



Value Based Preparation and Review of Reports from Internal & External Audits:

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OUTLINE



1 Introduction : What to Audit

2 Audit Process

3 Audit Reporting

4 Understanding Audit Opinions

5 Understanding Management Letter: Audit Committee Considerations

6 Role of Audit Committees- Enhancing Value Across Organizations

What could go wrong?

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Introduction : The Shift



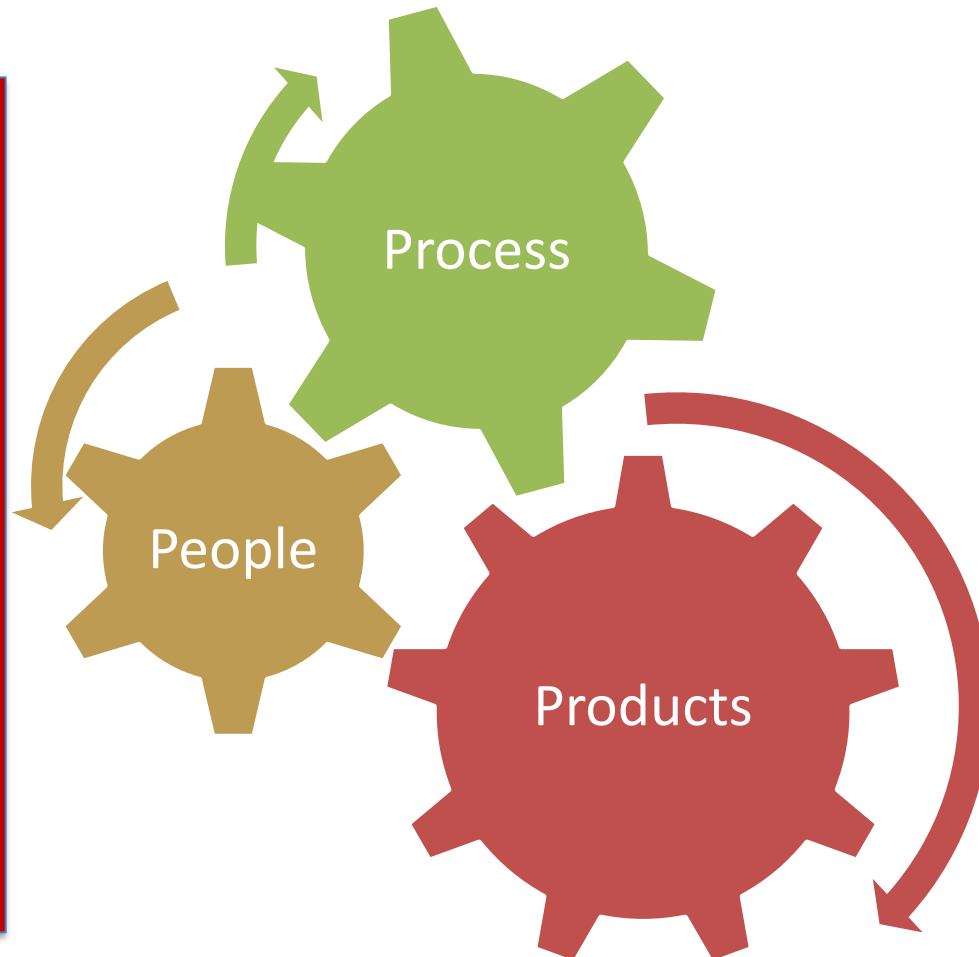
From	To
Internal (Input – Output)	External (Output – Outcome)
Competition	Collaboration
Policy Making and Administration/ management	Integration of the policy cycle (Co-analysis, Co-decision, co-design & co-evaluation)
Professional Bureaucrats	Managers
Traditional Presentation of FS	Integrated Financial Reporting
Economic Evaluation	Social Evaluation

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Introduction : What to Audit



It is no longer...
what
increased
this to that?

