

# Audit Quality Assurance Workshop MT. Kenya Branch

## Audit Procedures

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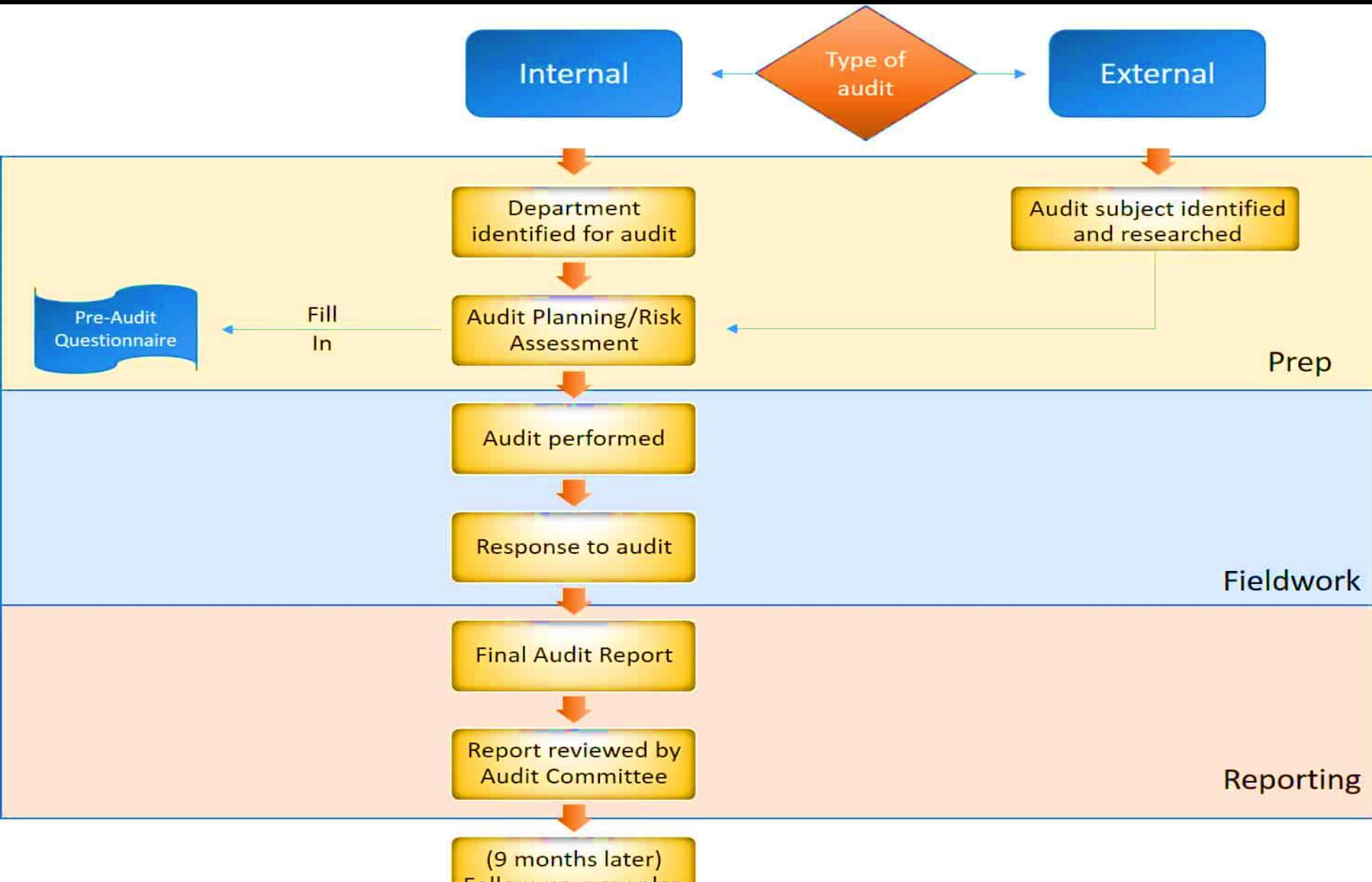
- ❖ Discussion draft
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- ❖ Formal draft
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# AN OVERVIEW OF AUDIT PROCEDURES



# 1. AUDIT PLANNING

## ISA 300

# Planning



During this stage of the audit, the auditor notifies the client of the audit, discusses the scope and the objectives of the examination in a formal meeting with the company's management, gathers information on important processes, evaluating existing controls and plans the remaining audit processes.

