

# **ICPAK AUDIT STAFF TRAINING**

## **Building Auditor Capacity as a Risk Mitigation Measure**

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# How many faces can you see?



# Review of Audit Risks



## Audit Risks – recap

- Risk of Material Misstatement
  - What is Material?
- How would an auditor miss a material ERROR?
  - Not obtaining sufficient appropriate audit evidence
  - What is sufficient & appropriate?
  - Sufficient = Quantity – Audit sample
  - Appropriate = Quality – depth of the sample
- Staff Risk – Capacity
- Business Risk
- Going Concern Risk

# Pipeline plant recalls fuel tankers loaded with water

## Daily Nation 18/09/18



# What do you know about..







- "America's Most Innovative Company" (Fortune 1996 -2001)
- [Enron Corporation](#), an [American](#) energy company based in [Houston](#), [Texas](#), and the *de facto* dissolution of [Arthur Andersen](#), which was one of the [five largest audit](#) and [accountancy](#) partnerships in the world. In addition to being the largest bankruptcy reorganization in American history at that time, Enron was cited as the biggest audit failure
- Enron was formed in 1985 by [Kenneth Lay](#) after merging [Houston Natural Gas](#) and [InterNorth](#). Several years later, when [Jeffrey Skilling](#) was hired, he developed a staff of executives that – by the use of accounting loopholes, [special purpose entities](#), and poor financial reporting – were able to hide billions of dollars in debt from failed deals and projects. Chief Financial Officer [Andrew Fastow](#) and other executives not only misled Enron's Board of Directors and Audit Committee on high-risk accounting practices, but also pressured Arthur Andersen to ignore the issues

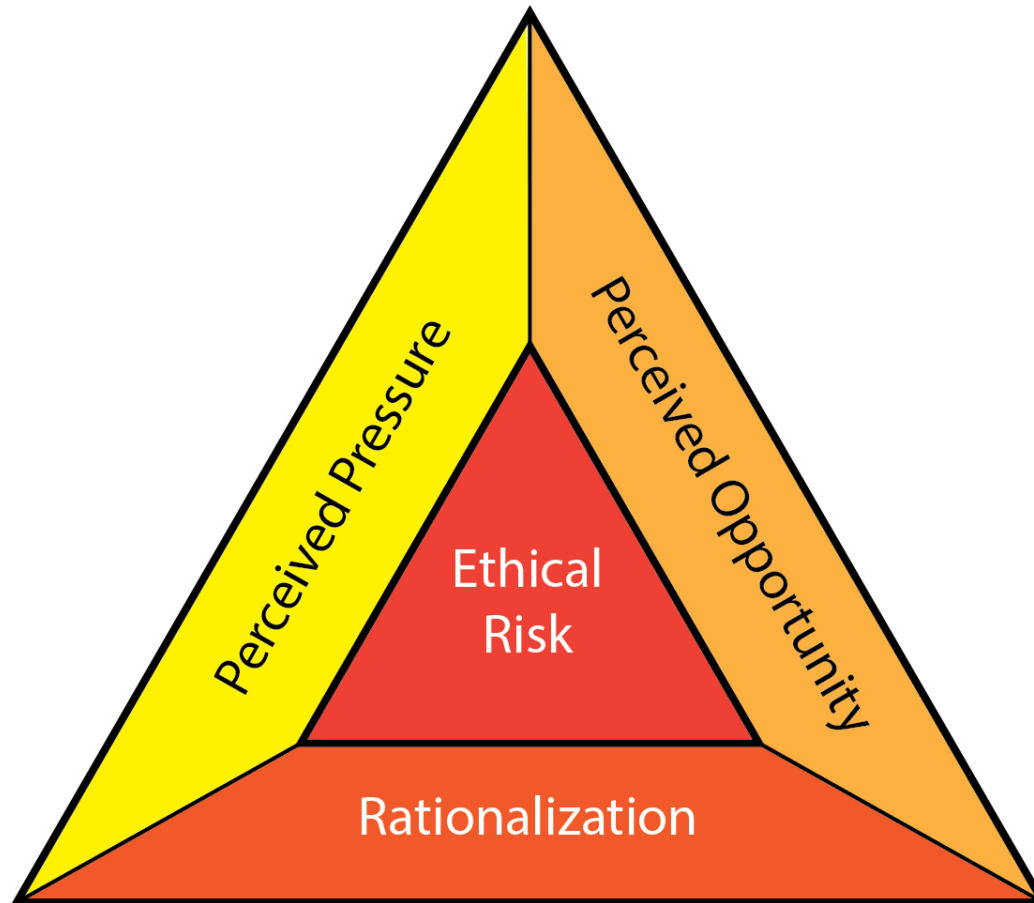


The fraud was accomplished primarily in two ways:

- Booking "line costs" (interconnection expenses with other telecommunication companies) as capital expenditures on the balance sheet instead of expenses.
- Inflating revenues with bogus accounting entries from "corporate unallocated revenue accounts".



