



Audit Quality Assurance (AQA) Workshop - Mt. Kenya Branch

***SMP Management
By CPA Cyprian Oluoch***

Date: 27th – 28th February 2020

Uphold Public Interest

Objectives

- At the end of this Presentation you should have:-
 - i. **Learnt:** Basics on Business planning & Management
 - ii. **Learnt:** how to come up with charge out rates for SMP
 - iii. **Acquired tools and skills:** on Management and Operational Efficiencies of an SMP.
 - iv. **Understood importance of** use of ICT in an SMP.

Points for thought.

- Why do accountancy firms fail?
 - Internal factors?
 - External factors?
 - Force majeure
- How do we reverse this, and build **resilient** accountancy firms?

Overview

- SMP Management
 1. Planning for your firm
 2. Charge out rates
 3. Overview of ICPAK Software
 4. Practice models & networks
 5. Technology & e-business

1. Planning for your Firm- Business Plan

- 1. Why start an accounting firm- opportunities & feasibility study
- 2. SWOT Analysis
- 3. Market analysis & competitive advantage
- 4. Sales & Marketing strategy
- 5. Financial projections & costing
- 6. Business Growth – (Sustainability & expansion)

1. Planning-Business Profile

- Our Product and Services
- Our Vision Statement
- Our Mission Statement
- Our Business Structure
- Roles and Responsibilities

AND

- Registration and licensing
- Training and certification
- Nature of clients you are going to offer service to including:
Individual clients and/or corporate clients.
- Taking care of client business
- Offering distinguished services
- Commitment to sustainability
- Accountability to the highest standards

Internal Values and Services

- Legal and Compliance matters
- Differentiators

1. Planning- Specialization?

- Specialized Consulting or General Consulting
 - Specialization by sector/services etc.
 - General – Everything including advisory–Business Plans, Strategic Advise, M&E.
- ☐ Why Plan?
 - “A genius without a roadmap will get lost in any country”.
 - To enable yourself to have direction.
 - So that you can attest/check achievement of targets – **What gets measured gets done.**
 - Makes you stick to one thing and the business.

1. Planning - Key Aspects

- Your Plans or Sections of your Master Plan should touch on
 1. **Service Delivery plan**, execute, review and timely delivery to clients
 2. **Risk Management** –safeguards in place to manage risks
 3. **Human Resource** – recruitment, deployment, growth and retention
 4. **Client relationship** – value creation (your/their lenses)
 5. **Marketing and Selling Strategies** – the how amidst professional “constraints”?
 6. **ICT/Technology**–Are your operations ICT enabled?
 7. **Administration-Logistics**
 8. **Finance and Budget** – Capital and Cashflow

1. Planning - Models

- Decide which Practice Model you want to adopt
 1. **Sole Proprietor** – Owner takes it all, Use of employed staff.
 2. **Partnership with Profit Sharing** –Use staff but demands personal presence of all partners
 3. **Cost Sharing Arrangement** –Where individuals or a group of firms meet their own costs but work client assignment jointly. Encourages expertise.
 4. **Multidisciplinary firm** –Many experts around the client e.g. ICT, Assurance, Tax, Finance etc.

1. Planning - Networks

- Use of Networks and Associations (ICPAK) to add value
- A group of experts with similar business within the same economy or region working and collaborating together.
- **Benefits of Networks:**
 - Business Referrals – Bigger networks may refer business to smaller firms.
 - Help Delivery of Service – Within a network area pool of experts to serve the client.
 - Management Growth – Mentorship and Coaching towards higher standards.

2. Charge outs rates

- Inputs?
- Desired mark-up

2. Charge out rates

■ What is a charge-out rate?

- Cost of a service or a resource complete with a profit margin
- These should include staff costs, Operational Expenses and a Profit margin

■ Why a Chargeout Rate?

- Too little=Not Profitable
- Too much=Loss of business
- So you must balance between profitability and Costs
- $\text{Audit Fees} = \text{Hours Spent} * \text{Rate Per Hour}$

■ How do we charge fees?

