
ADVANCED AUDITING

Publisher Information

Published by: **Kindle Direct Publishing**

An Amazon.com, Inc. Company

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Preface

This book, *Advanced Auditing*, has been developed to provide Certified Public Accountant (CPA) and ACCA students with a thorough understanding of contemporary auditing practices, in alignment with international standards and local Kenyan regulatory frameworks. It is designed to meet the academic and professional requirements of learners preparing for advanced-level audit and assurance examinations, while also equipping practising auditors and financial professionals with a robust reference guide for real-world application.

The text is structured to offer comprehensive coverage of the core and emerging issues in auditing. Key areas include assurance and non-assurance engagements, audit planning and risk assessment, audit evidence, reporting, professional ethics, legal responsibilities, and developments in audit regulation. In addition, the book addresses specialised audit topics such as forensic auditing, sustainability assurance, and public sector auditing—providing both conceptual clarity and practical insight.

The approach adopted is both analytical and illustrative. Real-world case studies from Kenyan and East African contexts are integrated to ground the concepts in local practice. Furthermore, the book adheres to International Standards on Auditing (ISAs), the IESBA Code of Ethics, and local statutes such as the Companies Act, 2015 (Kenya). Where appropriate, the text draws on guidance from regulatory bodies including ICPAK, CMA, and the Financial Reporting Centre.

Every effort has been made to maintain clarity, simplicity, and academic rigour. The chapters are logically sequenced and supported with illustrative examples, engagement letters, sample reports, and exam-oriented discussions that prepare students for professional examinations and workplace competence.

It is my hope that this book will serve not only as a comprehensive academic resource but also as a valuable companion in the auditing profession. I welcome feedback and suggestions for further improvement in future editions.

CPA Ronoh Benson Benhard

Synapse Global Institute

2025

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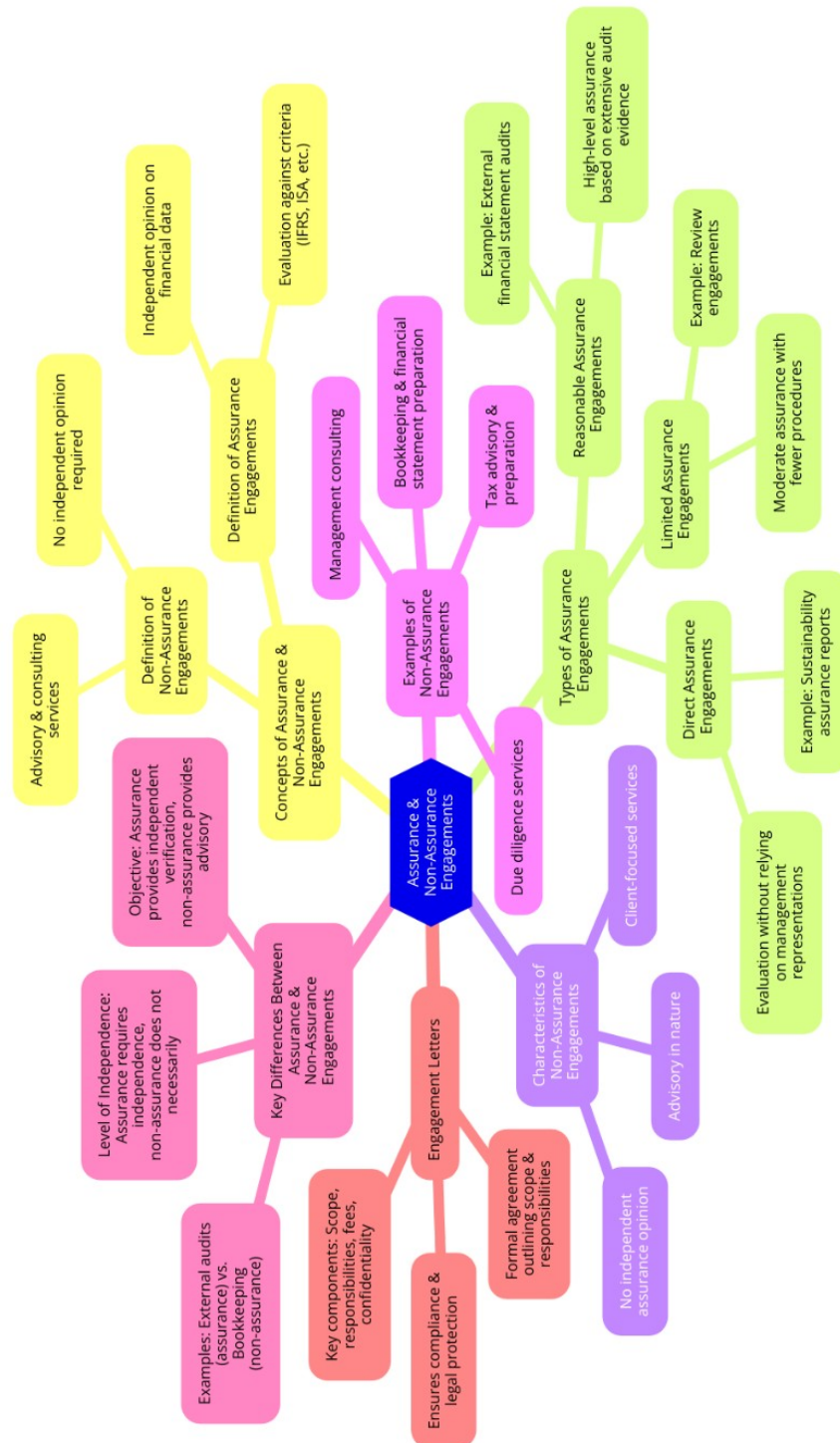
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Chapter One:

