



Audit Quality Assurance Workshop Western Branch.

***Theme: Audit Quality: A Globally Sustainable
Approach***

***VENUE: Kakamega Golf Hotel
DATE: 21st February 2020***

UPHOLD PUBLIC INTEREST



New International Standards

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NEW INTERNATIONAL STANDARDS



AGENDA

- ✓ **ISRS 4400 Agreed Upon procedures**
- ✓ **ISRS 4410 Compilation Engagements**
- ✓ **ISRE 2400(Review Engagements) and 2410(Review of Interim Financial Information)**
- ✓ **ISAE 3000 International Standard on Assurance Engagements**
- ✓ **Q&A**

ISRS 4400: AGREED UPON PROCEDURES

ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING FINANCIAL INFORMATION (ISRS 4400)



Objective

To carry out procedures of an audit nature to which the auditor and the entity and any appropriate third parties have agreed and to report on factual findings.

- ✓ No assurance is given-the auditor provides factual findings without expression of assurance.
- ✓ Users of the report draw their own conclusions



GENERAL PRINCIPLES OF AGREED UPON PROCEDURES ENGAGEMENTS

.The auditor should comply with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (the IESBA Code) ,the fundamental principles of which are:

- (a) Integrity;**
- (b) Objectivity;**
- (c) Professional competence and due care;**
- (d) Confidentiality;**
- (e) Professional behavior; and**
- (f) Technical standards.**

Defining the Terms of Engagement



Matters to be agreed include the following:

- ✓ Nature of the engagement including the fact that the procedures performed will not constitute an audit or a review and that accordingly no assurance will be expressed.
- ✓ Stated purpose for the engagement.
- ✓ Identification of the financial information to which the agreed-upon procedures will be applied.
- ✓ Nature, timing and extent of the specific procedures to be applied.
- ✓ Anticipated form of the report of factual findings.
- ✓ Limitations on distribution of the report of factual findings. When such limitation would be in conflict with the legal requirements, if any, the auditor would not accept the engagement.

AGREEING ON TERMS OF ENGAGEMENT



Auditor should ensure that there is clear understanding for all the parties to the agreement on the agreed procedure and conditions of the engagement. ;

- **Nature of the engagement**
- **Purpose of the engagement**
- **Timing**
- **Application of the procedure on financial data**
- **Format and timing of the report**
- **Limitation on distribution of findings**

All these should be clearly indicated in the engagement letter, listing specific procedures along auditor's acceptance of the engagement



Procedures and Evidence

- ✓ The auditor should carry out the procedures agreed upon and use the evidence obtained as the basis for the report of factual findings.
- ✓ The procedures applied in an engagement to perform agreed-upon procedures may include the following:
 - **Inquiry and analysis.**
 - **Observation.**
 - **Inspection.**
 - **Obtaining confirmations.**
 - **Recomputation and recalculation.**



Contents of an Agreed upon procedure Report

- ✓ Title and address
- ✓ Identification of the specific financial and non-financial information to the agreed-upon procedures where applicable
- ✓ A statement that the procedures performed are those agreed upon by their recipients
- ✓ A listing of the specific procedures performed
- ✓ A statement that the engagement was performed in accordance with the International Standard applicable to the agreed upon procedure
- ✓ The purpose for which the agreed upon procedures were performed
- ✓ A description of the practitioner's factual findings including the errors found



Contents of an Agreed upon procedure Report

- ✓ A statement that the procedures performed do not constitute an audit and hence no assurance is provided
- ✓ A statement that the report relates only to the specific financial and no-financial information specified and does not extend to the entity's financial statements taken as a whole
- ✓ A statement that the report is restricted to only those parties that agreed to the procedures to be performed
- ✓ The date of the report
- ✓ The practitioner's address and signature



Agreed Upon Procedures

Sample Engagement letter

Sample factual findings report

ISRS 4410: COMPILATION ENGAGEMENTS

ISRS 4410 -ENGAGEMENTS TO COMPILE FINANCIAL STATEMENTS



Compilation engagement-an engagement in which the practitioner applies accounting and financial reporting expertise to assist management in the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports in accordance with this ISRS (ISRS 4410).



