



# AUDIT QUALITY ASSURANCE WORKSHOP

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# Introduction



## Acceptance and Continuance of client relationship and engagement

- ❑ Independence determines the decision to either continue or discontinue engagement with a client.
- ❑ Auditor independence requires compliance with fundamental principles of Integrity and objectivity.

# Introduction contd..



The fundamental principle of objectivity imposes an obligation on the audit firm's partners and staff not to compromise their professional judgement due to **bias, conflict of interest or undue influence from others.**

**Independence of mind**-free of influence that may affect professional judgement.

# Introduction contd...



- ❑ Independence in appearance-free of facts and circumstances that are so significant that a reasonable and informed third party would likely conclude, weighing all the specific facts and circumstances that a firm's or member of audit engagement team's integrity, objectivity or professional scepticism has been compromised.

# Introduction contd...



## Threats to Independence

- ☐ Self interest threat
- ☐ Self review threat
- ☐ Advocacy threat
- ☐ Familiarity threat
- ☐ Intimidation threat

# Acceptance of client relationships and Specific engagement



This is guided by ISQC 1 which requires the firm to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements designed to provide the firm with reasonable assurance that it will only undertake or continue relationships and engagements where the firm:

- a. Is **competent** to perform the engagement and has the capabilities including time and resources to do so.
- b. Can comply with relevant **ethical** requirements and;
- c. Has considered the **integrity** of the client and does not have information that can lead to a contrary opinion on the integrity of the client.

# Acceptance of client relationships and Specific engagement



The firm's acceptance policies shall require:

1. The firm to **obtain such information** as it considers necessary in the circumstances before accepting an engagement with a new client and when considering a new engagement with an existing client.
2. If potential **conflict of interest** is identified in accepting an engagement from a new or existing client the firm to determine whether it is appropriate to accept the engagement.
3. If issues have been identified and the firm decides to accept or continue the client relationship or a specific engagement, then the **firm to document how the issues were resolved.**



# Acceptance of client relationships and Specific engagement



Prior to accepting an audit engagement, the firm should consider:

- a). **The integrity** of the client's principal owners and those charged with governance. e.g. through background check.
- b). The **competence** of the firm to perform the audit engagement.
- c). Compliance of the firm and the engagement team with **ethical** requirements i.e. integrity, objectivity, competence, confidentiality and professional behavior.

# Policies and procedures for acceptance/continuance...



**d).** Identify and evaluate circumstances that create threats to independence and take action to eliminate the threats or reduce them to an acceptable level by applying safeguards.

**e.) Where there is a change of auditors,**

The entity has communicated with the outgoing auditor giving him the permission to communicate with the firm.

The firm writes to the outgoing auditor for professional clearance and requests appropriate information required to decide whether to accept or reject the appointment.

# Policy and procedure for acceptance and continuance



The firm shall establish policies and procedures on continuing an engagement and the client relationship, addressing the circumstances where the firm obtains information that would have caused it to decline the engagement had that information been available earlier.

Such policies would include;

- a. The professional and legal responsibilities which apply to the circumstances, including reporting to the appointing authority or in some cases regulatory authorities.
- b. The possibility of withdrawing from the engagement or from both the engagement and the client relationship.

# Policies and procedures for withdrawal /resignation...



The firm considers the significant matters that may have arisen during the year and their implication on the audit.

These could include:

- a). Changes in the entity's business e.g. expansion into areas where the firm lacks the necessary knowledge or expertise.
- b). Changes in the integrity of the principal owners and those charged with governance.
- c). Changes in circumstances which affect the independence of the engagement team.
- d). Changes in legal, professional and regulatory requirements which the

# Policies and procedures for withdrawal/resignation



e). Outstanding fees or undue pressure to reduce fees or the scope of work.

*An **Engagement Continuation Questionnaire** is completed for each year, preferably after conclusion of the last audit, in order to ensure that significant matters in relation to continuation have been consider*

# Review of significant matters arising during the engagement...



## ***Definition:***

A **significant matter** is a finding or issue that, in the auditor's judgment, is significant to the procedures performed, evidence obtained, or conclusions reached.

Significant matters either are, or could be, important to audit opinion/report, or to the support for the assurance engagement opinion.

These matters frequently require consultation.

# Review of significant matters arising during the engagement...



Significant matters require appropriate resolution and documentation by the audit team, and timely review by the engagement leader and quality reviewer.

Determining which issues during an audit are to be recorded and resolved as significant matters depends on their significance, complexity, and degree of judgment required, as evaluated by team members in consultation with more senior members of the audit team, the engagement leader or others, as appropriate.

# Evaluating integrity of client management...



## Key areas in client integrity checks

- a). Obtain background checks on senior management of the client including criminal and civil litigation involving them and the client.
- b). Contact predecessor auditor through professional clearance letter.
- c). Management letter of representation.
- d). Scope limitation by the client.



