



Audit Quality Assurance Workshop Mt. Kenya Branch.

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

By: CPA Cyprian Oluoch

FEBRUARY 2020

UPHOLD PUBLIC INTEREST

$$\text{shoe} + \text{shoe} + \text{shoe} = 60$$

$$\text{shoe} + \text{man} + \text{man} = 30$$

$$\text{glasses} + \text{man} + \text{glasses} = 9$$

$$\text{shoe} + \text{boxing glove} + \text{glasses} = 42$$

$$\text{shoe} + \text{man with boxing glove} \times \text{glasses} = ?$$



OVERVIEW

The Independent Auditor's Report

Forms of Audit Opinion (ISA 700,705)

Key Audit Matters (KAMs) (ISA 701)

Q&A



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

The objective of this ISA is to :

- ✓ Outline the auditor's responsibility to form an opinion on the financial statements.
- ✓ Describe the form and content of the auditor's report issued as a result of an audit of financial statements

The objectives of an audit are:

- ✓ To form an opinion on the financial statements based on an evaluation of the conclusions drawn from the audit evidence obtained; and
- ✓ To express clearly that opinion through a written report



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

Contents of the Independent Auditor's Report

Title

The auditor's report shall have a title that clearly indicates that it is the report of an independent auditor

Addressee

The auditor's report shall be addressed, as appropriate, based on the circumstances of the engagement



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

Auditor's Opinion

Shall have the heading "Opinion."

The Opinion section of the auditor's report shall also:

- (a) Identify the entity whose financial statements have been audited;
- (b) State that the financial statements have been audited;
- (c) Identify the title of each statement comprising the financial statements;
- (d) Refer to the notes, including the summary of significant accounting policies; and
- (e) Specify the date of, or period covered by, each financial statement comprising the financial statements



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

Contents of the Independent Auditor's Report

Basis for Opinion

The auditor's report shall include a section, directly following the Opinion section, with the heading "Basis for Opinion", that:

- a) States that the audit was conducted in accordance with International Standards on Auditing;
- b) Refers to the section of the auditor's report that describes the auditor's responsibilities under the ISAs;
- c) Includes a statement that the auditor is independent of the entity in accordance with the relevant ethical requirements relating to the audit, and has fulfilled the auditor's other ethical responsibilities in accordance with these requirements.
- d) States whether the auditor believes that the audit evidence the auditor has obtained is sufficient and appropriate to provide a basis for the auditor's opinion.



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

Contents of the Independent Auditor's Report

Going Concern

Where applicable, the auditor shall report in accordance with ISA 570-the auditor's responsibilities with regards to the going concern of an entity and its implications on the auditor's report.

Key Audit Matters

For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with ISA 701.

Responsibilities of Management for the Financial Statements

Shall describe management's responsibility for:

- a) Preparing the financial statements in accordance with the applicable financial reporting framework, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; and
- b) Assessing the entity's ability to continue as a going concern



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

Contents of the Independent Auditor's Report

Auditor's Responsibilities for the Audit of the Financial Statements

This section of the auditor's report shall state that the objectives of the auditor are to:

- a) Obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- b) Issue an auditor's report that includes the auditor's opinion.

Other Reporting Responsibilities

Shall be addressed in a separate section in the auditor's report with a heading titled "Report on Other Legal and Regulatory Requirements"

Name of the Engagement Partner

The name of the engagement partner shall be included in the auditor's report for audits of complete sets of general purpose financial statements of listed entities unless, in rare circumstances, such disclosure is reasonably expected to lead to a significant personal security threat.



THE INDEPENDENT AUDITOR'S REPORT (ISA 700)

Contents of the Independent Auditor's Report

Signature of the Auditor

The auditor's report shall be signed.

Auditor's Address

The auditor's report shall name the location in the jurisdiction where the auditor practices

Date of the Auditor's Report

The auditor's report shall be dated no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements, including evidence that:

(a) All the statements that comprise the financial statements, including the related notes, have been prepared; and

(b) Those with the recognized authority have asserted that they have taken responsibility for those financial statements.



FORMS OF OPINION (ISA 700,705)

Forms of Opinion:

UNMODIFIED (ISA 700)

- Unqualified opinion

MODIFIED (ISA 705)

- Qualified opinion
- Adverse opinion
- Disclaimer of opinion



UNQUALIFIED OPINION

- Issued when the auditor concludes that based on the evidence obtained, the financial statements taken as whole are free from material misstatements and have been prepared in accordance with the applicable financial reporting framework.

