

# Developments in Audit Practice

Presentation by: CPA Evanson Ng'ang'a  
Partner,



Friday, 16<sup>th</sup> August 2019

# Background



The term audit is derived from the Latin term ‘audire,’ which means to hear. In early days an auditor used to listen to the accounts read over by an accountant in order to check them.



# NOTEWORTHY DEVELOPMENTS



- ☐ Legal and regulatory
- ☐ Professional standards and requirements
- ☐ Other assurance engagements
- ☐ Reporting environment
- ☐ Business environment
- ☐ Human capital
- ☐ IT audit embedded in financial statements audit
- ☐ Big data, emerging technological and automation
- ☐ Cybersecurity

# Legal and regulatory



## Accountants Act No. 15 of 2008

- ❑ *The Finance Act 2018 introduced significant amendments to this Act. The amendments include: definition of accountant; definition of accountancy; trainee accountant; prescription of the remuneration order; professional conduct, protection in practice and enhanced integrity; fines and remedies.*

## Companies Act

- ❑ *Assented by the President on 11th September 2015. The new Act is based on the United Kingdom Act and English legal practice.*
- ❑ *Aim to consolidate and reform the law relating to the incorporation, registration, operation, management and regulation of companies; to provide for the appointment and functions of auditors; to make other provision relating to companies; and to provide for related matters.*

## Industry/sector regulators

- ❑ *ICPAK (multiple licensing, firm licensing, mandatory CPDs); CBK (prudential guidelines); IRA (guidelines); SASRA (guidelines); KRA.*

# Companies Act No 17 of 2015



**Small company and small group regimes:** *Turnover not more than 50M; Net assets not more than 20M; and not more 50 employees.*

**Directors' Report:** *Business review S.655; Statement on accuracy and completeness of information to auditors S.657-8; Directors' remuneration report*

**Financial Statements:** *ICPAK to prescribe FR standards; Enhances the responsibilities for FS; Name of signing directors must be disclosed; Must be filed at registrar of companies within 9 months of the end of the reporting period (Private Companies); Must be filed at the registrar of companies within 6 months of the end of the reporting period (Public Companies).*

**Annual reports & FS for quoted and non-quoted co**

**Accounting Records:** *Expanded definition; Defined retention period (7 years)*

**Accounting Reference Periods:** *Change of accounting reference period limited to once every five years*

# Professional standards and requirements



## Audit quality

- ❑ *ISQC to ISQM: A more proactive and tailored approach to managing quality; Increased firm leadership responsibilities and accountability, and improved firm governance; More rigorous monitoring of systems of quality control and more effective remediation of deficiencies; Enhanced the engagement partner's responsibility for audit engagement leadership and audit quality; Addressing the robustness of engagement quality reviews, including engagement selection, documentation, and performance.*