# (a). Engagement



This could be a normal routine audit or request from the authority  
Appointment of the audit team- The appointed team should:

- ❖ Conduct the first meeting
- ❖ Document the preparation of the audit
- ❖ Set the engagement objectives
- ❖ Determine the scope of audit

# (b). Preliminary Activities

## i. Familiarization



Prior to the audit work, the auditor performs pre-engagement acceptance or continuance procedures.

- ❖ An independence assessment;
- ❖ A pre-engagement assessment; and
- ❖ Communications with the previous auditor

Throughout this process, we can expect:

- ❖ a letter that communicates the auditor's independence and compliance with relevant professional standards; and
- ❖ disclosure of all relationships between the auditor and the entity and its related entities that may affect the auditor's independence

Once the pre-engagement assessment is complete, the auditor issues an Engagement Letter with:

- ❖ engagement objectives, scope and limitations;
- ❖ management's responsibilities;
- ❖ responsibility for adjustments;
- ❖ the auditor's responsibilities; and
- ❖ other matters, such as fees

# Preliminary activities:



In summary the auditor shall undertake the following activities at the beginning of the current audit engagement:

Performing procedures required by ISA 220 regarding the continuance of the client relationship and the specific audit engagement;

Establishing an understanding of the terms of the engagement, as required by ISA 210

Evaluating compliance with relevant ethical requirements, including independence, in accordance with ISA 220



## ii. Identification of potential areas for improvement

The determination of materiality in accordance with ISA 32011 and, where applicable:

The determination of materiality for components and communication thereof to component auditors in accordance with ISA 600

The preliminary identification of significant components and material classes of transactions, account balances and disclosures

These areas include:

- ❖ Register risk identified- areas of material misstatement
- ❖ Areas of high possibility of fraud or mismanagement
- ❖ Where there is high volume of transactions
- ❖ Where management has expressed concerns
- ❖ Where prior audit disclosed major weaknesses

## iii. Planning of detailed:

Auditor shall put down:

- ❖ Preparation of audit programs
- ❖ Audit program should be recorded
- ❖ Basically show what is to be done, by who, By when, for how long and how it will be done.
- ❖ This is the link between the Preliminary and the field work

## iv. Confirmations- Getting the evidence from the third parties where necessary

## v. Initial meeting

The clients describes:

- ❖ the system or the unit to be reviewed
- ❖ The organization
- ❖ The available resources and other relevant information

## vi. Preliminary survey and internal control review

- ❖ Auditor gathers the relevant information on various units or systems
- ❖ The audit will review the unit's internal control structures processes

## vii. Preparation of audit program

- ❖ This conclude the preliminary activities
- ❖ It outlines the field work necessary to achieve the audit objectives

# Why preliminary Activities



Performing these preliminary engagement activities enables the auditor to plan an audit engagement for which, for example:

- ❖ The auditor maintains the necessary independence and ability to perform the engagement.
- ❖ There are no issues with management integrity that may affect the auditor's willingness to continue the engagement.
- ❖ There is no misunderstanding with the client as to the terms of the engagement.

## 3. FIELD WORK

# Fieldwork Activities



- ❖ This is a systematic process of gathering evidence about entity's operations evaluating and finding out whether those operations meet the acceptable standards
- ❖ Auditor performs the procedures documented on the audit programs by concentrating on the transaction testing and informal communications
- ❖ In addition the auditor determines and evaluate whether the internal controls are operating properly and in the manner described in the organizational manuals.

# (a). Obtaining audit evidence

## ISA 500



Information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information

The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

Appropriateness (of audit evidence) – The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor's opinion is based

Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor's assessment of the risks of material misstatement and also by the quality of such audit evidence

ISA 330 requires the auditor to conclude whether sufficient appropriate audit evidence has been obtained.

# Documentation of field work outcome ISA 230



Audit documentation – The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached

## Goal of documentation

Quality and efficiency

**Volume**

We document:

- ❖ What we did
- ❖ What we found
- ❖ Where we found it
- ❖ What we concluded

# Documentation of the Audit Procedures Performed and Audit Evidence Obtained

The form, content and extent of audit documentation depend on factors such as:

- ❖ The size and complexity of the entity.
- ❖ The nature of the audit procedures to be performed.
- ❖ The identified risks of material misstatement.
- ❖ The significance of the audit evidence obtained.
- ❖ The nature and extent of exceptions identified.

Audit documentation may be recorded on paper or on electronic or other media. Examples of audit documentation include:

- ❖ Audit programs.
- ❖ Analyses.
- ❖ Issues memoranda.
- ❖ Summaries of significant matters.
- ❖ Letters of confirmation and representation.
- ❖ Checklists.
- ❖ Correspondence (including e-mail) concerning significant matters.