Objective of a compilation engagement

- ✓ Requires the accountant to **use accounting expertise**, as opposed to auditing expertise, **to collect, classify and summarize financial information**
- ✓ This ordinarily entails **reducing detailed data to a manageable and understandable form without a requirement to test the assertions underlying that information.**
- ✓ A compilation engagement includes the **preparation of financial statements** (which may or may not be a complete set of financial statements) but may also include the collection, classification and summarization of other financial information.

General Principles of a compilation engagement



The **accountant** should **comply with the Code of Ethics** for **Professional Accountants** issued by the International Ethics Standards Board for Accountants (the IESBA Code), the fundamental principles of which are :

- a) **Integrity;**
- b) **Objectivity;**
- c) **Professional competence and due care;**
- d) **Confidentiality;**
- e) **Professional behavior; and**
- f) **Technical standards.**



Defining the Terms of the Engagement

- ✓ Ensure there is a clear understanding between the client and the accountant regarding the **terms of the engagement**. Matters to be considered include the following:
- ✓ **Nature of the engagement** including the fact that neither an **audit nor a review** will be carried out and that accordingly **no assurance will be expressed**.
- ✓ Fact that the **engagement cannot be relied upon to disclose errors, illegal acts or other irregularities**, for example, fraud or defalcations that may exist.
- ✓ **Nature of the information** to be **supplied by the client**.



Defining the Terms of the Engagement (CONT'D)

- ✓ The fact that **management is responsible** for the **accuracy** and **completeness** of the information supplied to the accountant for the completeness and accuracy of the compiled financial information.
- ✓ **Basis of accounting** on which the financial information is to be compiled and the fact that it, and any known departures therefrom, will be disclosed.
- ✓ **Intended use** and **distribution of the information**.
- ✓ **Form of report** to be rendered regarding the financial information compiled, when the accountant's name is to be associated therewith.



Compilation Engagements: Procedures

- ✓ Obtain a **general knowledge of the business and operations** of the entity and should
- ✓ Should be familiar with the **accounting principles and practices of the industry** in which the entity operates and with the form and content of the financial information that is appropriate in the circumstances.
- ✓ Should have a general understanding of the **nature of the entity's business transactions**, the form of its **accounting records** and **the accounting basis** on which the financial information is to be presented.



Compilation Engagements: Procedures

The accountant **is not** required to:

- (a) Make any inquiries of management to assess the reliability and completeness of the information provided;**
- (b) Assess internal controls;**
- (c) Verify any matters; or**
- (d) Verify any explanations**

Contents of a compilation report



- ✓ Title and address
- ✓ A statement that the engagement was conducted in accordance with International Standards on Related Services (ISRS)
- ✓ A statement that the practitioner is independent of the entity
- ✓ Identification of the financial statements that are based on information provided by management

Contents of a compilation report



- ✓ A statement that management is responsible for the compilation of the financial statements
- ✓ A paragraph to draw attention to the disclosure of material departure from the financial reporting framework
- ✓ Details of the practitioner i.e. date of report, practitioner's address, and signature

ISRE 2400 REVIEW ENGAGEMENTS

Objective of Review Engagements



To enable the practitioner to state whether, on the basis of procedures which do not provide all the evidence that would be required in an audit, anything has come to the practitioner's attention that causes him/her to believe that the financial statements are not prepared, in all material respects, in accordance with an applicable financial reporting framework.

Agreeing the Terms of Engagement



The practitioner shall agree the terms of the engagement with management or those charged with governance, as appropriate, prior to performing the engagement.

The agreed terms of engagement shall be recorded in an engagement letter or other suitable form of written agreement, and shall include:

Agreeing the Terms of Engagement



- a) The intended use and distribution of the financial statements, and any restrictions on use or distribution where applicable;
- b) Identification of the applicable financial reporting framework;
- c) The objective and scope of the review engagement;

Agreeing the Terms of Engagement



- (d) The responsibilities of the practitioner;
- (e) The responsibilities of management
- (f) A statement that the engagement is not an audit, and that the practitioner will not express an audit opinion on the financial statements; and
- (g) Reference to the expected form and content of the report to be issued by the practitioner, and a statement that there may be circumstances in which the report may differ from its expected form and content.