Assurance and Non-Assurance Engagements



The Concept of Assurance and Non-Assurance Engagements

Introduction

In financial reporting and professional services, assurance and non-assurance engagements serve distinct roles in ensuring the reliability and usability of financial and non-financial information. While assurance engagements involve an independent professional providing an opinion on financial data, non-assurance engagements involve advisory, consulting, or other services that do not require an independent conclusion.

Understanding these two types of engagements is critical for auditors, accountants, and finance professionals in navigating the complexities of regulatory compliance, risk management, and financial reporting.

Definition of Assurance Engagements

An assurance engagement is a professional service where an independent auditor or accountant examines financial or non-financial data to **increase the confidence** of intended users in the information. This is done by evaluating the subject matter against a set of established criteria, such as accounting standards, legal requirements, or best practices.

Key Elements of an Assurance Engagement

1. **A three-party relationship:** This includes the practitioner (auditor), the responsible party (management), and the intended users (investors, regulators, creditors).
2. **A subject matter:** This could be financial statements, internal controls, sustainability reports, or other verifiable data.
3. **Established criteria:** These could include International Financial Reporting Standards (IFRS), International Standards on Auditing (ISA), or company policies.
4. **Sufficient and appropriate evidence:** The auditor gathers and evaluates evidence to form a conclusion.

5. **A written report:** The auditor provides an opinion or conclusion to users based on findings.

According to the **International Framework for Assurance Engagements (IAASB, 2013)**:

"An assurance engagement is an engagement in which a practitioner expresses a conclusion designed to enhance the confidence of the intended users other than the responsible party about the outcome of an evaluation or measurement of a subject matter against criteria."

Types of Assurance Engagements

- **Reasonable assurance engagements:** The auditor provides a high level of assurance based on sufficient audit evidence (e.g., external financial statement audits).
- **Limited assurance engagements:** The auditor provides moderate assurance based on fewer audit procedures (e.g., review engagements).
- **Direct assurance engagements:** The practitioner evaluates the subject matter directly, without relying on representations from management (e.g., sustainability assurance reports).

Definition of Non-Assurance Engagements

Non-assurance engagements refer to professional services provided by accountants, auditors, or consultants that do not include an independent assurance opinion. These engagements primarily assist businesses in decision-making, compliance, and operational efficiency but do not offer an independent conclusion on financial or non-financial data.

