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Explana
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Applic
ESSENTIAL ISSUES IN AUDIT
A PRACTICAL APPROACH
AUDIT PLANNING & CONTROL

by:

CPA Samuel K. Maritim
Managing Partner, Maritimes Associates
Author – Start, Grow & Manage Your Business
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LEARNING OBJECTIVES



- ☐ Differentiate between the Overall *Audit Strategy and the Audit Plan.*
- ☐ Understand and Appreciate Materiality in *Financial Statement level and Assertion Level*
- ☐ Understand your client *Business and Internal Controls* from the three levels.
- ☐ Undertake a professional *Risk Assessment* on your Clients.
- ☐ Know how to *Respond* to Assessed Risks.

Presentation Agenda



- ☐ Determining the Overall Audit Strategy
- ☐ ISA 315 - Materiality
- ☐ ISA 315 - Understanding the Client's
 - ☐ Business and
 - ☐ System of Internal Controls
- ☐ ISA 315 Client Risk Assessment
- ☐ ISA 330- Auditor's Approach to Assessed Risks

OVERALL AUDIT STRATEGY



- ❑ An Audit Strategy is an overall *high level plan* of the Audit Exercise.
- ❑ It sets the *Direction, Timing and Scope* of the Audit.
- ❑ From the Audit Strategy the Auditor *derives* a detailed *Audit Plan/Program* which includes those *Audit Procedures* on Particular areas of the Audit.
- ❑ When Executing the *Audit the procedures* should be documented and evidence provided on work done to obtain evidence.

PRACTICAL CONSIDERATIONS FOR AN AUDIT STRATEGY



- ❑ Meet Senior officials of the client to obtain information and understanding of the underlying systems.
- ❑ Obtain other audit opinions and reports from internal and external verification players/bodies, lawyers or other auditors and Strategy Planners.
- ❑ Assess if those reports address critical issues and plan the audit so as to focus on the issues and risk areas identified in those reports.
- ❑ Identify inherent audit risks from the client's management's perspective.
- ❑ Ensure that the audit strategy, in terms of its response to identified risks, is fully relevant and effective.

PRACTICAL CONSIDERATIONS FOR AN AUDIT STRATEGY



- ❑ Formulate and document the Strategic *audit objectives* and the *means* by which those objectives will be met.
- ❑ Prepare audit strategy memorandum *detailing the methodology.* – Scope of work, Practical Approach, Timing, Risk Management, Resource Allocation, Budget and Responsibilities.
- ❑ Organise for the *execution of the audit* and site visits.

ISA 315 MATERIALITY DURING AN AUDIT



- ❑ Materiality means information that is significant enough to impact the decision making process of the user of financial statements/information.
- ❑ ISA 315 Para 25 – Two levels of materiality –
 - ❑ Financial Statement Level – Performance Level- Over/under statement of revenue.
 - ❑ Assertion level – Transactions, Class of Account, Account Balances and Disclosures.
- ❑ Why Assess Materiality? – If it is significant, auditor should design additional audit procedures.
- ❑ Documentation – The Auditor should document the discussions between the engagement team on susceptibility of the entity's Financial Statements to Risk of Material Misstatements.

UNDERSTANDING THE CLIENTS ENTITY/BUSINESS



- ❑ ISA 315- Para 11- Industry Level
 - ❑ Understand the client operating industry, regulations, applicable financial reporting framework.
 - ❑ Appreciate the industry competition, seasonality of demand for its production, its industry position, reputation and Government support.
- ❑ Para 12 - Entity Level
 - ❑ Understand the operations, Ownership, Governance structures, Investments, Financing and working capital, cross border trading.
 - ❑ Major customers, suppliers, adaptability to technology, Related Parties, Staff Contracts.
 - ❑ Reason – to know what to expect in the Financial Statements.
 - ❑ Compare your budgeted performance with actual performance and obtain explanations

UNDERSTANDING THE CLIENTS ENTITY/BUSINESS



- ❑ *Economy Level* –
- ❑ Consider economic upturns and down turns.
 - ❑ Management may be under pressure from shareholders to declare dividends in economic upturns.
 - ❑ *Hence* check against risk of overstatement of revenue to declare a profit in periods of upturns.
 - ❑ Management may want to write off some bad debts in during depressed economic performance.
 - ❑ *Hence* check against overstating of expenses to understate profits in periods of downturns.

UNDERSTANDING THE CLIENTS SYSTEMS OF INTERNAL CONTROLS



- ❑ ISA 315 Para 13 – Auditor should *evaluate the design* of those controls and determine whether they have been implemented.
 - ❑ Confirm if there is a culture of *honesty and ethical behaviour*.
 - ❑ Confirm if control environment provides an *appropriate foundation* for other controls to function.
- ❑ In Practice undertake
 - ❑ A series of *structured interviews* with management and other personnel.
 - ❑ A *Review* of documented accounting procedures, controls and/or financial regulations and organizational policies such as personnel policies.
 - ❑ Confirm compliance of *internal controls and accounting systems* by inspecting documents and records prepared and produced by these systems.

UNDERSTANDING THE CLIENTS SYSTEMS OF INTERNAL CONTROLS



- ❑ Examine whether the system includes appropriate measures to *segregate duties*.
- ❑ Assess if appropriate measures have been taken to prevent the management from *overriding control mechanisms* and that the systems provide for appropriate procedures for avoiding conflicts of interest.
- ❑ Perform a *walk through* tests where you trace a transaction from start to end.

- ❑ Understand the entity and its environment to be able to identify risk. – Assess risk from business/environmental issues.
- ❑ Assess the identified risk and determine if they relate to the financial statements as a whole and hence potentially affect many assertions – balances level.
- ❑ Relate risk to what can go wrong at the assertion level and consider relevant controls.
- ❑ Consider a risk that may result in a multiple misstatements leading to a material misstatement.

- ☐ Risks that Require Special Audit Consideration – non routine transactions.
 - ☐ Risk of Fraud.
 - ☐ Risks related to Accounting, Economic or other developments.
 - ☐ Complexity of Transactions – Mobile and Electronic Transactions.
 - ☐ Risks involving transactions with related parties.

RESPONSES/APPROACH TO ASSESSED RISKS



- ❑ At the Financial Level, The Auditor is required to
 - ❑ Maintain and *raise level* of the professional Skepticism.
 - ❑ Assign more *competent* or senior staff to the assignment.
 - ❑ Where possible use *experts* e.g. ICT, Fraud Investigators or Insurance experts.
 - ❑ Provide more *higher level supervision*.
 - ❑ Employ more *unpredictable audit procedures* to obtain more persuasive evidence.
- ❑ At the Assertion Level- Para A4 -Tests of Control, Substantive Procedures, combined approach of both Tests of Control and Substantive Procedures

FINALLY



THANK YOU

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CPA Sam Maritim



Maritimes Associates