- Fixed Method
- Variable Method (Based on Hours spent*Chargeout Rate)

2. Charge out rates

VARIABLE METHOD

- Benefits
 - Clarity to the client
- Drawbacks
 - Subjective/Based on judgments and estimates
 - May lead to under-recovery of expenses
 - Time taken is unpredictable
 - Varies from firm to firm

FIXED METHOD

- Benefits
 - Simple to understand Less tedious and not complex
 - Has clarity and easily acceptable by clients who may want to commit
 - May be rewarding to SMPs if higher fees are accepted
- Drawbacks
 - Risky and may not recover all costs as work may be more than estimated
 - Once agreed increase may not be easy to get.

2. Charge out rates

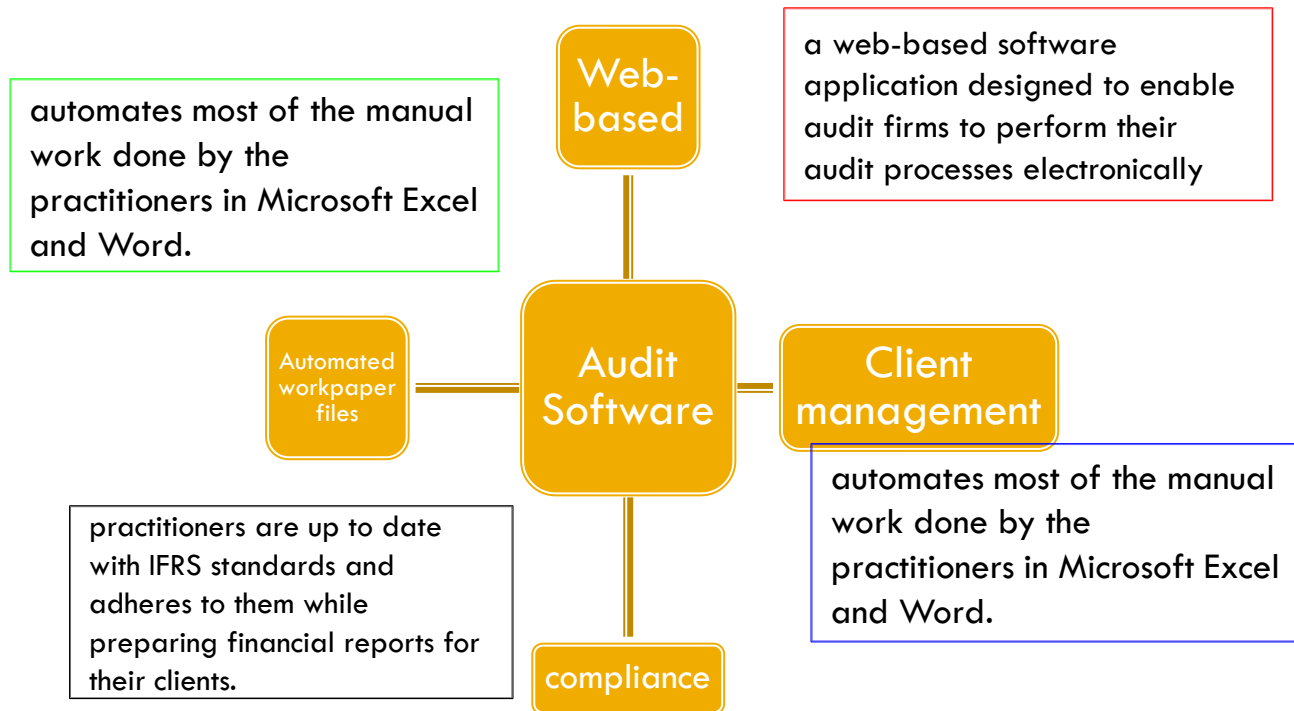
Remember

1. Never under quote for your services especially in the beginning
2. Low fee paying clients are a problematic clients on an ongoing basis.
3. The 80/20 Principle
4. Once a client accepts a quote and pays the fees it is normally very difficult to get an upward review—Get right fee first time.
5. Elaborately document all terms and Conditions in a signed Engagement letter.
6. Point out areas where if scope increase fees may increase.
7. Explain to the client that fees are contingent on good records, documents and systems
8. Be quick to improve client records, bookkeeping and systems as this will result in better audits and profitable fees.
9. If work is non profit making DO NOT be hesitant to disengage from it unless the client is ethically willing to put things right.
10. If you stick to the client this will beat the detriment of better clients and overall firm success.