Characteristics of Non-Assurance Engagements

1. **Advisory nature:** These services often involve guidance rather than formal verification of financial statements.
2. **No independent opinion:** The practitioner does not provide a written assurance conclusion.

3. **Client-focused services:** Work is performed based on client needs rather than regulatory or statutory requirements.
4. **No requirement for formal evidence gathering:** Unlike assurance engagements, non-assurance services rely more on internal data without strict validation.

Examples of Non-Assurance Engagements

- **Tax advisory and preparation:** Assisting companies in tax compliance but without validating financial statements.
- **Bookkeeping and financial statement preparation:** Helping businesses prepare financial statements without providing an independent audit opinion.
- **Management consulting:** Advising on business operations, internal controls, and governance without issuing an assurance report.
- **Due diligence services:** Conducting financial or operational analysis for mergers and acquisitions but not providing an opinion on the financial statements.

Key Differences Between Assurance and Non-Assurance Engagements

Feature	Assurance Engagement	Non-Assurance Engagement
Objective	Provides independent assurance on financial or non-financial information	Provides advisory, compilation, or consulting services
Opinion Provided	Yes, provides reasonable or limited assurance	No assurance opinion is provided
Examples	External audits, forensic audits, sustainability assurance	Bookkeeping, tax compliance, financial statement preparation
Level of Independence	Requires independence and objectivity	Does not necessarily require independence

Examples of Assurance and Non-Assurance Engagements

Assurance engagements include:

- **External audits:** An independent auditor assesses the financial statements of a publicly listed company for statutory compliance.

- **Internal control reviews:** Evaluating the effectiveness of a company's internal control systems.
- **Forensic audits:** Investigating suspected fraud and irregularities within a company.
- **Sustainability reporting assurance:** Reviewing and providing assurance on environmental, social, and governance (ESG) disclosures.

Non-assurance engagements include:

- **Tax advisory:** Assisting a company in structuring its tax compliance strategy.
- **Financial statement compilation:** Preparing financial reports for management use without an assurance opinion.
- **Bookkeeping services:** Managing an organisation's daily financial transactions.
- **Business consultancy:** Advising on strategic planning, risk management, and operational efficiency.

Case Study: Assurance Engagement in a Public Company

Background

Kenya Power and Lighting Company (KPLC) faced regulatory scrutiny over revenue recognition practices. External auditors were engaged to provide independent assurance on financial statements.

Key Steps Taken

- The auditors reviewed revenue recognition policies and assessed internal controls.
- Material misstatements in financial reporting were identified, leading to a qualified audit opinion.
- The audit report was submitted to the **Capital Markets Authority (CMA)** and other stakeholders.

Outcome

- Regulatory intervention improved financial reporting practices at KPLC.
- Investor confidence in the company's financial statements was restored.
- The company implemented stronger internal controls to enhance transparency.

Engagement Letters for Assurance and Non-Assurance Engagements

Introduction

An engagement letter is a formal document that defines the scope, responsibilities, and terms of a professional service engagement between a service provider (such as an auditor or accountant) and a client. It is a critical component of both **assurance and non-assurance engagements**, ensuring clarity, accountability, and legal protection for both parties.

Engagement letters are widely used in financial audits, internal audits, tax consulting, advisory services, and other professional engagements. They help prevent misunderstandings by explicitly defining the nature and extent of services to be provided.

Purpose of an Engagement Letter

The primary objectives of an engagement letter are to:

- Define the **scope of work** and responsibilities of both parties.
- Establish the **terms and conditions** governing the engagement.
- Ensure compliance with **legal, ethical, and professional standards**.
- Reduce the risk of **misunderstandings, disputes, and liability**.
- Provide **written confirmation** of the agreement between the parties.

According to **ISA 210 – Agreeing the Terms of Audit Engagements**, auditors must ensure that the terms of engagement are agreed upon in writing before commencing any audit work.

Key Components of an Engagement Letter

Component	Description
Parties to the Agreement	Identifies the client and the service provider (audit firm or accountant).
Scope of Work	Defines the nature of the engagement, including its objectives and limitations.

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