



# Audit Quality Assurance – Engagement Performance

Presentation by:

Stephen Obock  
Associate Director, KPMG

[sobock@kpmg.co.ke](mailto:sobock@kpmg.co.ke)

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# Presentation agenda



## Quality of Engagement Performance

- Planning, Supervision and review
- Engagement documentation
- Obtaining written representations

# The Audit Life Cycle



Engagement Setup	Risk Assessment	Testing	Completion
<ul style="list-style-type: none"> <li>• ISA 210, Agreeing the Terms of Audit Engagements</li> <li>• ISA 220, Quality Control for an Audit of Financial Statements</li> <li>• ISA 300, Planning an Audit of Financial Statements</li> </ul>	<ul style="list-style-type: none"> <li>• ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements</li> <li>• ISA 250, Consideration of Laws and Regulations in an Audit of Financial Statements</li> <li>• ISA 300, Planning an Audit of Financial Statements</li> <li>• ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</li> <li>• ISA 320, Materiality in Planning and Performing an Audit</li> <li>• ISA 330, The Auditor's Responses to Assessed Risks</li> <li>• ISA 600, Special considerations – audits of group financial statements</li> <li>• ISA 610, Using the Work of Internal Auditors</li> <li>• ISA 620, Using the Work of an Auditor's Expert</li> </ul>	<ul style="list-style-type: none"> <li>• ISA 500, Audit Evidence</li> <li>• ISA 501, Audit Evidence-Specific Considerations for Selected Items</li> <li>• ISA 505, External Confirmations</li> <li>• ISA 520, Analytical Procedures</li> <li>• ISA 530, Audit Sampling</li> <li>• ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures</li> </ul>	<ul style="list-style-type: none"> <li>• ISA 260, Communication with Those Charged with Governance</li> <li>• ISA 265, Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</li> <li>• ISA 450, Evaluation of Misstatements Identified during the Audit</li> <li>• ISA 560, Subsequent Events</li> <li>• ISA 570, Going Concern</li> <li>• ISA 580, Written Representations</li> <li>• ISA 700, Forming an Opinion and Reporting on Financial Statements</li> </ul>

ISA 230 - Audit documentation, ISA 240- Fraud

# Essential reading



- ISQC 1, including application guidance
- ISA 220, Quality control for an audit of financial statements, including application guidance
- IFAC Guide to Quality Control for Small and Medium-sized practices (2009)

# Engagement performance



You need policies and procedures designed to provide you with reasonable assurance that engagements are **performed in accordance with professional standards and applicable legal and regulatory requirements**, and that the firm or the engagement partner issue reports that are **appropriate in the circumstances**.

Such policies and procedures shall include:

- a) Matters relevant to promoting quality of engagement performance;
- b) Supervision responsibilities; and
- c) Review responsibilities.

# Audit Activities



# Engagement performance



## *Implementation:*

- An **audit manual**, with audit programme guides and covering documentation standards
- Checklists
- Letter templates, e.g. engagement letters, representation letters
- Specimen/proforma financial statements
- Access to relevant technical reference material
- An **HR policies and procedures manual**, covering recruitment, training, appraisal, etc.
- Training programme
- Planning of audits
- Briefing of teams
- On-the-job training

# Planning



1

- Are there enough resources assigned to the engagement and can we achieve efficiency?

2

- How did you determine the audit areas to allocate the team?

3

- What are your responsibilities with respect to monitoring and directing the audit that need to be budgeted for?

4

- Which specialists/experts may need to be involved in the audit and when?



# What Do We Consider?



Is it more efficient to test controls than to perform substantive procedures alone?

Can substantive procedures alone provide sufficient appropriate audit evidence?