**ISA:** 260; 570; 700; 701 (Key audit matters); 705; 706; 720; 250 (NOCLAR); 540

**IFRS:** IFRS 9; IFRS 15; IFRS 16; IFRS 17

**IPSAS:** *Adoption of accrual accounting by government.*

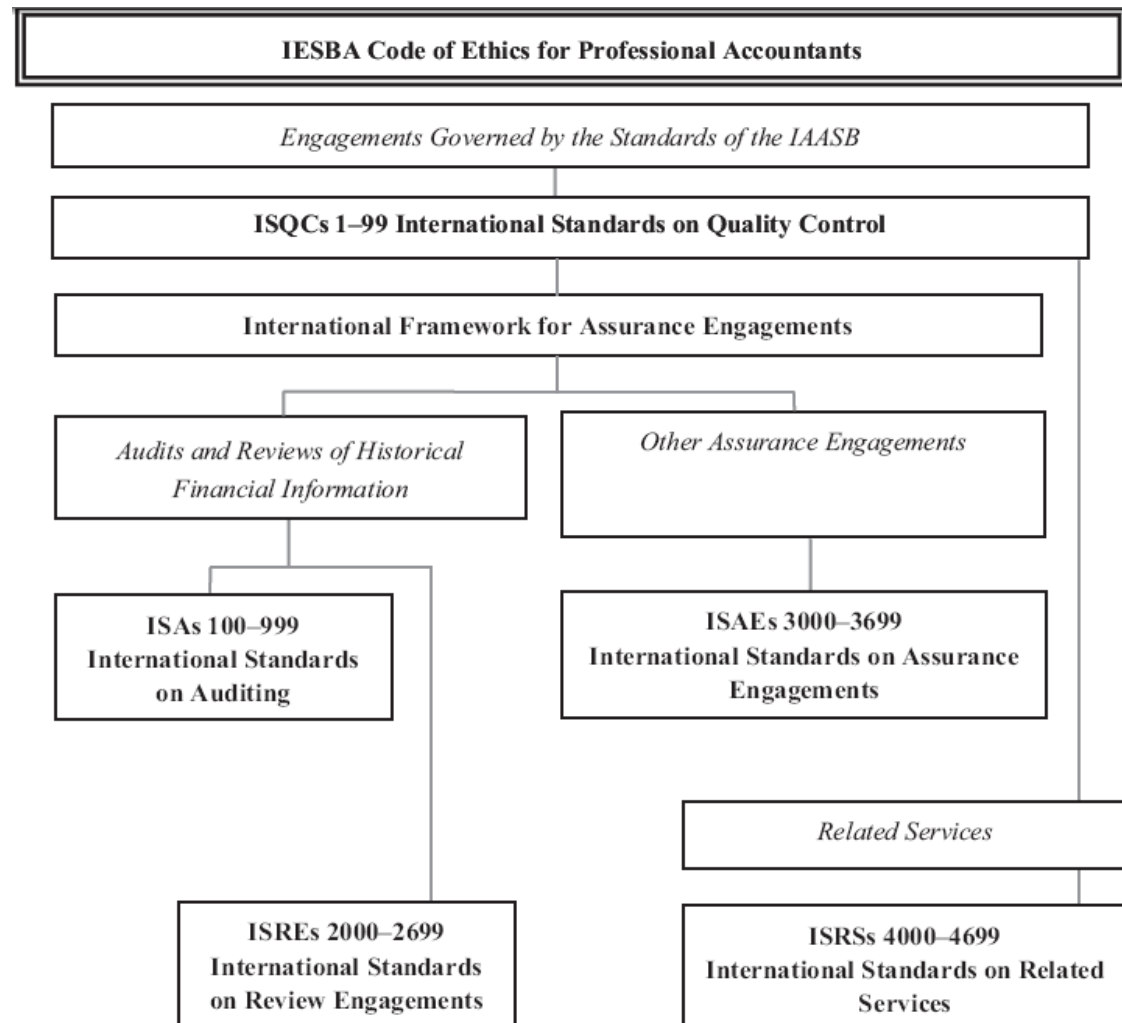
## Professional scepticism to Role and Mindset

# Other assurance engagements



Increased demand  
by various industry  
/sector regulators

- ❑ ISAEs are to be applied in assurance engagements other than audits or reviews of historical financial information.
- ❑ ISAE 3000 has been effective for assurance engagements since 01 January 2005





# Reporting environment



- ❑ Greater use of fair values
- ❑ Increased disclosures and narrative reporting
- ❑ Complex accounting systems and cycles
- ❑ Group/component auditor instructions and reporting
- ❑ Expectation gap





# Business environment



- ❑ Trends in revenue growth (assurance vs. non-assurance).
- ❑ Increased competition and sensitivity on fees.
- ❑ Diminishing consumer loyalty.
- ❑ Low margins: innovate ways that improve audit efficiency rather than audit quality.
- ❑ Mergers, acquisitions and global networks.
- ❑ Consortiums and collaborations.
- ❑ Limited Liability Partnerships.