2. Sample time budget

CLIENT NAME:					
YEAR END:					
	BUDGETED			ACTUAL	
	Budget Hours	Charge out rate	Budget Amounts	Actual Hours	Actual Cost
AUDIT					
Partner	2.00	10,000	20,000	2.00	20,000
Manager	10.00	7,500	75,000	15.00	112,500
Audit Senior	25.00	3,500	87,500	30.00	105,000
Audit Staff	40.00	1,500	60,000	45.00	67,500
Audit Staff	40.00	1,500	60,000	45.00	67,500
Others	5.00	1,000	5,000	5.00	5,000
Total AUDIT	122		307,500	142	377,500
Audit Fees			250,000		250,000
% Recovery			81%		66%

3. ICPAK Audit Software



3. ICPAK Audit Software

■ 1. Manage clients data

- Create and update new client profile and file
- Archive client file
- Delete client file

■ 2. Manage Staff Roles & Permissions

- Create new staff
- Assign permissions to a role
- Ban users (to prevent them logging in)

3. ICPAK Audit Software

- **3.Offer templates for various audit reports.**
 - Update the Report Of The Directors
 - Update The Statement of Directors' Responsibilities
 - Report of the Independent Auditors

- **4.Upload & attach a file to the multiple sections in your audit process**
 - Upload a file (as PDF, Excel, Word, etc)
 - Mark as permanent file
 - Rename file
 - Delete file

3. ICPAK Audit Software

■ 5.Planning and Control

- Overall audit strategy and plan
- Client acceptance
- Time budgets
- Materiality
- Analytical review
- Understanding the entity's business
- Understanding the entity and its internal control
- Risk assessment and approach to assessed risk
- Assessment of fraud risk
- Points brought forward from previous audit
- Permanent audit file review checklist

3. ICPAK Audit Software

■ 6.Trial Balance & Adjustments

- Trial balance
 - *Upload TB (CSV file)*
 - *Delete an erroneous one that has been uploaded*
 - *Map the TB entries to the right chart of accounts*
 - *Unmap TB entries*
- Audit Programme
- Client's draft accounts
 - *Write Policies & Notes*
 - *Preview the financials accounts*
- Adjusting journal entries
- General Ledger Audit
- Final Trial Balance

3. ICPAK Audit Software

■ 7.Draft Financial Statements & Reports

- Prepare management letter
- View draft financial statement

■ 8.Audit Completion & Review

- Overall audit conclusion
- Calling over checklist
- Partner's review checklist
- Discussions with engagement team and de-briefing notes
- Matters for manager's / senior's attention
- Client meeting agenda / notes
- Summary of unadjusted errors
- Points carried forward to subsequent audit

■ 9.Checklists

- Subsequent events review programme
- Going concern review programme

3. ICPAK Audit Software

■ 10. Lead Schedule & Audit Programmes

- Intangible Assets
- Property, Plant & Equipment
- Inventories
- Trade & Other Receivables
- Cash & Bank Balances
- Related Party Disclosures
- Trade & Other Payables
- Borrowings
- Current Tax
- Deferred Tax
- Capital & Reserves
- Commitments & Contingencies
- Directors' Emoluments & Transactions
- Cash Flow Statement
- Income
- Expenditure

3. ICPAK Audit Software

License type (# of users)	Pricing (KES)
1	7,500
2-3	21,000
4-8	55,000
9-15	105,000
16-25	175,000

To purchase, visit: <https://myaudit.icpak.com/>
or contact Richard Kispang at - Richard.kipsang@icpak.com

4. Practice Models and Networks

SOLE PRACTITIONER

- An individual with no separate legal entity;
- A sole director company to afford some degree of asset protection;
- A service entity that employs some employees and owns some operating assets and that also permits some profit-sharing to a non-accounting person (for example, a spouse, or key personnel);
- A cost-sharing arrangement with similar practitioner(s); or Some combination of the above

PARTNERSHIP

- Partnership of equal:
 - The extent of personal liability assumed by each partner
 - Asset protection
 - The range of services that can, or in some cases must, be delivered through limited liability versus unlimited liability structures.
- Unequal Partnership
 - Either the ownership, workload, and/or profit sharing arrangements.