ILLUSTRATION

- *“In our opinion, the accompanying financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Company as at December 31, 20X9, and (of) its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs)”.*



MODIFIED OPINION (QUALIFIED,ADVERSE,DISCLAIMER)

The auditor shall modify the opinion in the auditor's report when:

- (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
- (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.



MODIFIED OPINION

The decision regarding which type of modified opinion is appropriate depends upon:

- (a) The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated;
- (b) The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements.

A modified opinion shall have the heading "Qualified Opinion," "Adverse Opinion," or "Disclaimer of Opinion," as appropriate, for the Opinion section



MODIFIED OPINION

Pervasive – used to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence.

Pervasive effects on the financial statements are those that, in the auditor's judgment:

- i. (i) Are not confined to specific elements, accounts or items of the financial statements;
- ii. (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- iii. (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements



QUALIFIED OPINION (Except for opinion)

The auditor shall express a qualified opinion when:

- (a) Having obtained sufficient appropriate audit evidence, He/she concludes that misstatements, individually or in the aggregate, are material, but not pervasive, to the financial statements; or
- (b) He/she is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive.



QUALIFIED OPINION(Except for opinion)

ILLUSTRATION

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying consolidated financial statements present fairly, in all material respects, (or give a true and fair view of) the financial position of the Group as at December 31, 20X0, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).



ADVERSE OPINION

Expressed when, having obtained sufficient appropriate audit evidence, the auditor concludes that misstatements, individually or in the aggregate, are both material and pervasive to the financial statements.



ADVERSE OPINION

ILLUSTRATION

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion section of our report, the accompanying consolidated financial statements do not present fairly (or do not give a true and fair view of) the consolidated financial position of the Group as at December 31, 20X0, and (of) its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs)



DISCLAIMER OF OPINION

The auditor shall disclaim an opinion:

- ✓ When he/she is unable to obtain sufficient appropriate audit evidence on which to base the opinion, and he/she concludes that the possible effects on the financial statements of undetected misstatements, if any, could be both material and pervasive.
- ✓ When, in extremely rare circumstances involving multiple uncertainties, the auditor concludes that, notwithstanding having obtained sufficient appropriate audit evidence regarding each of the individual uncertainties, it is not possible to form an opinion on the financial statements due to the potential interaction of the uncertainties and their possible cumulative effect on the financial statements.



DISCLAIMER OF OPINION

ILLUSTRATION

We were engaged to audit the consolidated financial statements of ABC Company and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20X9, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements



KEY AUDIT MATTERS(KAMS)

ISA 701

KAMs: Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period.

Key audit matters are selected from matters communicated with those charged with governance.

Auditor's Objectives

The objectives of the auditor are to determine KAMs and, having formed an opinion on the financial statements, communicate those matters by describing them in the auditor's report.



KEY AUDIT MATTERS(KAMS)

ISA 701

Determining Key Audit Matters

KAMs shall be determined by taking into account areas of significant auditor attention in performing the audit, including:

- (a) Areas identified as significant risks in accordance with ISA 315 (Revised)¹ or involving significant auditor judgment.
- (b) Areas in which the auditor encountered significant difficulty during the audit, including with respect to obtaining sufficient appropriate audit evidence.
- (c) Circumstances that required significant modification of the auditor's planned approach to the audit, including as a result of the identification of a significant deficiency in internal control.



KEY AUDIT MATTERS (KAMs)

ISA 701

Communicating Key Audit Matters

KAMs to be communicated in a separate section of the auditor's report under the heading "Key Audit Matters."

The auditor's report shall state that:

- (a) KAMs are those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements [of the current period];
- (b) KAMs are selected from matters communicated with those charged with governance, but are not intended to represent all matters that were discussed with them;
- (c) The auditor's procedures relating to these matters were designed in the context of the audit of the financial statements as a whole; and
- (d) The auditor's opinion on the financial statements is not modified with respect to any of the KAMs, and the auditor does not express an opinion on these individual matters



KEY AUDIT MATTERS(KAMS)

ISA 701

Communicating Key Audit Matters

The auditor shall describe each key audit matter in the Key Audit Matters section using an appropriate subheading.

The description of each key audit matter shall include:

- (a) An explanation of why the auditor considered the matter to be one of most significance in the audit and, to the extent the auditor considers it necessary as part of this explanation, its effect on the audit; and
- (b) A reference to the related disclosure(s), if any, in the financial statements