# Engagement Documentation



Once the decision for acceptance/ continuance has been made, the auditor and the client need to confirm the terms of the engagement by signing an engagement letter.

## **Contents of Engagement Letter**

Objective and scope of the audit engagement.

Responsibilities of the auditor.

Responsibilities of the management.

Identification of the applicable financial reporting framework i.e. IFRSs

It may also make reference to:

The unavoidable risk that some material misstatements may go undetected due to the inherent limitations in an audit;

Arrangements regarding the planning and performance of the audit;

The expectation that management will provide written representations;

# Engagement Documentation



- The agreement of management to inform the auditor of facts that may affect the financial statements;
- Statement on the firm's ownership right of the audit working papers;
- The basis on which fees are computed and billing arrangements;
- A request for management to acknowledge receipt of the engagement letter and to agree the terms outlined;
- Agreements concerning the involvement of experts and internal auditors; and
- Restrictions to the auditor's liability if any

# Audit Planning, Supervision & Review..... (ISA 300)



Planning involves all issues that the auditor should consider to develop an overall audit strategy and plan for conducting the audit.

The outcome of the planning process is a written plan that sets forth the overall audit strategy and the nature, extent and timing of the audit work.

**The steps to be followed during the planning phase include:**

Understanding the entity and its environment,

Understanding of internal controls,

Assessing the risk of material misstatement,

Planning materiality,

Response to assessed risk, audit strategy and audit plan.

# Audit Strategy.....



Factors to be considered in developing an audit strategy include:

1. **Scope** of the audit
2. The **timing** of the audit and reporting deadlines.
3. **Financial reporting framework** used and industry specific reporting requirements.
4. **Key dates** for communicating with management and those charged with governance.
5. **Materiality**
6. **Initial assessment** of the **overall resource requirements** including the use of experts on complex matters
7. Initial assessment of **resource allocation** to specific audit areas
8. Identification of **recent significant entity specific**, industry, financial reporting or other developments

# Audit plan.....



An audit plan includes the following:

## **Preliminary Analytical Review:**

This is a review of key **business ratios**, trends and other financial information available at this stage as a risk assessment procedure to obtain an understanding of the entity and its environment.

## **Preliminary Risk Assessment:**

A preliminary review of overall risk and key risks in individual audit areas and their impact on the audit taking into account:

1. Past experience.
2. Areas large in materiality.
3. Changes in financial reporting standards and accounting policies.
4. Areas where there is a significant risk of material misstatement or fraud.
5. Complex accounting areas including those involving accounting estimates.
6. The impact of IT( information technology.)
7. Conditions requiring special attention, such as the existence of related party transactions, contingencies, market and industry conditions.

# Audit plan.....contd..



Any taxation aspects which may affect the audit.

Appropriateness of the going concern assumption

Sources of Reliance

Materiality:

Details of the level chosen and the reasons why it was chosen

Auditor's responses to assessed risks

This will include the risks identified

for each key audit area and the planned response to such risks including

the use of specialized audit tools including Computer Assisted Audit

Techniques (CAAT's).

The sampling techniques to be adopted

Audit time table and requirements

This involves determination and communication of the accounting work and audit schedules that will be prepared by the client and by the auditor

# Audit plan.....contd..



Consideration of independence requirements where accounting and tax work is carried by the auditor.

## **Overall audit timetable including:**

Client and legal reporting deadlines.

Availability of accounting records for audit commencement.

Year end procedures.

Audit needs at different client locations.

Time and cost budgets

# Risk Assessment procedures..



The auditor needs to identify and assess risks of material misstatement at both the financial statement level and assertion level.

The auditor has to consider both **inherent** and **control** risks.

The assessed level of risk of material misstatement is used to determine the acceptable level of detection risk and to plan the auditing procedures to be performed.

The engagement team is also required to assess the risks of material misstatement due to fraud.

The team at the planning stage is supposed to summarize the key risks attached to the entity and factors that may minimize or eliminate those risks



# Considerations made when performing control risk assessment include..



(i) Control risk is the risk that a material misstatement could occur in an assertion will not be detected, prevented and or corrected on a timely basis by the entity's internal control systems.

Control risks is assessed as low when the controls have been tested.

(ii). Inherent risk is the risk posed by an error or omission in a financial statement due to a factor other than control.

# Going Concern Review & Documentation..(ISA 570)



Assessment of going concern is the responsibility of the entity's management; and the appropriateness of management's use of the going concern assumption is a matter for the auditor to consider on every audit engagement.

# Going Concern Review & Documentation..(ISA 570)



The auditor is required to evaluate management's assessment of the entity's ability to continue as a going concern.

When events or conditions have been identified which may cast significant doubt on an entity's ability to continue as a going concern, ISA 570 requires the auditor to consider whether they affect the auditor's assessment of the risks of material misstatement and to:

# Going Concern Review & Documentation..(ISA 570)



- (a) **Review management's plans** for future actions based on its going concern assessment;
- (b) **Gather sufficient appropriate audit evidence** to confirm or dispel whether or not a material uncertainty exists through carrying out audit procedures considered necessary, including considering the effect of any plans of management and other mitigating circumstances.
- (c) **Seek written representation** from management regarding its plans for the future.