# Fraud Triangle



# Sources of Audit Risks



Who are the users of Audited Accounts?

- Shareholders
- Employees
- Government (Regulators, KRA, ...)
- Bankers
- Suppliers
- Investors
- Why do they need audited accounts?

# Identifying a Market Niche



- ☐ You can't be all things to all people – choose a niche and be VERY good at it.
- ☐ Identify a “BLUE OCEAN”
- ☐ You don't have to have capacity you can develop
- ☐ Where do you have a distinctive capabilities?
- ☐ Create competitive advantages
- ☐ Overwhelm your clients

# Benefits of Niche

A NATION MEDIA PUBLICATION NO. 2985 WWW.BDAFRICA.COM WEEKEND EDITION 26 - 28 OCTOBER, 2018 KSH60 | TZ SH 1700 | UGSH2,700 | RFR900

# BUSINESS DAILY

BD LIFE  
**Magazine**  
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**Life**  
Bottoms Up For Whisky Drinkers

IDEAS & DEBATE  
**Development**  
Promote productive, income generating economic activities. p13

LIFE  
**Weekender**  
Kiunjuri feels the heat of maize scam. p26

**ON THE TICKER**

**ECONOMY & POLITICS**

  
**DPP loses bid to drop EACC evidence in Anglo-Leasing case**  
The Director of Public Prosecution (DPP) has lost a High Court bid to drop evidence linked to the office of Attorney General and the anti-graft agency in the ongoing Anglo Leasing trials. P5

**THE DIGIT**  
**4.18%**  
DECLINE

  
**Floods Chaos**  
MOMBASA Motorists drive through a flooded road section following a downpour in Mombasa and its environs yesterday. —LABAN WALLOGA

**PwC officials get Sh43,000 per hour pay at ARM**  
**BILL»** The money is being paid by lenders who hired the consultancy and will be recovered from the cement maker  
Victor Juma  
vjuma@kenyaconffmedia.com  
Troubled ARM Cement's administrators, PricewaterhouseCoopers (PwC), have billed the

**Why EABL has cut back**



# Identifying Capacity Gaps



- ❖ After identifying niche industries, you need to identify required capacity in terms of
  - ❖ Industry knowledge
  - ❖ Laws and regulations governing industry
  - ❖ Your firm understanding of the industry
  - ❖ Sufficient HR capacity
  - ❖ Appropriate tools to undertake jobs in the industry
- ❖ Determine your capacity gaps

# JKIA KPC Fire





# Building capacity



- ❑ After identifying the Niche and the Gaps, next is capacity building
- ❑ Capacity building starts at the strategy stage
- ❑ Second is research
- ❑ Next is recruitment
- ❑ Induction, Training and development
- ❑ Deployment,
- ❑ Continuous training

# Emerging Risks



- ☐ Businesses are moving online
  - ☐ Digital finance
  - ☐ E-commerce
  - ☐ Cloud computing
- ☐ Analytics and AI, who owns the data?
- ☐ IOT
- ☐ Cross boarder transactions
  - ☐ Transfer pricing
  - ☐ Local laws, regulations, taxes, customs

# Emerging Risks



- ☐ Sophisticated financial products
  - ☐ Derivatives
  - ☐ CDO's
  - ☐ ABS's
- ☐ PPP's – Do you use IPSAS or IFRS?
- ☐ Franchising
- ☐ Contract Manufacturing
- ☐ Outsourcing of services
- ☐ Change of business models

# ***The East African***

China plans to sell off its African infrastructure debt to investors



# Future of Audit in a Risk Environment



- ☐ Audit has to be RISK based going forward
- ☐ Areas of specialization will be critical in developing capacity
- ☐ Continuous learning to stay ahead of the curve
- ☐ Evolving business means evolving risks
- ☐ Have your ears on the ground
- ☐ Governance Risk
- ☐ Globalization of Risk

# Considerations on Risk



- ☐ Does our Firm/Company have a Risk Checklist?
- ☐ How well do we know our focus industries?
- ☐ How well does our risk models work? (when did we last review them?)
- ☐ Which direction are our focus industries (our company) headed?
- ☐ What do we anticipate to be the risks associated with those industries in the future?



Thank You

Q & A