

DEVELOPMENTS IN AUDIT

Presentation by:

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Presentation agenda



- ❑ Professional Competence for Engagement Partners
Responsible for Audits of Financial Statements
- ❑ Practice Statements on Materiality Judgments

Professional Competence for Engagement Partners (Audit)



Applicable framework - International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audit of Financial Statements (Revised). Released by The International Accounting Education Standards Board.

Agenda

- ☐ Introduction
- ☐ Objective
- ☐ Requirements

IES8 - Introduction



- ❑ Prescribes the professional competence required to develop & maintain when performing the role of an engagement partner responsible for audits of financial statements.
- ❑ Targets IFAC member bodies and helpful to accountants, professional accounting firms and regulators

IES8 – Introduction (cont..)



- ❑ Effective from 1 July 2016
- ❑ To protect the public interest by requiring an Audit Engagement Partner to develop and maintain the necessary skills and training to perform the role effectively and to ensure audit quality.

IES8 - Objective



Establishes the professional competence that professional accountants develop and maintain when performing the role of an Engagement Partner.

❑ Establishing professional competence helps to:

- ✓ Protect public interest
- ✓ Contribute to audit quality
- ✓ Promote the credibility of the audit profession

IES8 – Objective (cont..)



- ❑ Need to maintain and further develop professional competence because engagement partners operate in an environment of significant change

IES8 - Requirements



- ❑ IFAC member bodies shall require Engagement Partners to develop and maintain professional competence that is demonstrated by the achievement of learning outcomes
- ❑ IFAC member bodies shall require Engagement Partners to undertake CPD that develops and maintains the professional competence required for this role.

IES8 – Requirements (continued)



Technical competency – Audit

- ☐ Lead the identification and assessment of the risks of material misstatement as part of an overall audit strategy.
- ☐ Evaluate responses to the risks of material misstatement.
- ☐ Evaluate whether the audit was performed and documented in accordance with applicable auditing standards (e.g., ISAs) and relevant laws and regulations.
- ☐ Develop an appropriate audit opinion and related audit report, including a description of key audit matters as applicable.

IES8 – Requirements (continued)



Technical competency – Financial accounting and reporting

- ☐ Evaluate whether an entity has prepared, in all material respects, financial statements in accordance with the applicable financial reporting framework and regulatory requirements.
- ☐ Evaluate the recognition, measurement, presentation, and disclosure of transactions and events within the financial statements in accordance with the applicable financial reporting framework and regulatory requirements.

IES8 – Requirements (continued)



Other technical competency areas

- ☐ Governance and risk management
- ☐ Business environment
- ☐ Taxation
- ☐ Information technology
- ☐ Business laws and regulations
- ☐ Finance and financial management

IES8 – Requirements (continued)



Professional skills

- ❑ Intellectual - Resolve audit issues using inquiry, abstract and logical thought, and critical analysis to consider alternatives and analyze outcomes.
- ❑ Interpersonal and communication - Communicate effectively and appropriately with the engagement team, management, and those charged with governance of the entity. Resolve audit issues through effective consultation when necessary

IES8 – Requirements (continued)



Professional skills – continued

☐ Personal:

- ✓ Promote and undertake lifelong learning.
- ✓ Act as a role model to the engagement team.
- ✓ Act in a mentoring or coaching capacity to the engagement team.

IES8 – Requirements (continued)



Professional skills – continued

- ❑ Organizational - Evaluate whether the engagement team, including auditor's experts, collectively has the appropriate objectivity and competence to perform the audit.

IES8 – Requirements (continued)



Professional Values, Ethics, and Attitudes

- ☐ Commitment to the public interest
- ☐ Professional skepticism and professional judgment
- ☐ Ethical principles –
 - ✓ integrity,
 - ✓ objectivity,
 - ✓ professional competence and due care,
 - ✓ confidentiality,
 - ✓ professional behavior

Questions?