# Going Concern Review & Documentation..(ISA 570)



If, in the auditor's judgment, regardless of management's conclusion that use of the going concern assumption is appropriate, there is a material uncertainty related to events or circumstances that, alone or in aggregate, may cast significant doubt on the entity's ability to continue as a going concern,

ISA 570 requires the auditor to consider the adequacy of disclosure in the financial Statements and to modify the auditor's report by including an **appropriate emphasis of matter paragraph** if the disclosure in the financial statements is adequate

# Written representation..(ISA 580)



A written statement by management provided to the auditor to confirm certain matters or to support other audit evidence.

Written representations in this context does not include financial statements, the assertions therein, or supporting books and records.

Written representation can be about management's responsibilities,

# Failure to provide written representation..(ISA 705)



If management does not provide one or more of the requested written representations, the auditor shall:

- (a) Discuss the matter with management;
- (b) Reevaluate the integrity of management and evaluate the effect that this may have on the reliability of representations (oral or written) and audit evidence in general; and
- (c) Take appropriate actions, including determining the possible effect on the opinion in the auditor's report in accordance with ISA 705. May lead to a disclaimer.

# Critical judgments and estimates..(IAS 1)



Management makes many judgments and estimates in preparing financial statements, some of which will have a significant effect on the reported results and financial position.

Information about the critical judgments and estimates made is of value to investors as it helps them to assess an entity's financial position and performance and understand the sensitivities to changes in assumptions.



# Critical judgments and estimates..(IAS 1)



Matters do not fall within the scope of these IAS 1 disclosure requirements merely because they require the exercise of judgment or involve significant assumptions or estimates.

It is important to keep in mind that these requirements are concerned only with the **most complex or subjective judgments** that have the most significant effect on amounts recognized; and

the assumptions and other sources of estimation uncertainty where there is a significant risk of material adjustment to the carrying amounts of assets or liabilities within **the next year**.

# Articulation of Key Audit matters estimates..(ISA 701)



## Key audit matters (KAMs)

Are those matters that, in the auditor's professional judgment were of most significance in the audit of the financial statement.

They are selected from matters communicated with those charged with governance

# Articulation of Key Audit matters estimates..(ISA 701)



## Those charged with governance

The persons with responsibility for overseeing the strategic direction and the financial reporting process of the entity.

May include executive members of a governance board and owner-manager

# Matters to be communicated...



The responsibilities of the auditor in relation to the financial statement audit.

Planned audit scope including the significant risks identified by the auditor and timing of the audit.

The auditor's view about the accounting policies, estimates and financial statement disclosures.

Significant difficulties encountered in obtaining audit evidence.

Significant deficiencies in internal control.

Auditor independence

# Matters to be communicated...



1. Areas identified as significant risks specifically in the context of the entity.
2. Areas involving significant auditor judgment.
3. Areas in which the auditor encountered significant difficulty during the audit.
4. Matters that require significant hours by the engagement partner.
5. Involve consultation/evaluation the engagement quality control reviewer.
6. Accounting estimates with high estimation uncertainty.
7. Significant transactions with related parties.
8. Limitations on the group audit.
9. Extensive unexpected effort required to obtain sufficient appropriate audit evidence.
10. Recent economic, accounting, regulatory and other development.
11. Matters giving rise to a modification of the auditor's opinion are by their nature key audit matters. etc.

# Communication of Key audit matters...



Limit the use of highly technical auditing terms.

Auditor to avoid giving original information.

Reference is made to relevant disclosures in the financial statements.

The auditor describes its effect on the audit.

Procedures performed described at a high level and not a detailed description of procedures.

Address the specific outcome but avoid the impression that an opinion is expressed on individual matters.

# How to arrive at sound professional judgment



Five basic actions can help auditors arrive at sound professional judgments,  
These are:

## **1. Identify and define the issue.**

This is not always as easy as it sounds, and it depends on the ability to consider multiple perspectives, including information that contradicts management's assertions.

## **2. Gather the facts and information, and identify the relevant literature.**

This is not limited to learning the company's version of events through discussion. Critical assessment of evidence such as contracts, memoranda, calculations, meeting minutes, and external information is also part of the process.

# How to arrive at sound professional judgment...



## **3. Perform the analysis and identify alternatives.**

Auditors need to be thorough while examining potential alternatives, and they should be vigilant in identifying information that could disconfirm expectations or management's position.

## **4. Make the decision.**

If a supportable judgment process has not been followed, the auditor might need to reconsider the process and the evidence obtained, according to the resource.

## **5. Review and complete the documentation and rationale for the conclusion.**

Documentation should be performed throughout the judgment process, as it enables a more objective and complete assessment,



END OF PRESENTATION



Questions and Answers