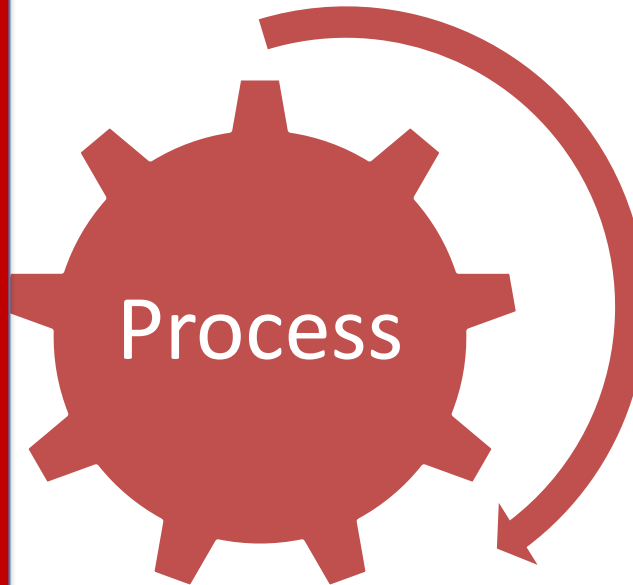


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Introduction : What to Audit



- Frameworks e.g.
Policies, guidelines
- Authorisation
- Internal controls
- System reliability



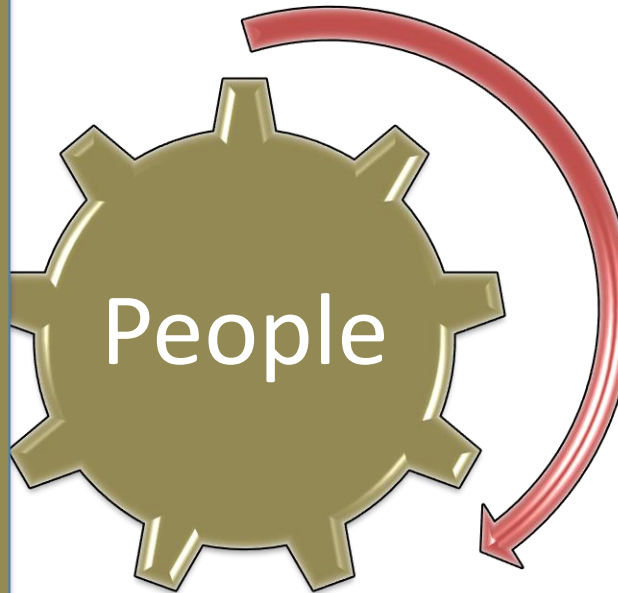
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Introduction : What to Audit



“Most Difficult to Audit”

- Tone at the top
- Culture
- Competency
- Optimal resourcing



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Introduction : What to Audit