4.1 Sole Practitioner

MERITS

- Single point of final decision-making
- No profit-sharing
- Flexibility to change the internal rules quickly and adapt to market demands
- The sense of direct involvement and control appeals to many people.

DE-MERITS

- The principal might not have the range of skills or experience to run the entire firm
- find it very difficult to keep abreast of changes in legislation or accounting standards due to the increasingly complex commercial environment in which accountants work
- Professional loneliness can reduce the quality of work or possibly the personal satisfaction of the practitioner
- The principal might not have enough money to fund the firm at a suitable level
- The firm might spend too much of its fees on fixed-cost items

4.2 Cost Sharing Arrangements

MERITS

- Each firm retains much of its own flexibility and independence
- Sometimes firms who share costs in this way can also complement each other's skills

DE-MERITS

- Each firm might remain relatively small, only offering a narrow range of services
- Some time is required to manage the central ordering and payments and to arrange the cost-sharing invoices for each firm
- Customers may lack confidence in "one person shows" in this era of knowledge

4.3 Partnerships of “Equals”

- Two (or more) heads are often better than one
- Simplicity in contributions and profit sharing
- Sometimes firms who share costs in this way can also complement each other's skills
- The capacity for individuals to specialize in specific services, thereby expanding the scope to fully service a client's needs; and
- Access to funds from more than one partner, to provide working capital to the firm
- As the number of partners grows, it becomes harder to achieve the common purpose that was present in the earliest days
- A wider range of interests and abilities within the principal base, while a strength of the model, can also be a weakness.
- Decision-making can be slowed by the need to have all partners consulted
- All partners are generally bound by the actions of a single principal
- Legal liability for errors or malpractice can be borne by all partners, depending on the nature of the specific legal entity being used

4.4 Multi-disciplinary firms

MERITS

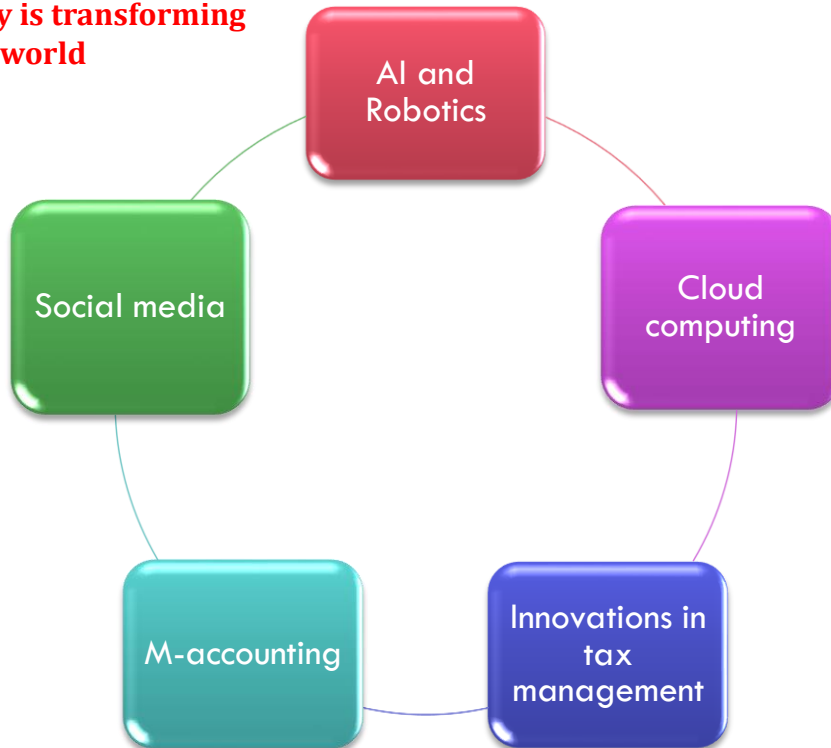
- A clear focus for each separate entity;
- Separate legal liability for each entity;
- Separate regulatory scope for each entity, if applicable;
- Each entity can develop in its own style;
- There is no dispute as to who “owns” each client relationship, since the accounting owners are the common link in the entire chain of service delivery;
- Considerable opportunity exists to cross-sell services from one entity to another within the same group; and
- Equity or other funding can come from a wider group of non-accountants