# Safe guarding audit working paper



- ❖ The auditors are responsible for safeguarding audit working paper to avoid their loss or use by unauthorized person.
- ❖ Secure working paper and computer in areas under lock.
- ❖ Don't leave confidential data open.

## Elements of an effective program:

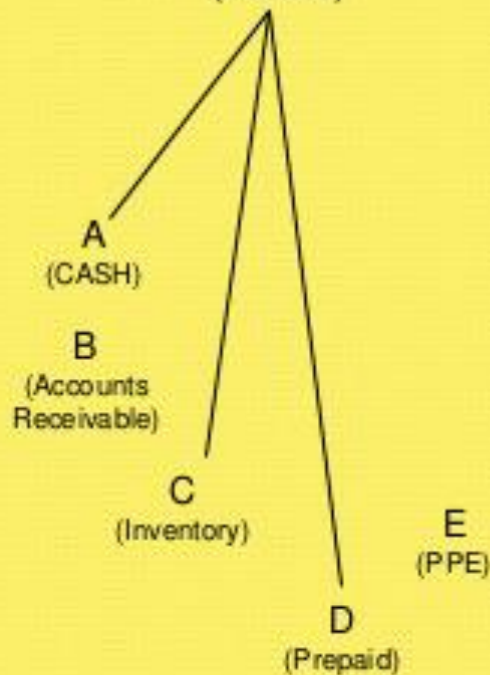
- ❖ Responds to risk in the planning process
- ❖ Includes client procedures
- ❖ Incorporate any general note
- ❖ Documents results of work done
- ❖ Reinforces what work to do and how to do it
- ❖ May serve as a vehicle to communicate time expectation
- ❖ Acts as a substitute for practice aid in lower risks areas

# Workpaper Hierarchical Structure

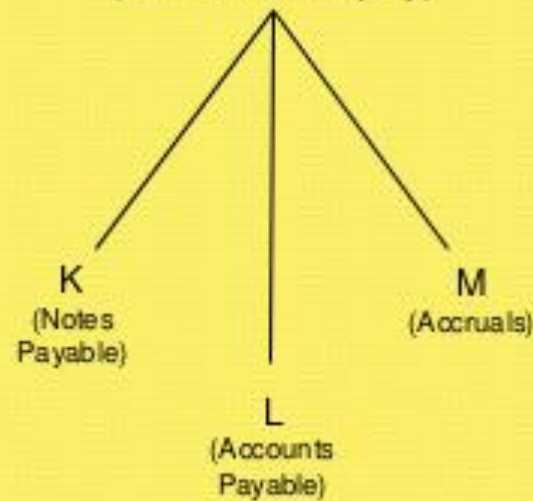
## Financial Statements

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### (Assets)



### (Liabilities & Equity)



### (Profit & Loss)



# Exit meeting



The meeting between audit team and the client on the completion of audit field work.

The objective of the meeting is share and discuss the findings

Minutes of the meeting should be well documented

# 3. REPORTING

## ISA 700



# Reporting



- ❖ This refers to the communication between the auditor and the client on the results of the audit engagement ( The report is the product of the audit engagement)
- ❖ It is the most visible out put that provides the feedback to the client and other stakeholder on the results of the engagement
- ❖ It is an opportunity for an audit showing how it can add value to the organization
- ❖ It provides the management with opinion on the adequacy of internal controls systems

# AUDIT REPORT

**Audit Step :** To communicate the results of the audit to management

W/P No.	Est. Hrs.	Act. Hrs.

**A. Prepare a Draft Report:**

1. Write report introduction, background & scope.
2. Consolidate conclusion summaries into a report, x-ref
3. Write memo for less significant items.
4. Submit report for review & clear review notes.
5. Set up the Exit Conference and distribute Draft Report
6. Conduct Exit Conference to brief on the audit results and request a date for completion of the corrective action plan. (Note: If any material changes to the audit report are identified, establish the date for revised report to be issued.)