# Limited Liability Partnerships



LLP Act enacted in 2011

Companies Act Cap 486

- ❑ *prohibited a body corporate from appointment as auditor hence audit firms were restricted to practise as sole practitioners or partnerships.*

Companies Act no 17 of 2015

- ❑ *provides that an auditor can be an individual or a firm, subject to the provisions of the Accountants Act.*

ICPAK guideline No. 01/LLP/2018

- ❑ *guidelines for conversion of CPA firms into LLPs and constitution of separate LLPs by members in public practice issued*

# Human capital



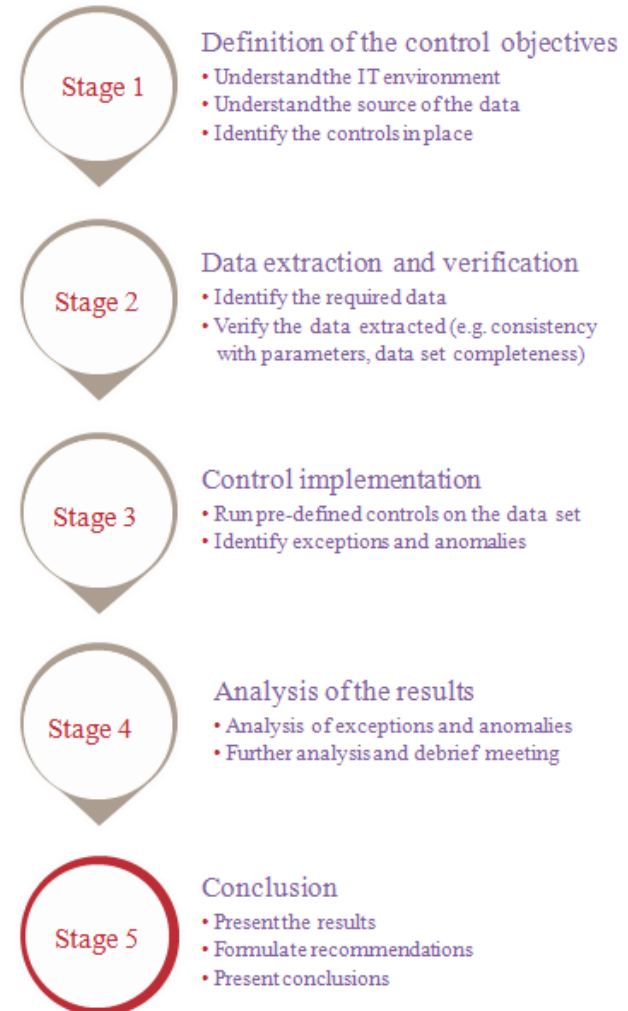
- ☐ Staff competencies
- ☐ Training and retention
- ☐ Demand for high salaries



# IT audit embedded in financial statements audit



- ❑ Define the control objectives
- ❑ Data extraction and verification
- ❑ Control implementation
- ❑ Analysis of the results
- ❑ Conclusion