- Cost
- Pricing
- Suppliers
- Distribution



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Audit Process



Appointment
of external
auditor



Audit
Planning



Execution



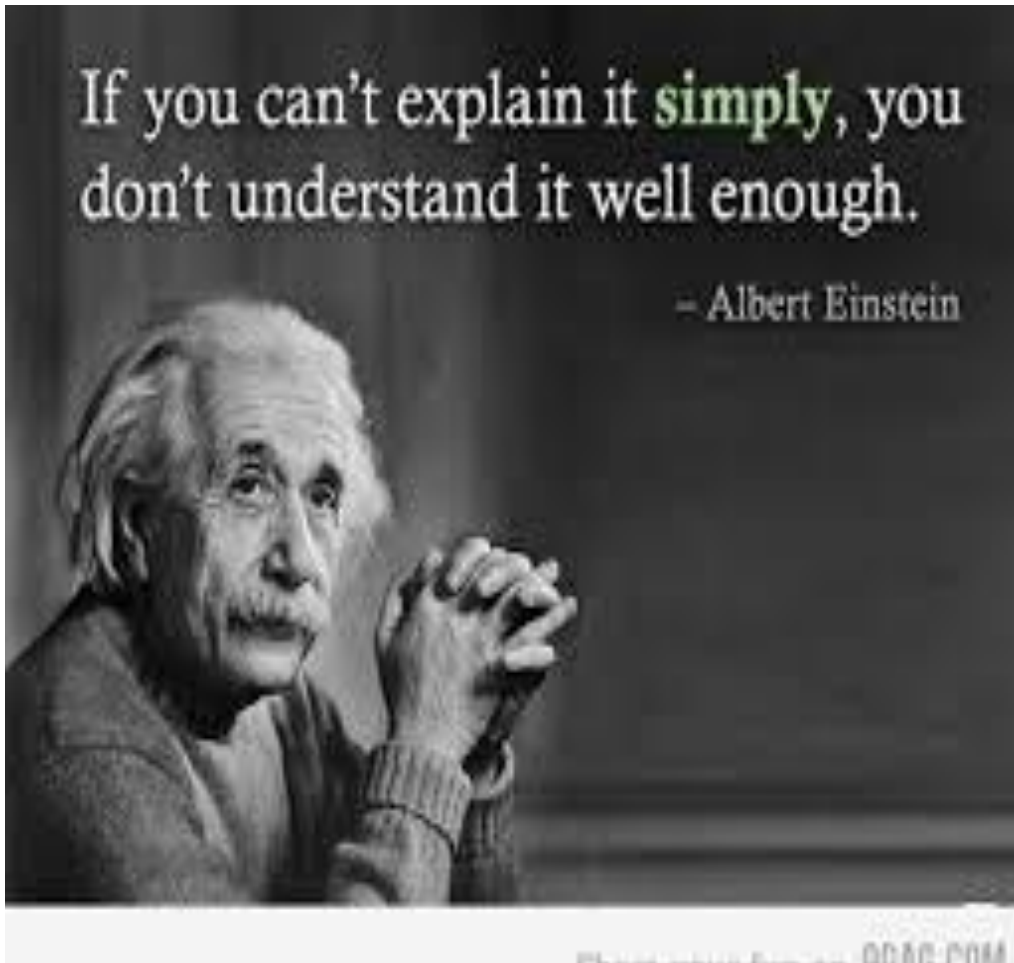
Reporting



- ✓ Financial Statements
- ✓ Auditors Opinion
- ✓ Management Letter

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Lets Reflect- 3Minutes Clip



- **Can things go wrong when you are on the steering wheel?**

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Key Audit Matters (KAM)



- “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*.”

