



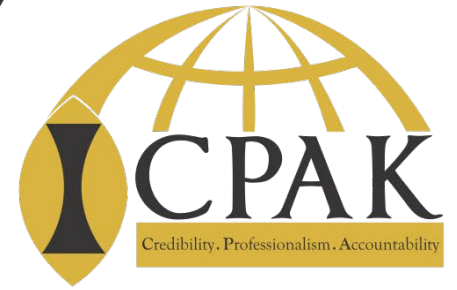
Auditor's Report Signing & Going Concern Considerations

CPA Stephen Obock

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December 2021

Agenda



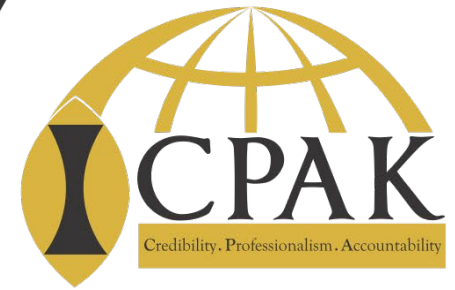
1. The auditor report signing
2. Regulatory requirements impacting the profession
3. A focus on going concern
4. Q&A

You will learn to:



1. Auditor's report signing requirements
2. The impact of certain regulations on the practitioner
3. Going concern and the auditor's role

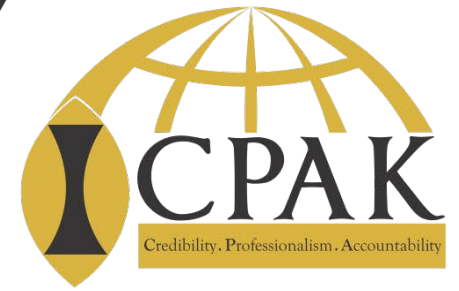
PRACTICE NOTE: NO. PSD/2021/001



In November 2020, the Council of the Institute of Certified Public Accountants of Kenya (ICPAK) approved guidelines on the issuance of multiple licenses. These guidelines followed amendments to the Accountants Act, No.15 of 2008 through the Finance Act, 2018.

Consequently, the Council begun issuing multiple licences for different categories with effect from February 2021. Thus, only Practitioners in possession of either a Composite Practicing Certificate (Category “C”) or an Audit and Assurance Practicing Certificate (Category “A”) are licensed to perform audit and assurance services. As a result, only specific members licensed for this purpose, and not all practitioners, may sign the external auditor’s report. This is a departure from the practice before the implementation of the multiple licensing regime, where the auditor’s report was signed by the firm.

PRACTICE NOTE: NO. PSD/2021/001



The Companies Act, No. 17 of 2015 of the Laws of Kenya, outlines the auditor's responsibility in signing the auditor's report. The responsibility includes stating the Auditor's name in published copies of the auditor's report. Offences related to failure to comply with these provisions are applicable to individual practitioners.

ICPAK Requirement

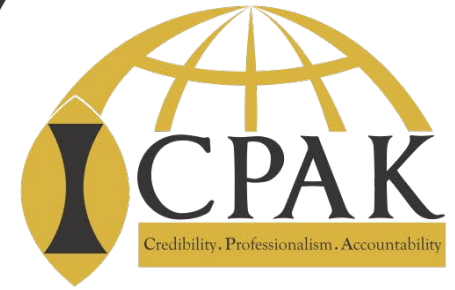


Prior to this Practice Note, the signing of audited reports has been done as a firm. The auditor in charge of the assignment indicated his details separately as the auditor responsible for the audit assignment.

The auditor's report shall now contain the signature of the Partner authorised to sign on behalf of the Firm, along with the Partner's ICPAK membership number and Practice licence.

This Practice Note on signing of the auditor's report shall take effect from 1st April 2021.

Illustrated signing



The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Delfina Libenta, Practicing Certificate No 12345.

A handwritten signature in blue ink, appearing to read 'Delfina Libenta', is shown on a light blue background.

For and on behalf of A.N. Other and Associates

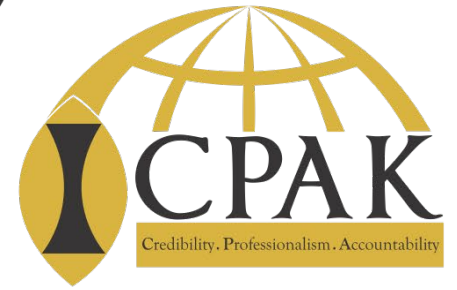
Certified Public Accountants

Nairobi, Kenya

Date: 9th May 2018

Vision: A world class Professional Accountancy Institute.

