

ICPAK AUDIT QUALITY ASSURANCE SEMINAR

**Emerging issues on Ethics, Audit Risk and
Audit Reporting**

MT. KENYA REGION

Friday, 16th March 2018

Presented by CPA Georgina Malombe

MANAGING PARTNER: GEMAL & COMPANY

Fundamental Principles



Fundamental Principles (continued)



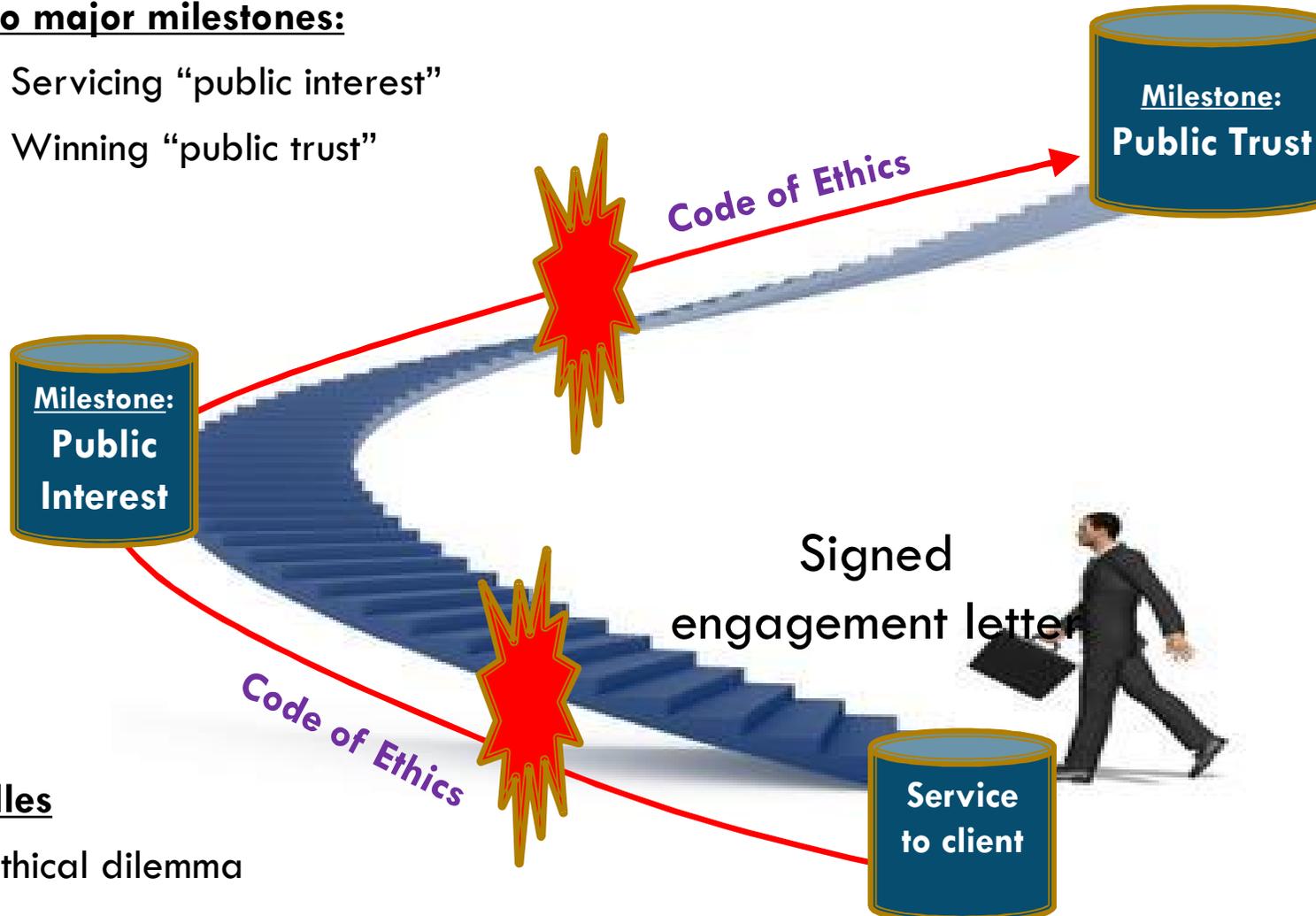
- **Integrity** – exercise straight forwardness and honesty all professional and business relationships.
- **Objectivity** - free from bias (independence), conflict of interest, or undue influence of others.
- **Professional Competence and Due Care** - maintain professional knowledge and skill and to act diligently.
- **Confidentiality** - not to disclose privileged information to third parties; except with prior authority.
- **Professional behaviour** - be lawful, and avoid actions that may bring the profession into disrepute.

Ethical Dilemmas



Two major milestones:

1. Servicing “public interest”
2. Winning “public trust”



Hurdles

1. Ethical dilemma

Let's reflect - Ethics



1. Do professional accountants (public/business) actually serve “public” interest or “client” interest/employer’s interest?
2. Is existence of “audit expectation gap” not vindication of servicing “client’s interests” and not necessarily “public interest (stakeholders’ interest)?
3. Is existence of “audit expectation gap” not vindication of servicing “client’s interests” and not necessarily “public interest (stakeholders’ interest)?