Significant risk of fraud or error

Existing control framework

RoMM at the assertion level

Results of procedures in prior periods

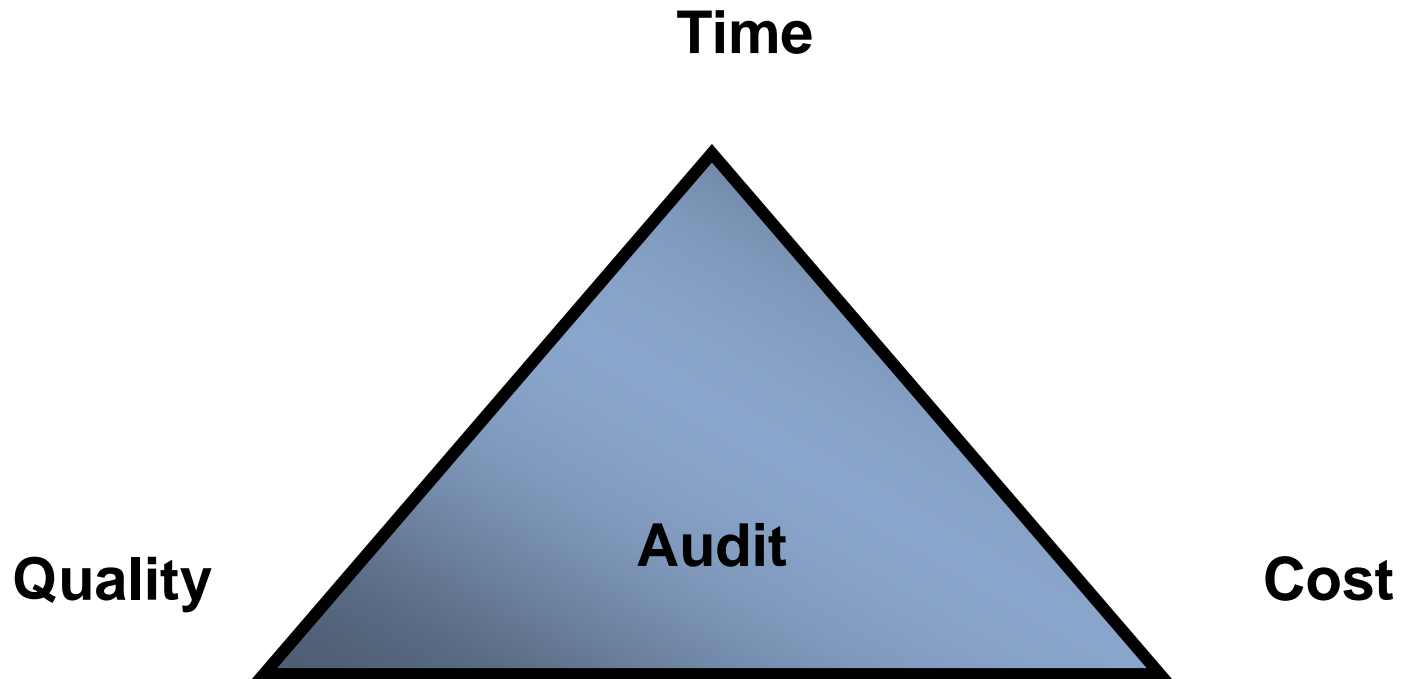
Prior period evidence

Audit team experience

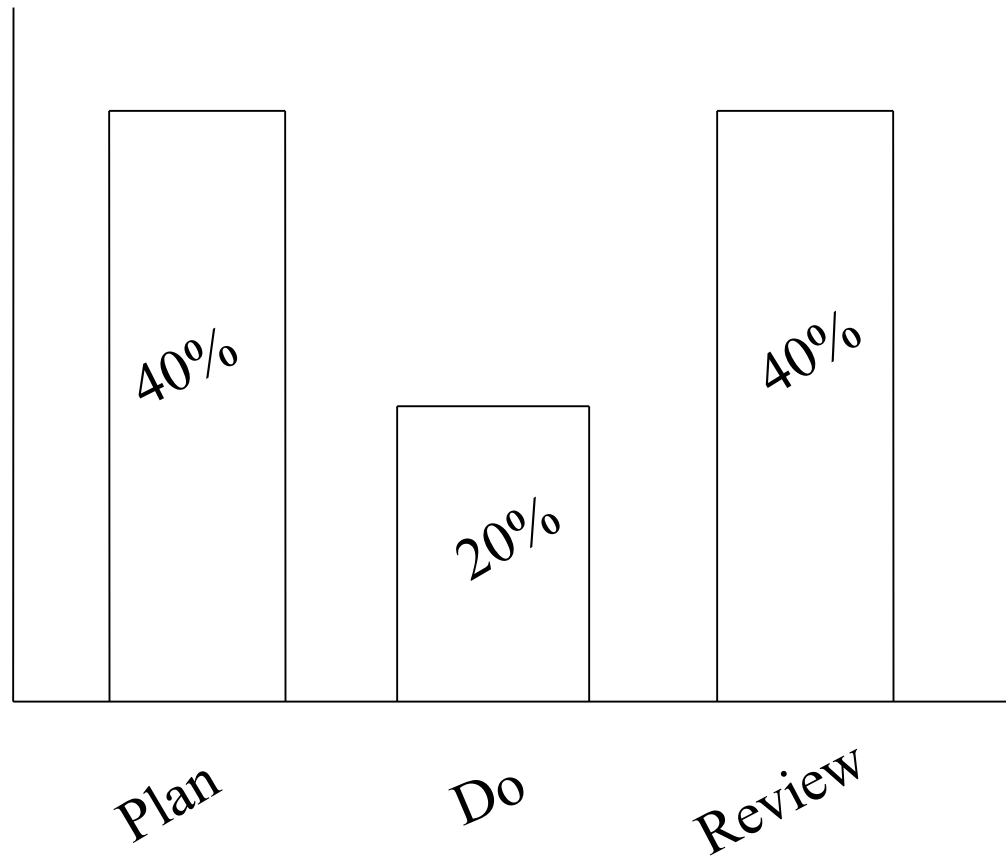
IT environment

Specialist resources

# The Audit Triangle



# Plan-Do-Review model



# Consultation



You should establish policies and procedures designed to provide you with reasonable assurance (ISA 220) that:

- a) Appropriate consultation takes place on **difficult or contentious matters**;
- b) Sufficient resources are available to enable appropriate consultation to take place;
- c) The nature, scope and conclusions resulting from consultations are documented and are agreed by both parties; and
- d) Conclusions resulting from consultations are implemented.

