



# PREPARING FOR END YEAR AUDIT PROCESSES

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TECHNICAL ENHANCEMENT WORKSHOP

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## Learning objectives



- To provide participants with a general overview of International Standards on Auditing (ISAs)
- To refresh participants with key elements of ISAs in executing an external audit

## KEY steps in external audit



PHASE 1	PHASE 2	PHASE 3	PHASE 4
<b>Establishing engagement objectives</b>	Understanding business and establishing audit strategy	Performing audit procedures	Concluding the audit and assessing performance
<b>Activities</b>	<b>Activities</b>	<b>Activities</b>	<b>Activities</b>
<ol style="list-style-type: none"> <li>1. Understanding the scope of services and audit requirements.</li> <li>2. Identify and orient the audit team.</li> </ol>	<ol style="list-style-type: none"> <li>1. Understanding the business.</li> <li>2. Assessing internal control at the entity level and the risk of fraud.</li> <li>3. Developing the preliminary audit strategy.</li> <li>4. Understanding and evaluating significant processes and related controls.</li> <li>5. Performing tests of controls.</li> <li>6. Performing our risk assessments and customizing audit solutions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Performing analytical and data analysis procedures.</li> <li>2. Performing tests of details.</li> <li>3. Performing general audit procedures.</li> </ol>	<ol style="list-style-type: none"> <li>1. Concluding the phase.</li> <li>2. Assessing client satisfaction.</li> <li>3. Assessing our performance.</li> </ol>



# **Phase 1 and 2 -Planning**

# Consideration for audit planning

## **Objectives of the audit planning process:**

- The auditor should plan the audit so that the engagement will be performed in an effective manner.

The following should be covered in the audit planning process:

- The purpose and contents of the Overall audit strategy;
- Direction, supervision and review; and
- Communications with those charged with governance and management.

# Consideration for audit planning

## **Objectives of the audit planning process:**

- The nature, timing and extent of planned risk assessment procedures. This is done during strategic planning phase of the audit and
- The nature, timing and extent of planned further audit procedures at the assertion level which is documented during detailed planning
- Any other procedures which may be necessary to ensure compliance with the standards

# Why audit Planning ?

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Adequate audit planning will assist the auditor to:

- Devote appropriate attention to important areas of the audit.
- Identify and resolve potential problems on a timely basis.
- Properly organize and manage the audit engagement and to stay 'on top of things'.
- Select and assign team members to tasks.
- Facilitating directing, supervision and the review of audit work.
- Co-ordinate work done by auditors of components and experts. (*ISSAI 1300.2,ISA 300*)

# What happens during strategic audit Planning ?

The auditor should obtain thorough understanding of the audited entity and make vital decisions affecting the audit such as:

- Identify what is material for the audit and set the level of planning materiality;
- Study the reported financial information (financial statements) and identify transactions and balances to be audited;
- Understand the clients' operations in order to identify risks of material misstatement. This is done through performing analytical review
- Compile and communicate the overall audit strategy to the audited entity

## Setting planning materiality-ISA 320

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements
- Auditors normally set materiality in the range 0.25 per cent to 1 per cent of gross expenditure, gross revenue or 2.5 per cent to 10 per cent of the profit.
- There is an inverse relationship between audit risk and materiality.
- The higher the audit risk the lower the level of materiality calculated and vice versa

# Setting planning materiality

## Example

Details	2020 kshs	2019 kshs
Overall materiality (OM): Overall Materiality at 0.8 % of Interest Income of kshs 8,491,020,000	67,928,160	61,461,233
Planning materiality (TE): Planning materiality is set at 50% of overall Materiality of kshs 67,928,160	33,964,080	30,730,617
Error Transfer limit (SUD) Based at 5% of OM of kshs 67,928,160 (All adjustments above this threshold will be factored into the Summary of Audit Differences computation)	3,396,408	3,073,062

# Contents of an overall audit strategy document

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1. Audit scope
2. Understanding the business e.g. key changes
3. Preliminary analytics
4. Significant accounting and audit issues
5. Results of test of control
6. Materiality and other planning parameters
7. Audit strategy-Rely on controls or purely substantive?
8. Significant accounts
9. Team
10. Deliverables
11. Audit timing
12. etc

# Changes to planning decisions

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- The overall audit strategy and the detailed audit plan should be documented, updated and changed as necessary during the course of the audit (*ISSAI 1300.10, ISA 300*).
- **All changes made to planning documents should be documented and maintained in the audit file.**

## Phase 3-execution

Assertion	Financial position Balance sheet	Comprehensive income statement
Existence		
occurrence		
Valuation		
Measurement		
completeness		
Rights and obligations		
Presentation and disclosure		

## Phase 3-execution

- Performing analytical and data analysis procedures.
- Review significant accounting estimates
- Perform previously designed substantive audit procedures
- Linkages between workings, findings, results, ML and opinion
- Review/update walkthroughs and tests of control
- Perform substantive audit procedures
- Clients schedules
- Performing tests of details.
- Performing general audit procedures-such as going concern considerations, are also performed during this phase of the audit.
- Perform tests of journal entries
- Reassess overall risk assessment
- Standard tick marks etc



## Phase 4-Audit finalization

- Conclusion of the audit, including the finalization of closing documents, working papers, lead schedules
- Final engagement reviews-partners, directors, coaching
- Closing meetings, board meetings
- Reporting-Management letter, audit opinion
- assessment of client satisfaction and of our performance.



# **Some emerging issues...Things we must get right as auditors for the decade ahead**

1. Be a beacon for emerging risks- e.g. sustainability and climate change, data ethics, business continuity (covid etc), Artificial intelligence governance, talent mgt
2. Recruit and retain game changing talent
3. Be champions for strong accountability
4. Innovate for greater efficiency and impact
5. Tell the story-how we create and preserve value
6. Be ahead in technology advances



# Some emerging issues...Changed audits for ever

1. Increased reliance on technology
2. Greater innovation in gathering and analyzing evidence
3. Improved/enhanced communication
4. Risk assessment will be transformed with greater focus on emerging risks
5. Where auditors are based will be permanently altered

**END**



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