Emerging issues



- Review of governance framework
- Review/ enactment of various laws (UFAA, CO Act, ITA Act, TPA)
- Whistleblower activity
- Economic developments
- Use of data / data auditing

Whistleblower activity



“ ***Whistleblower activity –***

“ **Issues**

“ The number of matters a Company investigates has increased, partially as a result of increased whistleblower and other hotline activity

“ Depending on the nature and significance of the allegation, a Company may need to engage outside counsel

“ **Potential implications:**

“ Understanding of the role and responsibilities of the auditor and how they are impacted by the company's process (e.g., independent vs. inside counsel, etc.)

“ Disclosures

Economic Development



Issue

- . **Falling oil prices:** Oil prices have declined in the past year. This decline may create business challenges and risks for a variety of companies, regardless of whether they are directly or indirectly part of the oil and gas industry supply chain. Depending on the nature and significance of the allegation, a Company may need to engage outside counsel.
- . **Low interest rates:** Interest rates continue to remain at or near record lows. The auditor may need to consider the impact on its risk assessment.

Economic Development Cont'd



Potential implications:

- “ Impact to estimated future cash flows that could impact:
- “ Valuation of goodwill or other long-lived assets(i.e. impairment)
- “ Assessment of going concern
- “ Recoverability of deferred tax assets
- “ Collection of loans/receivables
- “ Industry specific implications (e.g., impact to life insurance companies and the returns on its investments)
- “ Pension plans / other post-employment benefits
- “ Disclosures (risk factors, subsequent events, etc.)

Use of data/data auditing



Issue:

- “ Audit firms and preparers are making significant investments in technology, specifically regarding the use of data
- “ These investments have the potential to enhance quality, provide additional insights and enhance the experience of staff
- “ The audit firms may need to consider changes to its audit methodology and policies around how it handles client data

Use of data/data auditing



Potential implications:

- “ How do firms use technology to:
 - “ Enhance the audit process
 - “ Sustain and enhance the quality of audits
 - “ Leverage the investments made by companies
- “ Ensure that auditing standards evolve as necessary to support expanded use of data auditing methods
- “ Auditor consideration of a client's use of technology
- “ Impact on skillsets needed

What is NOCLAR



NOCLAR (Non Compliance with Laws and Regulations)

is defined by the new standard as comprising acts of omission or commission, intentional or unintentional, committed by a client, or by those charged with governance, by management or by other individuals working for or under the direction of a client which are contrary to the prevailing laws and regulations

Origin of NOCLAR



This originated from an attempt to address concerns from the regulatory community and other stakeholders that the Professional Accountants (PAs) duty of confidentiality under the Code was acting as a barrier to the disclosure of possible NOCLAR to appropriate public authorities. While emphasizing the binding nature of the duty of confidentiality, the existing Code identified general circumstances where disclosure may be appropriate including when a PA considers it to be in the public interest. The existing Code acknowledged that this is a difficult area to decide on and that as a result, it will often be appropriate to take legal advice

Responsibility of auditor



- “ *Obtaining an understanding of the matter* - The first step in this framework is that the auditor should obtain a full and clear understanding of the matter including the nature of the act and the circumstances in which it has occurred.
- “ Good understanding of the environment in which a client operates including any relevant laws and regulations. However an auditor is not required to hire an expatriate to understand the client.

Responsibility of auditor



“ *Addressing the matter* – in case of non compliance or suspected non compliance the auditor should advise the client to take timely and appropriate actions in order to resolve the situation, to deter possible non-compliance or to disclose the matter to an appropriate authority where it is required by law or regulation or it is considered necessary in the public interest. The auditor must also ensure their own compliance with laws and regulations together with the requirements under auditing standards. For example

“ Identifying and responding to non-compliance, including fraud

Responsibility of auditor



- “ Communicating with those charged with governance
- “ Considering the implications of the non-compliance or suspected non-compliance for the auditor's report

- “ *Communication with respect to groups* - In the context of a group audit, the auditor should consider their responsibilities to report instances of non-compliance or suspected non-compliance to the group engagement partner unless prohibited from doing so by law or regulation

Responsibility of auditor



- “ *Determining whether further action is needed*
- This will involve the exercise of professional judgement and the auditor must take into account whether a reasonable and informed third party would, after weighing all of the specific facts and circumstances, be likely to conclude that the auditor has acted appropriately in the public interest

- “ *Determining whether to disclose the matter to an appropriate authority*-The determination of whether to disclose the identified or suspected non-compliance to an appropriate authority, assuming such disclosure is not precluded by law or regulation, depends on the nature and extent of the actual or potential harm which might be caused to investors, creditors, employees or the general public

Responsibility of auditor



“ *Documentation* - The auditor is required to document the process of compliance with the NOCLAR guidance including the response of management and those charged with governance, the courses of action considered, the judgements made and the decisions taken.



Case study

What Went wrong with WorldCom?