Acceptance /Continuance of Review Engagements



Unless required by law or regulation, the practitioner shall not accept a review engagement if:

a) The practitioner is not satisfied:

- (i) That there is a rational purpose for the engagement; or
- (ii) That a review engagement would be appropriate in the circumstances;

Acceptance /Continuance of Review Engagements(CONT'D)



- (b) The practitioner has reason to believe that relevant ethical requirements, including independence, will not be satisfied;
- (c) The practitioner's preliminary understanding of the engagement circumstances indicates that information needed to perform the review engagement is likely to be unavailable or unreliable;
- (d) The practitioner has cause to doubt management's integrity such that it is likely to affect proper performance of the review; or
- (e) Management or those charged with governance impose a limitation on the scope of the practitioner's work in the terms of a proposed review engagement such that the practitioner believes the limitation will result in the practitioner disclaiming a conclusion on the financial statements.

Review Engagements: Reporting



The practitioner's report for the review engagement shall be in writing, and shall contain the following elements:

- (a) A title, which shall clearly indicate that it is the report of an independent practitioner for a review engagement;
- (b) The addressee(s), as required by the circumstances of the engagement;

Review Engagements: Reporting



(c) An introductory paragraph that:

- (i) Identifies the financial statements reviewed, including identification of the title of each of the statements contained in the set of financial statements and the date and period covered by each financial statement;
 - (ii) Refers to the summary of significant accounting policies and other explanatory information; and
 - (iii) States that the financial statements have been reviewed;
- (d) A description of the practitioner's responsibility to express a conclusion on the financial statements including reference to ISRE 2400 and, where relevant, applicable law or regulation;

Review Engagements: Reporting



- (e) A description of a review of financial statements and its limitations, and the following statements:
- (i) A review engagement under this ISRE is a limited assurance engagement;
 - (ii) The practitioner performs procedures, primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical procedures, and evaluates the evidence obtained; and
 - (iii) The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (ISAs), and, accordingly, the practitioner does not express an audit opinion on the financial statements;

Review Engagements: Reporting



- (f) A paragraph under the heading “Conclusion” that contains:
- (i) The practitioner’s conclusion on the financial statements as a whole ; and
 - (ii) A reference to the applicable financial reporting framework used to prepare the financial statements

Review Engagements: Reporting



(g) When the practitioner's conclusion on the financial statements is modified:

(i) A paragraph under the appropriate heading that contains the practitioner's modified; and

(ii) A paragraph, under an appropriate heading, that provides a description of the matter(s) giving rise to the modification;

(h) A reference to the practitioner's obligation under this ISRE to comply with relevant ethical requirements;

ISRS 2410:

**REVIEW OF INTERIM FINANCIAL INFORMATION
PERFORMED BY THE INDEPENDENT AUDITOR
OF THE ENTITY**

Objective



- ✓ To enable the auditor to express a conclusion whether, on the basis of the review, anything has come to the auditor's attention that causes the auditor to believe that the interim financial information is not prepared, in all material respects, in accordance with an applicable financial reporting framework.
- ✓ The auditor makes inquiries, and performs analytical and other review procedures in order to reduce to a moderate level the risk of expressing an inappropriate conclusion when the interim financial information is materially misstated.

General Principles



- ✓ The auditor should comply with the ethical requirements relevant to the audit of the annual financial statements of the entity.
- ✓ These ethical requirements govern the auditor's professional responsibilities in the following areas: independence, integrity, objectivity, professional competence and due care, confidentiality, professional behavior, and technical standards.

General Principles



- ✓ The auditor should implement quality control procedures that are applicable to the individual engagement.
- ✓ The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring.

General Principles



- ✓ The auditor should plan and perform the review with an attitude of professional skepticism, recognizing that circumstances may exist that cause the interim financial information to require a material adjustment for it to be prepared, in all material respects, in accordance with the applicable financial reporting framework..

Agreeing the Terms of the Engagement



The agreed terms of the engagement are ordinarily recorded in an engagement letter.

Such a communication helps to avoid misunderstandings regarding the nature of the engagement

Agreeing the Terms of the Engagement



The communication ordinarily covers the following matters:

- ✓ The objective of a review of interim financial information.
- ✓ The scope of the review.
- ✓ Management's responsibility for the interim financial information.
- ✓ Management's responsibility for establishing and maintaining effective internal control relevant to the preparation of interim financial information.
- ✓ Management's responsibility for making all financial records and related information available to the auditor.