# Consultation



## *Implementation:*

- Consultative culture to be encouraged within the firm
- Design a form to be used for documenting consultations, recording all relevant facts, conclusions and implementation
- Those consulted should have sufficient knowledge and experience. For smaller firms this might require arrangements with other firms or individuals outside the firm

# Good Reviewing



**Conduct timely and thorough reviews**

**Create a review schedule**

**Encourage assistants to raise issues as they arise**

**Communicate with assistants – expectations and their responsibility**

# Review questions (continued)



- What is the purpose of the procedures and what do I expect to see?
- Do we have sufficient, appropriate audit evidence?
- Are the findings consistent with audit evidence obtained in other areas?
- Are conclusions clearly and appropriately documented?
- Does the documentation demonstrate our professional skepticism and is our professional judgments well grounded?

**Key to a successful review is  
taking ownership**

# Engagement Quality Control Review



You should establish policies and procedures requiring for appropriate engagements, an engagement quality control review that provides **an objective evaluation of the significant judgements made by the engagement team and the conclusions reached in formulating the report.** Such policies and procedures shall:

- a) Require an (EQCR) for **all audits of listed entities;**
- b) Set out criteria to determine the need for and EQCR for assurance and related services; and
- c) Require EQCR to be involved if (a) and (b) above are met



# Engagement Quality Control Review



You should establish policies and procedures to require the engagement quality control review to include:

- a) Discussion of significant matters with the engagement partner;
- b) Review of the financial statements or other subject matter information and the proposed report;
- c) Review of selected engagement documentation relating to significant judgments the engagement team made and the conclusions it reached; and
- d) Evaluation of the conclusions reached in formulating the report and consideration of whether the proposed report is appropriate.

# Audits of listed entities



For audits of financial statements of listed entities, the firm shall establish policies and procedures to require the engagement quality control review to also include consideration of the following:

- a) The engagement team's evaluation of the firm's independence;
- b) Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations; and
- c) Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

# Eligibility of EQCRs



You should establish policies to address eligibility of an EQCR through:

- a) The technical qualifications required to perform the role, including the necessary experience and authority; and
- b) The degree to which an engagement quality control reviewer can be consulted on the engagement without compromising the reviewer's objectivity.

# Engagement Quality Control Review



## *Implementation:*

- Establish criteria for which audits need an EQCR
- Draw up a list of those audits requiring an EQCR
- For those audits, identify the EQCR before commencement of the audit. For smaller firms this might require arrangements with other firms or individuals outside the firm
- Use an EQCR checklist as evidence of the review

# Differences of opinion



You should establish policies and procedures for dealing with and **resolving differences of opinion** within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.

Such policies and procedures shall require that conclusions reached be documented and implemented before signing the audit report

## *Implementation:*

- May include consulting with another practitioner or firm, or a professional or regulatory body

# Engagement documentation



ISA 230 provides that audit documentation should provide:

- a) Evidence of the auditor's basis of conclusion about the auditors overall objective (sufficient and appropriate record of basis of auditor's report); and
- b) Evidence that the audit was done and conducted in accordance with ISAs

Audit documentation include record of procedures performed, evidence obtained and conclusions reached

Audit files include current and permanent files in hard copies or electronic form

# Engagement documentation



ISA 230 requires audit documentation to be sufficient to enable experienced auditor to be able to understand:

- a) The nature, timing and extend of procedures;
- b) The results of the procedures and audit evidence; and
- c) Significant matters or judgements arising during the audit and conclusions reached

In documentation nature, timing and extent of procedures, the auditor shall record:

- 1) Who performed the work, and the date when it was performed; and
- 2) Who reviewed the work, the date of review and extent of review

# Engagement documentation



You should establish policies and procedures for engagement teams to **complete the assembly of final engagement files on a timely basis** after the engagement reports have been finalised.