# Big data; emerging technologies and automation



## Big data

- ☐ *Data analytics*

## Emerging technologies

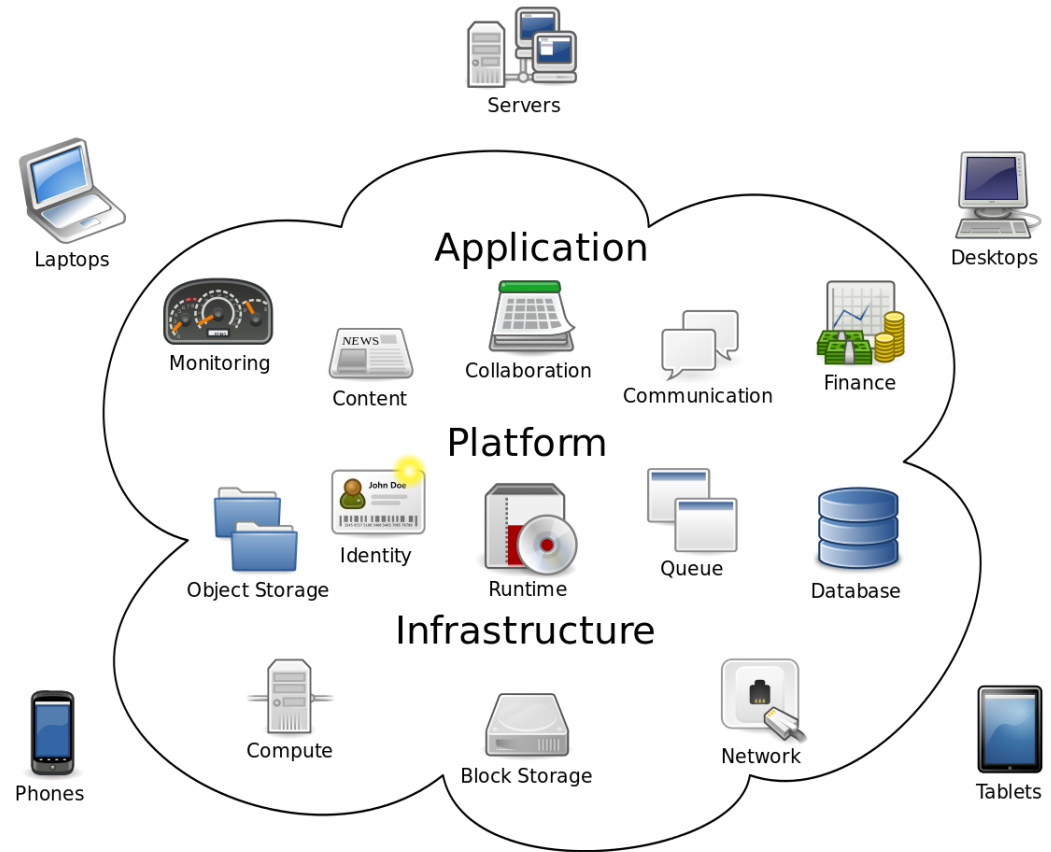
- ☐ *Blockchain*

- ☐ *Robotics*

- ☐ *Cloud computing*

## Automation

- ☐ *Audit software*



# Cybersecurity



❑ Cybersecurity is concerned with protecting systems and data within networks that are connected to the Internet.

❑ Key components:

- Risk management as potential threats are identified, analyzed and evaluated to determine what type of action to be taken.
- Prevention using firewalls and other deterrence measures.



# Common pitfalls in audit affecting quality and efficiency



- ❑ Too much focus on documentation & paperwork flow even if the internal control is functioning.
- ❑ Use of one-size-fits-all audit programs with standardized checklists without considering the unique issues and risks associated with client.
- ❑ Not applying a risk-based approach.
- ❑ Performing too much work in low-risk areas.
- ❑ Arbitrary standards to determine when a company had reached the threshold of having “material weaknesses” in internal control.



# Way forward for SMPs..



- ❑ Becoming a trusted advisor to business owners.
- ❑ Be proactive in anticipating and understanding evolutions in the accountancy profession.
- ❑ Obtain/develop the skills needed now and in future to meet client expectations.
- ❑ Seek out new markets and consider growth and diversification of service offerings.
- ❑ Use networks to offset limited internal resources for addressing challenges and opportunities.

# Way forward for SMPs



- ❑ Identify new service offerings (and determine firm structure and hiring decisions) based on a well-informed strategic response.
- ❑ Develop within a diversification strategy, niche expertise (expand according to your strengths).
- ❑ Meet and exceed client expectations.
- ❑ Be more efficient to reduce costs
- ❑ Promote a personal touch and responsiveness at partner level.
- ❑ Expand to become a one-stop-shop.

# Business advisory...



Money comes like a snail...



...and leaves like a cheetah



# Interactive Session