Regulatory environment



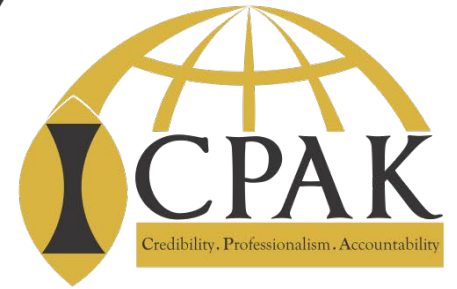
- ICPAK
- Kenyan Companies Act, 2015
- CMA
- CBK
- Others (IRA, SASRA etc.)

Impact of Regulatory environment



- Additional scope beyond ISA requirements
- Need to address potential conflicts between ISA and regulatory frameworks. Companies Act requires the auditor to give an opinion on the following:
 - a) Information in the report of the directors for consistency with the financial statements
 - b) Directors remuneration report

Going Concern



ISA 570 (Revised)

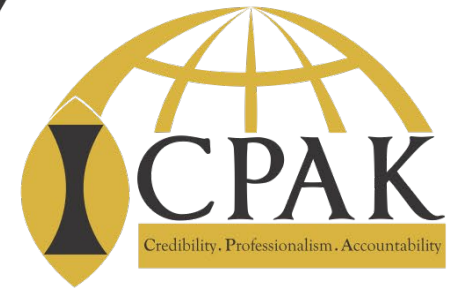
Deals with the **auditors responsibility** on the audit **relating to managements use of the going concern assumption** in the preparation of the financial statements

Going Concern – IAS 1.25



- Management shall make an assessment of an entity's ability to continue as a going concern.
- An entity shall prepare financial statements on a going concern basis unless management intend to liquidate or cease trading or no realistic alternative but to do so.
- When management is aware of significant doubt on ability to continue as a going concern, they shall disclose those uncertainties.

Going Concern

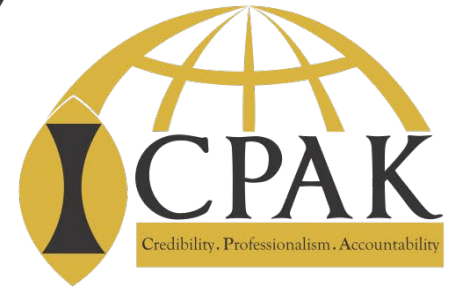


Going Concern Assumption: An entity is viewed as continuing in business for the foreseeable future.

General purpose financial statements are prepared on a going concern basis.

Assets and liabilities are recorded on the basis that the entity will be able to realize its assets and discharge its liabilities in the normal course of business.

Going Concern



Managements responsibility:

IAS 1 requires management to make an assessment of an entity's ability to continue as a going concern

The assessment involves making a judgement, at a particular point in time about inherently uncertain future outcomes of events or conditions

Going Concern



The objectives of the auditor are:

1. To obtain audit evidence regarding the appropriateness of managements use of the going concern assumption in preparing the AFS
2. To conclude whether a material uncertainty exists that may cast doubt on the entity's ability to continue as a going concern.
3. To determine the implications for the audit report, i.e. to report in accordance with ISA 570.

Going Concern



Planning Phase:

- Perform risk assessment procedures and consider whether there are **events or conditions** that may cast doubt on the entity's ability to continue as a going concern
- Determine if management already performed a preliminary assessment of the entity's ability to continue as a going concern
- Remain alert throughout the audit for evidence of **events or conditions** that may cast doubt on the entity's ability to continue as a going concern

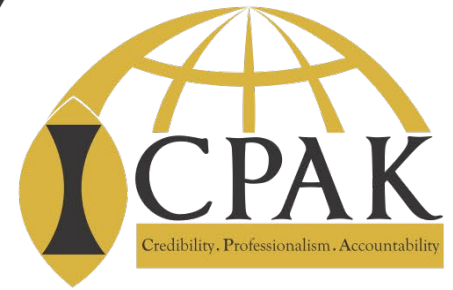
Going Concern indicators



Events or conditions that may cast doubt on the entity's ability to continue as a going concern:

- **Financial** events or conditions
- **Operating** events or conditions
- **Other** events or conditions

Going Concern



Audit procedures when events or conditions are identified:

- The auditor must obtain evidence to determine whether or not a material uncertainty exists
- Evaluate plans by management that mitigate the going concern risks
- Obtain management representation

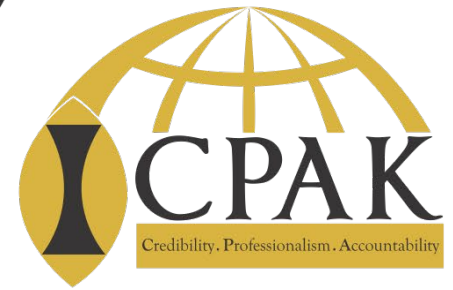
Going Concern



Audit Conclusions and reporting:

The auditor will use his judgement and evidence obtained to conclude whether a material uncertainty exists relating to events or conditions that **individually** or **collectively** may cast doubt on the entity's ability to continue as a going concern.