You should establish policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation

You should establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation



# Engagement documentation



## *File Assembly and retention:*

- ISA 230 suggests final assembly of the audit file should be completed not more than 60 days after the date of the auditor's report, and that audit files should be retained for at least five years from that date
- ICPAK recommends that audit files be retained for the maximum period provided in regulations and ISAs from the date of the audit report, or longer if the engagement is subject to litigation.
- Electronic files should be password protected to prevent access by anyone without a 'need to know'
- Paper files should be kept under lock and key and 'signed out'

# Monitoring



You should establish a monitoring process designed to provide your firm with **reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively.**

This process shall:

- a) Include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner;

# Monitoring (continued)



- b) Require responsibility for the monitoring process to be assigned to a partner or partners or other persons with **sufficient and appropriate experience and authority** in the firm to assume that responsibility; and
- c) Require that those performing the engagement or the engagement quality control review are not involved in inspecting the engagements.

# Monitoring (continued)



## *Implementation:*

- Draw up a rotation plan for the timing of reviews of the work of each engagement partner (should be at least once every three years)
- Draw up a programme/checklists for inspections. Focus should be on compliance with quality control procedures, especially new or changed procedures, and will include interviews, walk throughs, and file reviews
- Identify appropriate 'inspectors'. For smaller firms this might require arrangements with other firms or individuals outside the firm

# Identified deficiencies



- You should evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:
- a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
  - b) Systemic, repetitive or other significant deficiencies that require prompt corrective action.

# Identified deficiencies



The firm shall communicate to relevant engagement partners and other appropriate personnel deficiencies noted as a result of the monitoring process and recommendations for appropriate remedial action.

Recommendations for appropriate remedial actions for deficiencies noted shall include one or more of the following:

- a) Taking appropriate remedial action in relation to an individual engagement or member of personnel;
- b) The communication of the findings to those responsible for training and professional development;
- c) Changes to the quality control policies and procedures; and
- d) Disciplinary action against those who fail to comply with the policies and procedures of the firm, especially those who do so repeatedly.

# Identified deficiencies



The firm shall communicate at least annually the results of the monitoring of its system of quality control to engagement partners and other appropriate individuals within the firm. This communication shall be sufficient to enable the firm and these individuals to take prompt and appropriate action where necessary.

Information communicated shall include the following:

- a) A description of the monitoring procedures performed.
- b) The conclusions drawn from the monitoring procedures.
- c) Where relevant, a description of systemic, repetitive or other significant deficiencies and of the actions taken to resolve or amend those deficiencies.

# Complaints and allegations



The firm shall establish policies and procedures designed to provide it with reasonable assurance that it deals appropriately with:

- a) Complaints and allegations that the work performed by the firm fails to comply with professional standards and applicable legal and regulatory requirements; and
- b) Allegations of non-compliance with the firm's system of quality control.

As part of this process, the firm shall establish clearly defined channels for firm personnel to raise any concerns in a manner that enables them to come forward without fear of reprisals.



# Complaints and allegations



## *Implementation:*

- Establish procedures for dealing with complaints, which might include identifying a partner with sufficient experience and authority who was not involved in the engagement to investigate
- Establish all relevant facts
- Seek legal advice, if appropriate

# Documentation of System of Quality Control



You should establish policies and procedures requiring appropriate documentation **to provide evidence of the operation of each element of its system of quality control.**

The firm shall establish policies and procedures that require retention of documentation for a period of time sufficient to permit those performing monitoring procedures to evaluate the firm's compliance with its system of quality control, or for a longer period if required by law or regulation.

The firm shall establish policies and procedures requiring documentation of complaints and allegations and the responses to them

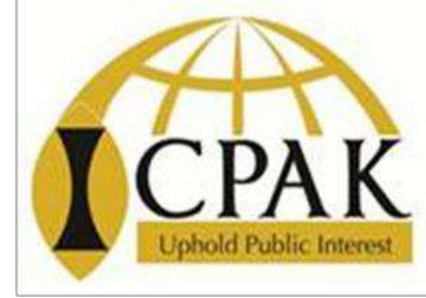
# Documentation of System of Quality Control



## *Implementation:*

- Policies and procedures should be documented. This might be in the form of Manuals – Audit, HR, Inspection, etc.
- Audit files must contain documented evidence of review of all working papers, and of review by the engagement partner
- When applicable, audit files must contain documented evidence of consultations and review by an Engagement Quality Control Reviewer
- A summary of work done and the findings of inspections should be documented and retained.

# Representation letters



*ISAs require the auditor to obtain written representation over certain matters including:*

- Litigation and claims
- Compliance with laws and regulations
- Fulfilment of management responsibilities on specific assumptions and key estimates and judgements
- Access to relevant information and completeness of transactions

# Representation letters



## Representation letters as audit evidence

- They do not provide sufficient and appropriate audit evidence on their own
- If management do not provide representation, the auditor shall re-evaluate the integrity of management and consider disclaiming the opinion
- Written representation confirm or support other audit evidence provided

# Completion Activities



Audit  
Misstatements

Management  
Bias

Control  
Deficiencies

Summary of  
Risks



Any questions?



Thank you