DE-MERITS

- This structure does not necessarily ensure that the best businesses are guaranteed access to internal funds (that is, the equity or cash flow from across the group), owing to the different ownerships of each entity; and
- There will be some additional management, accounting and reporting required to maintain the web of separate entities

5. Technology and e-Business

How technology is transforming the accounting world





Overview

- **SMP practical training on:**
 - **ISQM 1; and**
 - **ISQM 2**

Why ISQM?

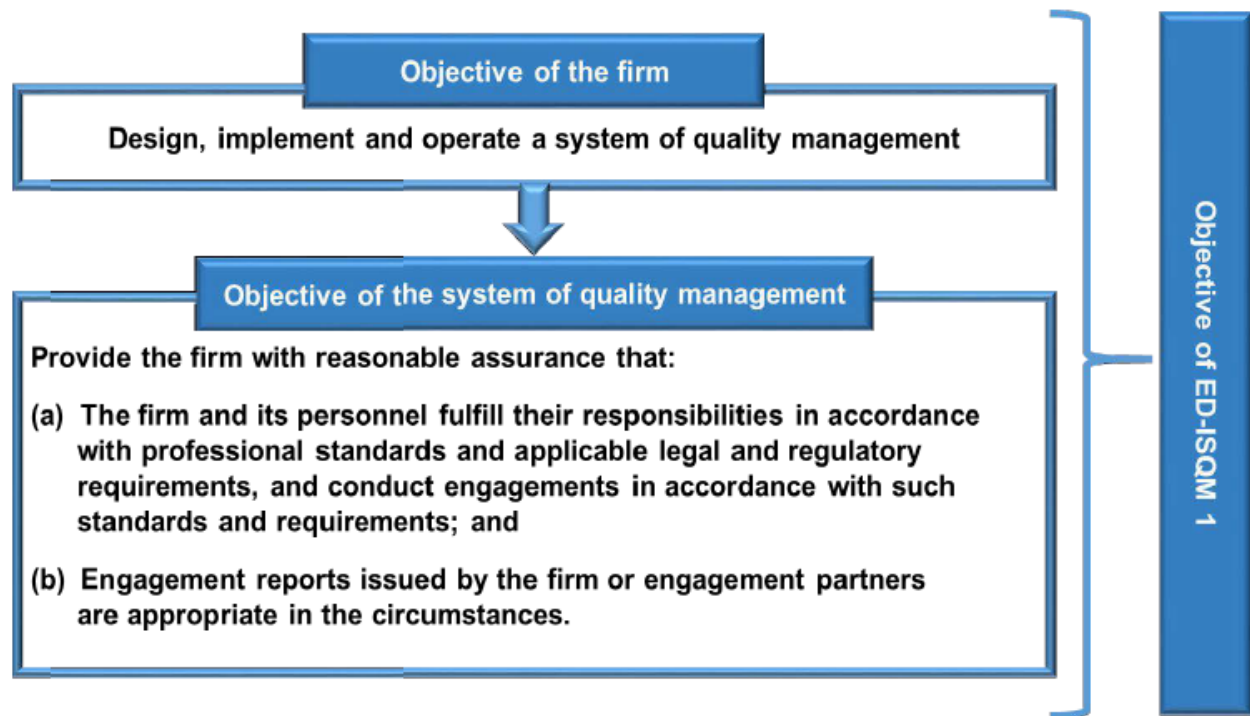
- **A new approach focused on quality management by:**
 - **Setting out the needed system of quality control to manage quality of engagements performed**
 - **Revising business practices and relevant activities aimed at identifying and responding to risks to quality.**
 - **Requiring firms to pay attention to risks that impact on their quality and design, implement and operate systems of quality management fir for their circumstances**

The new quality management approach aims to improve the scalability of ED-ISQM 1 because it requires a firm to **customize** the design, implementation and operation of its system of quality management based on the **nature and circumstances of the firm and the engagements it performs**