Agreeing the Terms of the Engagement



Management's agreement to provide written representations to the auditor to confirm representations made orally during the review, as well as representations that are implicit in the entity's records.

The anticipated form and content of the report to be issued, including the identity of the addressee of the report.

Procedures for a Review of Interim Financial Information



Understanding the Entity and its Environment, Including its Internal Control in order to:

- (a) Identify the types of potential material misstatement and consider the likelihood of their occurrence; and
- (b) Select the inquiries, analytical and other review procedures that will provide the auditor with a basis for reporting

Reporting



The auditor should issue a written report that contains the following:

- (a) An appropriate title.
- (b) An addressee, as required by the circumstances of the engagement.
- (c) Identification of the interim financial information reviewed, including identification of the title of each of the statements contained in the complete or condensed set of financial statements and the date and period covered by the interim financial information.

Reporting



(d) a statement that management is responsible for the preparation and fair presentation of the interim financial information in accordance with the applicable financial reporting framework.

(e) In other circumstances, a statement that management is responsible for the preparation and presentation of the interim financial information in accordance with the applicable financial reporting framework

(f) A statement that the auditor is responsible for expressing a conclusion on the review.

Reporting



(g) A statement that the review of the interim financial information was conducted in accordance with (ISRE) 2410

(h) A statement that a review is substantially less in scope than an audit conducted in accordance with ISAs and consequently does not enable the auditor to obtain assurance that the auditor would become aware of all significant matters that might be identified in an audit and that accordingly no audit opinion is expressed.

ISAE 3000:

**Assurance engagements other than audits
and reviews of historical financial
information**

ISAE 3000



Assurance engagement—An engagement in which a practitioner aims to obtain sufficient appropriate evidence in order to express a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the subject matter information

ISAE 3000

CATEGORIES OF ASSURANCE ENGAGEMENTS



a) Reasonable assurance engagement

An assurance engagement in which the practitioner reduces engagement risk to an acceptably low level in the circumstances of the engagement as the basis for the practitioner's conclusion. The practitioner's conclusion is expressed in a form that conveys the practitioner's opinion on the outcome of the measurement or evaluation of the underlying subject matter against criteria

ISAE 3000

CATEGORIES OF ASSURANCE ENGAGEMENTS



b)Limited assurance engagement

An assurance engagement in which the practitioner reduces engagement risk to a level that is acceptable in the circumstances of the engagement but where that risk is greater than for a reasonable assurance engagement as the basis for expressing a conclusion in a form that conveys whether, based on the procedures performed and evidence obtained, a matter(s) has come to the practitioner's attention to cause the practitioner to believe the subject matter information is materially misstated

ISAE 3000

CATEGORIES OF ASSURANCE ENGAGEMENTS



c) Attestation engagement

An assurance engagement in which a party other than the practitioner measures or evaluates the underlying subject matter against the criteria.

A party other than the practitioner also often presents the resulting subject matter information in a report or statement. In some cases, however, the subject matter information may be presented by the practitioner in the assurance report.

ISAE 3000

CATEGORIES OF ASSURANCE ENGAGEMENTS



d) Direct engagement

An assurance engagement in which the practitioner measures or evaluates the underlying subject matter against the applicable criteria and the practitioner presents the resulting subject matter information as part of, or accompanying, the assurance report. In a direct engagement, the practitioner's conclusion addresses the reported outcome of the measurement or evaluation of the underlying subject matter against the criteria.

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



- *Tripartite relationship*
- *Appropriate subject matter*
- *Sufficient appropriate evidence*
- *Suitable criteria*
- *Assurance report (written)*

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



- *Tripartite relationship*

A three-party relationship comprising of the practitioner, the responsible party and the intended user

- *Appropriate subject matter*

An appropriate subject matter is:

- Identifiable and capable of consistent evaluation or measurement against the identified criteria.
- Capable of being subjected to procedures for gathering **sufficient appropriate evidence**

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Sufficient appropriate evidence

- ***Sufficiency*** is a measure of the quantity of the evidence –the quantity of evidence needed is affected by the risk of the subject mastering materially misstated.
- ***Appropriateness*** is the measure of the quality of evidence, that is, its relevance and reliability where relevant

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Generalizations about assurance evidence