Key Audit Matters: Considerations

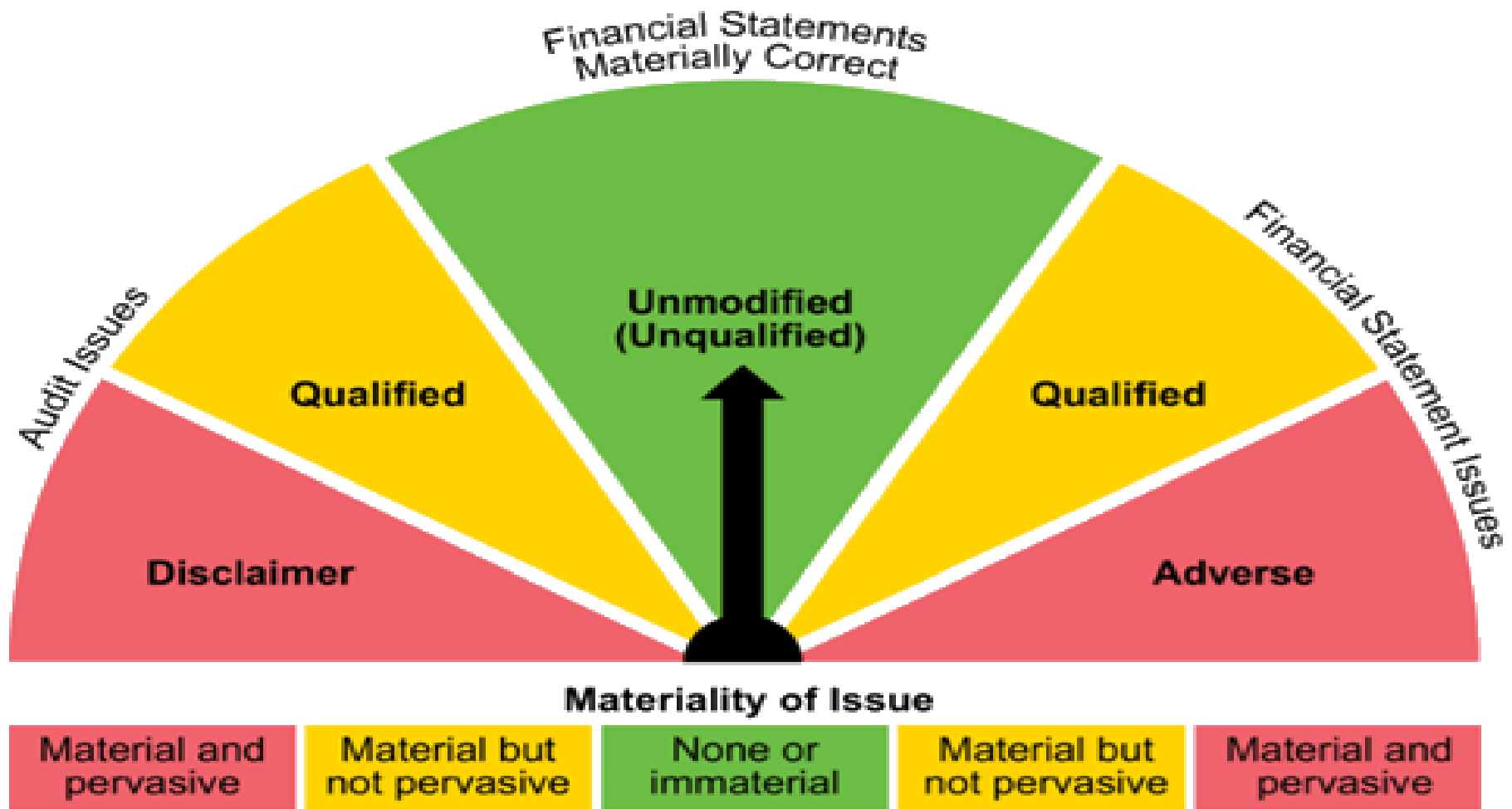


1. Areas of higher assessed risk of material misstatement, or significant risks identified in accordance with ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*;
2. Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates that have been identified as having high estimation uncertainty; and
3. The effect on the audit of significant events or transactions that occurred during the period.

Auditor Should Indicate:

1. Why the matter was considered to be one of most significance in the audit and, therefore, determined to be a key audit matter; and
2. How the matter was addressed in the audit.

Understanding Audit Opinions



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Nature of Opinion

Auditors Opinion Categories

• It means the financial statements **presented fairly**, in all material respects, the financial position, results of operations, and cash flows of the entity, in conformity with generally accepted accounting principles.

• A qualified opinion states that, **except for the effects of the matter to which the qualification relates**, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity, in conformity with generally accepted accounting principles

• This opinion states that the financial statements **do not present fairly** the financial position, results of operations, and cash flows of the entity, in conformity with generally accepted accounting principles.

• A disclaimer of opinion states that the auditor **does not express an opinion** on the financial statements. A disclaimer of opinion is rendered when the auditor has not performed an audit sufficient in scope to form an opinion

1

Unqualified Opinion

2

Qualified Opinion

3

Adverse Opinion

4

Disclaimer of Opinion

Review of Management Letters



Good Practice

- ☐ Give an overview of the audit process
- ☐ Give an overview of areas covered
- ☐ Basis of sampling
- ☐ Materiality thresholds
- ☐ Fraud Indications if any
- ☐ Status of internal control system



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Management Letter...