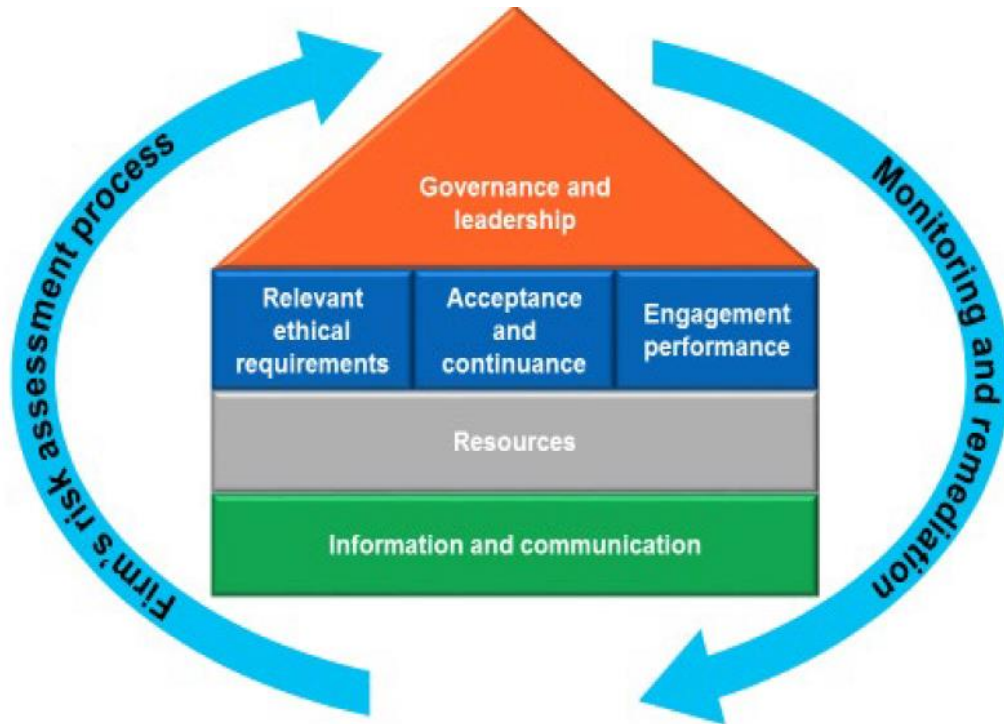
Proposed International Standard on Quality Management 1 (ISQM 1)

(Previously International Standard on Quality Control 1 (ISQC 1))

Objectives?



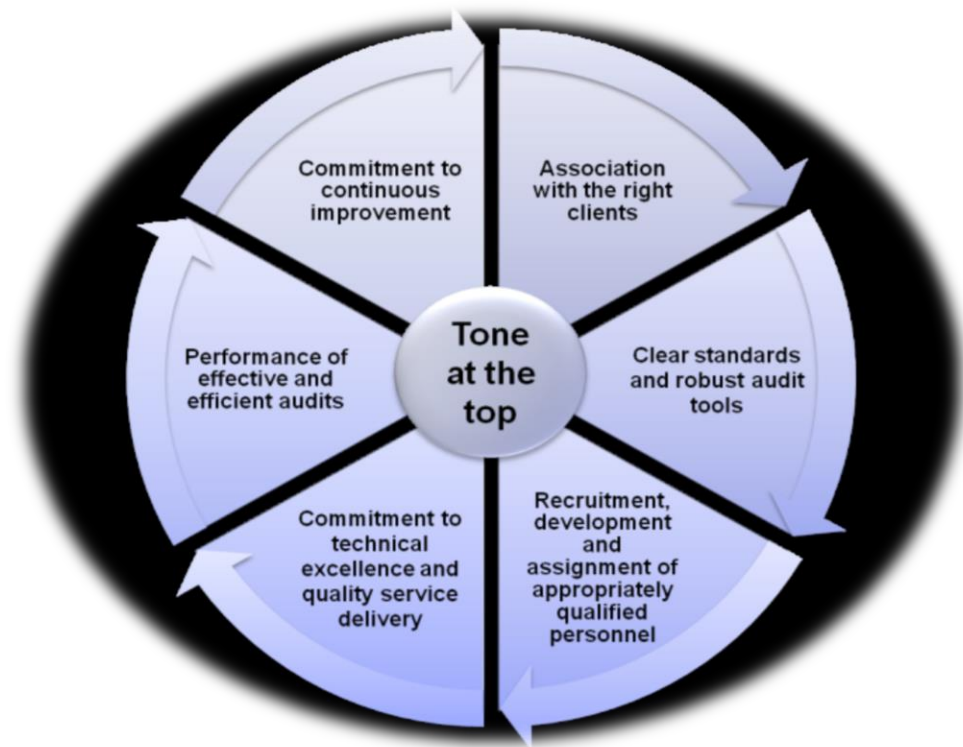
Components of a system of quality management