Going Concern

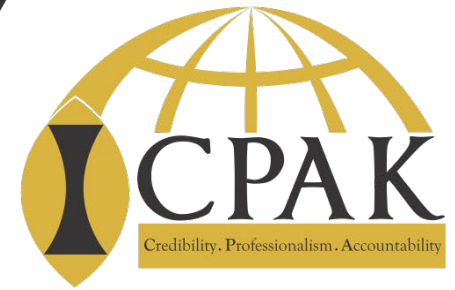


Going concern assumption appropriate but a material uncertainty exists

The auditor shall determine whether the AFS:

- Adequately describe the event that may cast doubt on the entity's ability to continue as a going concern and managements plans to deal with these events
- Disclose clearly that a material uncertainty exists and therefore the entity may be unable to realize its assets or discharge its liabilities in the normal course of business

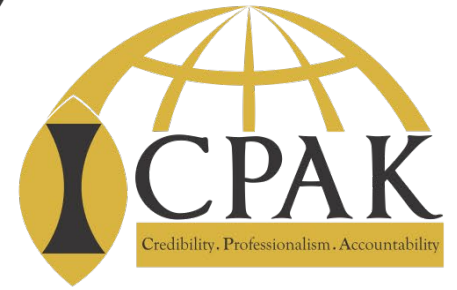
Going Concern



Going concern assumption appropriate but a material uncertainty exists:

- If adequate disclosure is made the auditor shall express an unmodified opinion including an emphasis of matter paragraph (Para 19)
- Include a separate section with the heading “***Material Uncertainty Related to Going Concern***”.
- **Key Audit Matters section:** include reference to the “**Basis for Opinion**” para where the matter is stated.
- If adequate disclosure is not made, the auditor shall express a qualified or adverse opinion.

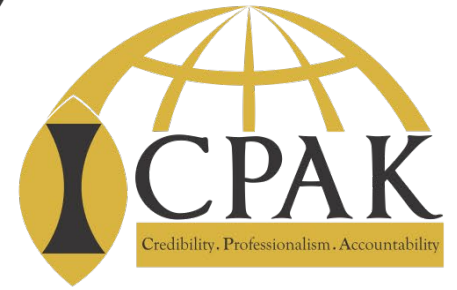
Going Concern



Use of going concern assumption inappropriate:

If the AFS are prepared on the going concern basis, but in the auditors judgement this basis is inappropriate, the auditor shall express an adverse opinion.

Going Concern



Management unwilling to make or extend its assessment

The auditor shall consider the implications for the audit report

Going Concern



Communication with TCWG

The auditor shall communicate with TCWG events or conditions that may cast doubt on the entity's ability to continue as a going concern.

The communication shall include:

- If events or conditions constitute a material uncertainty
- If the use of the going concern assumption is appropriate in preparation of the AFS
- The adequacy of related disclosures in the AFS

Going Concern



Critical areas of evidence and considerations

1. Cash flow projections
 - Evaluating reasonableness of assumptions, even performance after year end
 - Evaluating historical accuracy of projections
2. Letters of support from related entities or parent company
 - Assessing the ability of related party to provide support promised
 - Evaluate legality and enforceability of arrangements to provide financial support
3. Plans to dispose non-current assets
 - Evaluate adequacy of support for planned disposals

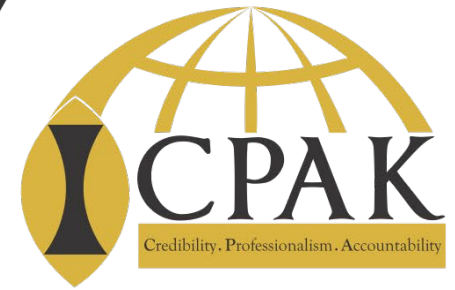
Going Concern



Critical areas of evidence and considerations

4. Debt restructures and capital injections
 - Evaluating approvals received so far for the plans
 - Correspondence with lenders on the restructure
5. Lines of credit and overdraft facilities
 - Confirm existence, terms and adequacy of facilities available
 - Evaluating headroom on available lines of credit and OD facilities

Auditor's way or approach



- Professional skepticism
- Obtain management representations
- Obtain confirmations from third parties where necessary (lenders, shareholders etc.)
- Modify the audit report where evidence is not sufficient and appropriate
- Where it is a close call, include an emphasis of matter