- ✓ The reliability of audit evidence is increased when it is obtained from independent sources outside the entity.
- ✓ The reliability of evidence that is generated internally is increased when related controls, including those over its preparation and maintenance, imposed by the entity are effective.
- ✓ Evidence obtained directly by the practitioner is more reliable than evidence obtained indirectly or by inference

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Generalizations about assurance evidence

- ✓ Evidence in documentary form, whether paper, electronic, or other medium, is more reliable than evidence obtained orally.
- ✓ Evidence provided by original documents is more reliable than evidence provided by photocopies or facsimiles, or documents that have been filmed, digitized or otherwise transformed into electronic form, the reliability of which may depend on the controls over their preparation and maintenance

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Suitable criteria

- ✓ Suitable criteria are the standards against which the subject matter of the assignment is assessed.
- ✓ Relevance –contribute to conclusions that aid in decision making by the intended users.

Characteristics of suitable criteria

- ✓ **Completeness**-No significant matters that could affect the conclusions have been left out.
- ✓ **Reliability**
- ✓ **Neutrality**-free from bias
- ✓ **Understandability** –contribute to conclusions that are clear, comprehensive, and not subject to significantly different interpretations.

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Assurance Engagement Risk

This is the risk that a practitioner expresses an inappropriate conclusion when the subject matter is materially misstated.

The components of an assurance engagement risk can be categorized into:

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Risks that are not within the control of the practitioner

- **Inherent risk** - the susceptibility of the subject matter information to material misstatement assuming there were no related controls
- **Control risk** - the risk that a material misstatement could occur in an assertion about the subject matter information and will not be able to be prevented, or detected and corrected, on a timely basis by the entity's internal control.

ISAE 3000

ELEMENTS OF AN ASSURANCE ENGAGEMENT



Risks that are within the control of the practitioner

- **Detection risk** –the risk that procedures performed by the auditor to reduce audit risk to an acceptably low level will not detect a misstatement that exists that could be material, either individually or when aggregated with other misstatements.

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ELEMENTS OF AN ASSURANCE ENGAGEMENT



Detection risk can be reduced by:

- Adequate planning
- Proper assignment of personnel to the engagement team
- The application of professional skepticism
- Supervision and review the assurance work performed

Agreeing on the Terms of the Engagement



The agreed terms of the engagement shall be specified in sufficient detail in an engagement letter or other suitable form of written agreement, written confirmation, or in law or regulation

On recurring engagements, the practitioner shall assess whether circumstances require the terms of the engagement to be revised and whether there is a need to remind the engaging party of the existing terms of the engagement.

Quality Control



The engagement partner shall:

- (a) Be a member of a firm that applies ISQM 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQM1
- (b) Have competence in assurance skills and techniques developed through extensive training and practical application; and
- (c) Have sufficient competence in the underlying subject matter and its measurement or evaluation to accept responsibility for the assurance conclusion

Forming the Assurance Conclusion



- ✓ The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence.
- ✓ The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria.
- ✓ The practitioner shall form a conclusion about whether the subject matter information is free of material misstatement.

Forming the Assurance Conclusion



- ✓ The practitioner shall evaluate the sufficiency and appropriateness of the evidence obtained in the context of the engagement and, if necessary in the circumstances, attempt to obtain further evidence.
- ✓ The practitioner shall consider all relevant evidence, regardless of whether it appears to corroborate or to contradict the measurement or evaluation of the underlying subject matter against the applicable criteria.
- ✓ The practitioner shall form a conclusion about whether the subject matter information is free of material misstatement.

Contents of an Assurance Report



- (a) A title that clearly indicates the report is an independent assurance report.
- (b) An addressee.
- (c) An identification or description of the level of assurance obtained by the practitioner, the subject matter information and, when appropriate, the underlying subject matter.
- (d) Identification of the applicable criteria.
- (e) Where appropriate, a description of any significant inherent limitations associated with the measurement or evaluation of the underlying subject matter against the applicable criteria.

Contents of an Assurance Report



- (f) When the applicable criteria are designed for a specific purpose, a statement alerting readers to this fact and that, as a result, the subject matter information may not be suitable for another purpose.
- (g) A statement to identify the responsible party and the measurer or evaluator if different, and to describe their responsibilities and the practitioner's responsibilities.
- (h) A statement that the engagement was performed in accordance with this
- (i) The practitioner's signature
- (j) The date of the assurance report.



THANK YOU!



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