Governance & leadership

- **Embedding culture and ethics and self-regulations to manage quality. Tone at the top that, among others:**
- Promote commitment to quality (trainings, etc.)
- Responsible and accountable for quality
- Assigning operational responsibilities for the firms system of quality control to persons with appropriate experience, ability to identify, understand and develop QC issues

Governance & leadership (continued)



Relevant ethical requirements

- The fundamental principals of professional ethics:
 - Integrity;
 - Objectivity;
 - Professional competence and due care;
 - Confidentiality;
 - Professional behaviour; and
- ***Independence (needs to document compliance).***

Acceptance & continuance

- Acceptance and continuance:
 - Competencies
 - Resources to perform the work
 - Ethical issues
 - Clients Integrity
- New client proposals
- Resignation of a client relationship

Engagement performance

- Personnel understand and perform their responsibilities
- Appropriate direction and supervision
- Role of the Engagement Partner
- Planning, supervision and review
- Consultation policies
- Policies to address differences of opinion
- Engagement quality control review (EQCR)

Resources

1. Human resources

1. Recruitment and retention
2. Performance evaluation
3. Capabilities and Competence
4. Career development and Promotion
5. Compensation and rewarding compliance

2. Technological resources

3. Intellectual resources

Monitoring and remediation

- Design and perform monitoring activities
- Evaluating Findings and Identifying Deficiencies
- Responding to Identified Deficiencies
- Ongoing Communication Related to Monitoring and Remediation
- Evaluating the System of Quality Management

Firm's risk assessment process

- ❑ ED-ISQM 1 includes a new approach that focuses firms' attention on risks that may have an impact on engagement quality.
- ❑ The firm's risk assessment process is applied to the other seven components of the system of quality management.
- ❑ The quality objectives established by the firm consist of objectives that, when achieved by the firm, collectively provide the firm with reasonable assurance that the objectives of the system of quality management are achieved.



Information and communication

- ISQM 1 includes a new component, *information and communication*, which requires the firm to establish an information system and emphasizes the need for effective two-way communication within the firm.
- The IAASB recognizes that firms communicate with external parties in a variety of ways and the communication is continually evolving.
- ED-ISQM 1 requires communication with external parties to be developed in a manner that is adaptable to the circumstances of the firm. The requirements aim to promote the exchange of valuable and insightful information about the firm's system of quality management with the firm's stakeholders.

ISQM 2

- ED-ISQM 2 addresses the firm's policies or procedures and criteria for the eligibility of an individual to be appointed as an engagement quality reviewer.
- The policies or procedures to include limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement on which the individual previously served as engagement partner.

Proposed International Standard on Quality Management 2 *Engagement Quality Reviews*

- The requirements for engagement quality reviews currently reside in extant ISQC1 and ISA220.
- The IAASB concluded that having a separate standard for engagement quality reviews would provide a number of benefits, including:
 - a) Placing emphasis on the importance of the engagement quality review.
 - b) Facilitating the enhancement of the robustness of the requirements for the eligibility of EQCR and the performance of the review.
 - c) Providing a mechanism to more clearly differentiate the responsibilities of the firm and the engagement quality reviewer.
 - d) Increasing the scalability of ED-ISQM 1. A firm may determine that there are no engagements for which an engagement quality review should be performed (e.g., a firm that performs only compilation engagements).