Grading	Description.....Joining Dots with the Opinion Issued
Grade 1	Observations are those where the risk of significant financial impact on the business must be addressed immediately
Grade 2	Observations are those where there is moderate risk of financial impact on the business e.g control failure or the absence of a control in area of moderate risk
Grade 3	Observations are those that relate to minor control deficiencies or enhancements in control efficiency. They can also be good to have adjustments

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Management Letter...



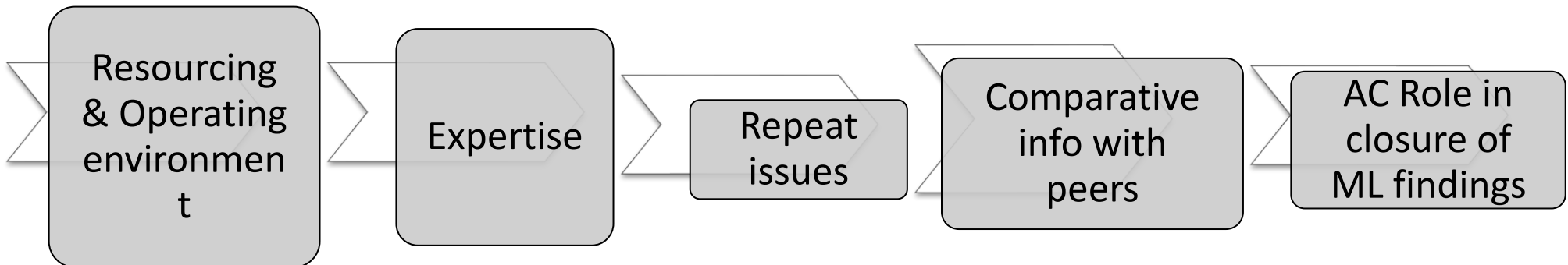
Sections	Description.....Joining Dots with the Opinion Issued
Observation	<ul style="list-style-type: none">▪ Brief description of the point with any necessary background and information.▪ Should highlight specific risks associated with the observation.▪ Risks given should be relevant and realistic
Recommendation	<ul style="list-style-type: none">▪ Clearly stated recommendations▪ Viable in a business context▪ State the benefits of implementing them
Managements Response	<ul style="list-style-type: none">▪ Must be agreed upon with the auditor▪ By who, by when and resources required if any.
Actions	<ul style="list-style-type: none">▪ By when, By who,

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Important considerations for Audit Committee Members



- ❑ Modern Audits is about collaborations and not directives.
- ❑ In reviewing audit findings it is critical for AC to also have a self reflections on the following



Role of Audit Committees in Implementation Audit Findings .



- ❑ The role of audit is to enhance value across the organization.
- ❑ AC Role:
 - ❖ Oversight: Report to the board key issues
 - ❖ Resourcing: Ensure IA is well resourced including capacity building and engaging experts
 - ❖ Recast and re-approve the annual audit plan
 - ❖ Review its effectiveness
 - ❖ Drive culture change in the entire organizations- call for collaborative meetings with other committees and management

Audit Planning and Risk-based Audits



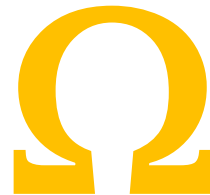
Agenda	Considerations
Audit Planning	<ul style="list-style-type: none"><input type="checkbox"/> Internal Audit: Annual Plans broken into quarters and audit areas<input type="checkbox"/> External Audit timetable<input type="checkbox"/> Continuous oversight and feedback mechanism to the board.
Risk Strategy	<ul style="list-style-type: none"><input type="checkbox"/> What is the organizations strategic objectives and principle business
Risk structure	<ul style="list-style-type: none"><input type="checkbox"/> How do you embed support risk strategy and accountability
Measuring & Monitoring	<ul style="list-style-type: none"><input type="checkbox"/> Establish KPIs embed a culture of continuous performance improvement
Portfolio	Identify and categorize risk across the organization
Optimization	Balance potential risks and opportunities based on the risk appetite

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Conclusion



**In Audit, Trust is Good.
However, Trust with Verification is
Better!**



PLENARY