Ask
Answer
Who
Why
Where
What
When
How
Question
Answers
Apply
Understand
Query
Questions

Practice Statement on Materiality Judgments



History

- ❑ December 2012 – IASB adds a short-term initiative on disclosure to its work programme
- ❑ 28 May 2013 - Feedback statement published
- ❑ March 2014 - Project on materiality formally added to the IASB's agenda
- ❑ 28 October 2015 - ED/2015/8 IFRS Practice Statement published
- ❑ 14 September 2017 – Published

Objective



- ❑ Assist management in presenting financial information about the entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity.
- ❑ The Practice Statement is not an IFRS.
Consequently, entities applying IFRSs are not required to comply with the Practice Statement.

Scope



- ☐ Applies to the preparation of financial statements in accordance with full IFRS.
- ☐ It is not intended for entities applying the IFRS for SMEs

General characteristics of materiality



- ☐ Definition of materiality
- ☐ Pervasiveness of materiality judgements
- ☐ Judgement
- ☐ Primary users and their information needs
- ☐ Impact of publicly available information

Definition of materiality



Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity.

i.e. materiality is an entity-specific aspect of relevance based on the nature or magnitude, or both, of the items to which the information relates in the context of an individual entity's financial report.

Pervasiveness of materiality judgements



- ❑ Affects recognition, measurement, presentation, and disclosure hence pervasive.
- ❑ Recognition and measurement requirements should only be applied when the effect of applying them is material
- ❑ An entity need not provide a disclosure specified by an IFRS if the information resulting from that disclosure is not material.

Judgement



- ❑ When assessing whether information is material, an entity considers:
 - ✓ its own specific circumstances,
 - ✓ the information needs of the primary users of its financial statements.
- ❑ Materiality judgements are reassessed at each reporting date.

Primary users and their information needs



- ❑ Users:
 - ✓ existing and potential investors,
 - ✓ lenders and other creditors.
- ❑ Expectation – have reasonable knowledge of business and economic activities and to review and analyse the information included in the financial statements diligently.
- ❑ Needs -
- ❑ The objective of financial statements is to provide

Impact of publicly available information



- ❑ Financial statements are required to be comprehensive documents
- ❑ An entity assesses whether information is material to its financial statements, regardless of whether some of the information may be also available from other sources.

Four-step process



- ❑ An entity may find it helpful to follow a systematic process in making materiality judgements.
- ❑ Example steps per the Practice Statement:
 - ✓ Step 1 - identify information that has the potential to be material.

Four-step process (Conti..)



- ❑ Example steps per the Practice Statement:
 - ✓ Step 2 - assesses whether the information identified in Step 1 is material. Consider quantitative (size) and qualitative (nature) factors.

Four-step process (Conti..)



□ Example steps per the Practice Statement:

- ✓ Step 3 - organise the information within the draft financial statements in a manner that supports clear and concise communication
 - ❖ tailor information to the entity's own circumstances;
 - ❖ describe the entity's transactions, other events and conditions as simply and directly as possible;

Four-step process (Conti..)



□ Example steps per the Practice Statement:

✓ Step 3 (continued)

- ❖ highlight relationships between different pieces of information;
- ❖ provide information in a format that is appropriate for its type;
- ❖ provide information in a way that maximises, to the extent possible, comparability;

Four-step process (Conti..)



□ Example steps per the Practice Statement:

✓ Step 3 (continued)

- ❖ avoid or minimise duplication of information; and
- ❖ ensure material information is not obscured by immaterial information.

Four-step process (Conti..)



❑ Example steps per the Practice Statement:

- ✓ Step 4 - steps back and assesses the information provided in the draft financial statements as a whole.
- ✓ consider whether the information is material both individually and in combination with other information

the most important step

Guidance on materiality judgements in specific circumstances



- ❑ Prior-period information (including prior-period information not previously provided and summarising prior-period information),
- ❑ Errors (including cumulative errors), information about covenants,
- ❑ materiality judgements for interim reporting (including interim reporting estimates).

Impact of publicly available information



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Application date



The Practice Statement does not have an effective date, it can be applied with immediate effect.

Questions?



Ask
Answer
Who
Why
Where
What
When
How
Question
Answers
Apply
Understand
Query
Questions

Thank you

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