Eligibility and appointment

- ED-ISQM 2 requires a firm's policy on appointment and eligibility of the engagement quality reviewer to address:
 - The eligibility of the individual(s) within the firm responsible for the appointment of engagement quality reviewers.
 - The eligibility of individuals to assist the engagement quality reviewer in performing the engagement quality review.
 - The engagement quality reviewer taking responsibility for the performance of the engagement quality review, including that the work of individuals assisting in the review is appropriate.
 - Limitations on the eligibility of an individual to be appointed as engagement quality reviewer for an engagement for which the individual previously served as the engagement partner.

- Key considerations for the appointment and eligibility of the engagement quality reviewer include:
 - Competence and Capabilities, Including Sufficient Time
 - Appropriate Authority—a mechanism for the engagement quality reviewer to resolve issues when differences of opinion arise.
 - Relevant Ethical Requirements, Including Objectivity—cooling off periods for previous engagement partners
 - Use of External Resources to Perform the Engagement Quality Review (eligibility similar to internal appointments)
 - Timing of the Engagement Quality Review
 - Significant Judgments and Significant Matters
 - Documentation

Why the change

- There are several reasons:
 1. To more proactively manage quality to address stakeholder expectations and concerns.
 2. To improve the scalability of the standards.
 3. To modernise the standards and keep them fit for purpose.

Key changes

- A new proactive risk-based approach to firms' system of quality management in ISQM 1.
- Modernising the standards for an evolving and increasingly complex environment including addressing the impact of technology, networks, and the use of external service providers.
- Increasing firm leadership responsibilities and accountability, and improving firm governance.
- More rigorous monitoring of quality management systems and remediation of deficiencies.
- Enhancing 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.

Objective of ISQM 1

- The objectives of this project are:
- Enhancing the robustness of firm's systems of quality control through various means, including:
 - Introducing a more proactive and tailored approach to managing quality.
 - Increasing firm leadership responsibilities and accountability, and improving firm governance.
 - More rigorous monitoring of systems of quality control and more effective remediation of deficiencies.
- Modernizing the standard for an evolving and increasingly complex environment, including addressing the impact of technology, networks, and use of external service providers.
- Improving the scalability of the standard

Issues Identified that Needed to be Addressed

- **Firm governance and leadership's responsibilities and accountability for quality**
- **Firms' monitoring** process, for example:
 - Monitoring the **entire system** (not only engagement inspections)
 - Addressing **results of external inspections**
 - Understanding **causal factors** of findings, implementing **remedial actions** to respond to findings, and **monitoring the effectiveness** of remedial actions
- The **engagement partner's responsibilities**, including clarity regarding appropriate **direction, supervision and review**
- **Undue reliance on networks**
- Increasing demand for **communication with external stakeholders**, including through **transparency reports**
- The application of the standards by **small and medium practices (SMPs)**, i.e., **scalability**

Issues Identified that Needed to be Addressed

- **Engagement quality control reviews**, including:
 - **Engagements subject to review** (including entities that have public interest)
 - **Eligibility** of the engagement quality control reviewer
 - Areas addressed in **performing the review** and the review **timing**
- Other issues:
 - Need for **robust two-way communication** within the firm
 - Matters related to **human resources**, for example, assessment of personnel and personnel rewards and incentives
 - Increasing use of **alternative delivery models**

The IAASB's Quality Management Proposals

February 2019:
Three exposure drafts released for public comment

- Proposed ISQM 1 (Previously ISQC 1), *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*
- Proposed ISQM 2, *Engagement Quality Reviews*
- Proposed ISA 220 (Revised), *Quality Management for an Audit of Financial Statements*
- Also released: a covering explanatory memorandum – addresses:
 - The relationships between the standards
 - Overall matters
 - Possible effective dates, including a question to seek views about the time needed to implement the standards

February 2019 – June 2019

- Global outreach and consultation

1 July 2019

- Comment letters due – see <http://www.iaasb.org/quality-management> for links to the above documents and to post comments

The Most Significant Change

The new risk-based approach

Scalable to the nature and circumstances of the firm and the engagements it performs



Proactive

A more robust system of quality management tailored for the firm

Resources

- <https://www.ifac.org/knowledge-gateway/preparing-future-ready-professionals/publications/guide-practice-management-small-and-medium-sized-practices>

