - ✓ Haphazard selection. Avoid any conscious bias or predictability
 - ✓ Systematic selection
 - ✓ Monetary Unit Sampling
 - ✓ The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level.



Sampling (Cont.)

- If the expected misstatement is high, 100% examination or use of a large sample size may be appropriate when performing tests of details.
- The sample size can be determined by the application of a statistically-based formula or through the exercise of professional judgment.

Question

- ✓ Testing completeness of sales - high risk, no controls tested
- ✓ Total Population: K.Shs. 150,000,000/-
- ✓ There are 5,000 transactions.
- **How do you determine the total sample size?**
- **How do you select specific samples?**

Planning time budget

- ☐ Identify engagement team members and their category.
- ☐ Time allocated to each staff.
- ☐ Determination of budgeted costs.
- ☐ Comparative of current and prior year.

BUDGET	Current Year				Prior Year	
Staff name	Category	Charge out rate per hour Shs	Time budget Hours	Total Budget Shs	Hours	Shs
	Partner					
	Manager					
	Senior 1					
Total						

Completion of an audit planning

- ☐ Planning is completed.
- ☐ Plan approved by manager & partner.
- ☐ Progress fee note raised.
- ☐ Fieldwork

Audit documentation

- ☐ The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached.
- ☐ The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand”
- ☐ Audit documentation provides evidence that the audit complies with the ISAs.
- ☐ ISA 220 requires the auditor to review the audit work performed through review of the audit documentation.

Audit documentation (Cont.)

“When preparing audit documentation, the auditor of a smaller entity may also find it helpful and efficient to record various aspects of the audit together in a single document, with cross-references to supporting working papers as appropriate. Examples of matters that may be documented together in the audit of a smaller entity include the understanding of the entity and its internal control, the overall audit strategy and audit plan, materiality” ISA 230.

Audit working papers

- ☐ These are documents that show the audit evidence of the work carried out during an audit.
- ☐ The main purpose of an audit working papers is to provide evidence to support the opinions made in the audit report.
- ☐ Audit evidence must be sufficient and appropriate.

Basic requirements of an audit working Papers

A schedule is prepared for each audit procedure. The following should be documented:

- ☐ Objective of the test.
- ☐ Work done.
- ☐ Sample size method and determination.
- ☐ Source information.
- ☐ Audit ticks used.
- ☐ Cross referenced to other schedules.
- ☐ Results obtained and evaluation of errors and matters arising.
- ☐ Evaluation of judgements made.
- ☐ Conclusions drawn and points c/fwd and recommendations.
- ☐ Date and Initials of the preparer and reviewer.
- ☐ Company Name and Year-end.
- ☐ Cross-referencing.
- ☐ Subject/Header.
- ☐ Neatness.

Audit evidence

Audit evidence – “Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based” ISA 500.

- ❑ Audit evidence must be sufficient and appropriate.
- ❑ Sufficiency is the measure of the quantity of audit evidence while appropriateness is the measure of the quality of audit evidence.
- ❑ Audit evidence comprises both information that supports and corroborates management’s assertions, and any information that contradicts such assertions.
- ❑ Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, re-performance, Inquiry and analytical procedures.
- ❑ Corroborating information obtained from a source independent of the entity may increase the assurance the auditor obtains from audit evidence that is generated internally.
- ❑ **Professional scepticism throughout the audit.**

Questions
Answers
Comments

Thank You!