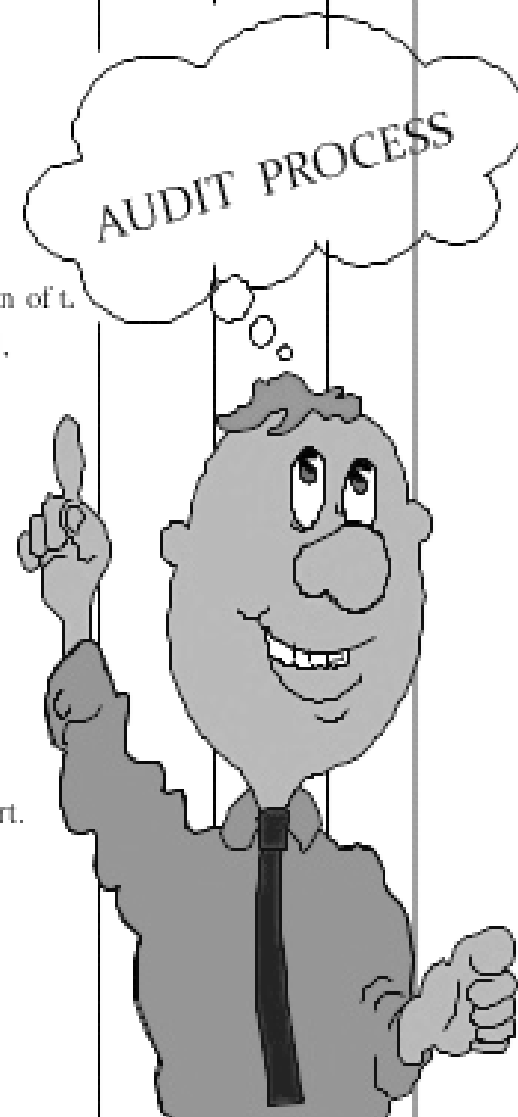
**B. Obtain Corrective Action Plan**

1. Analyze the Corrective Action Plan for adequacy and document.
2. Advise agency management of any apparent inadequacies in the Corrective Action Plan & resolve.

**C. Prepare a Final Report:**

1. Add the revised Corrective Action Plan to the Draft Report to prepare the Final Report.
2. Submit report for review & clear review notes.
3. Distribute the final report.

**REPORTING:** Date Completed April 4, 2010      69 Total Hours:



## 4. Audit follow up

*Never Fail to*  
**Follow Up**



# Audit follow up



This is sometimes refers to recommendation audit

The objective of this phase is to review and verify the implementation of audit recommendation

Issues, audit observation, risk identified, recommendations and management comments are presented in the management letter

It is important to communicate with those charged with governance as per ISA 260.



# Client response



The client has the opportunity to respond to the audit findings prior to issuance of the final report which can be included or attached to our final report. In the response, the client should explain how report findings will be resolved and include an implementation timetable.

In some cases, managers may choose to respond with a decision not to implement an audit recommendation and to accept the risks associated with an audit finding.

# Final audit



After audited management has been given an opportunity to respond to the Preliminary Draft, the Final Draft Report is presented to the Accountability Oversight Committee for approval. Upon approval of the Final Draft the Final Report is issued. Auditor distributes the final report to the Chief Financial Officer, the Chief Accountant, the President, the Board of Directors, and other appropriate members of senior management. Final Reports are considered public information and will be available to anyone.

# Audit Work Flow

P R E L I M I N A R Y	<b>Planning and Risk Assessment</b>	<ul style="list-style-type: none"><li>• Understand the business including the IT environment</li><li>• Evaluation of entity level controls and fraud assessment</li><li>• Perform risk assessment and evaluation procedures</li><li>• Determine audit approach and plan audit strategy</li></ul>
	<b>Evaluation of Controls</b>	<ul style="list-style-type: none"><li>• Understand significant processes and perform walkthrough</li><li>• Evaluate design and implementation of controls</li><li>• Test and conclude on operating effectiveness of controls</li></ul>
	<b>Anticipation and Resolution of Audit Issues</b>	<ul style="list-style-type: none"><li>• Team discussion of accounting and auditing issues</li><li>• Brain storming session with the Company on the identification and resolution of issues`</li></ul>
F I N A L	<b>Perform Substantive Test</b>	<ul style="list-style-type: none"><li>• Determine substantive procedures</li><li>• Perform substantive procedures</li><li>• Conclude on procedures performed</li></ul>
	<b>General Audit Procedures</b>	<ul style="list-style-type: none"><li>• Fraud assessment procedures</li><li>• Going concern assessment</li><li>• Subsequent events review</li><li>• Laws and regulations, litigations and claims</li></ul>
<b>Conclude the Audit</b>		<ul style="list-style-type: none"><li>• Perform completion procedures</li><li>• Perform overall review of financial statements</li><li>• Obtain management representation</li><li>• Form an audit opinion</li></ul>



THANK YOU!