

**Revised Guide**

**August 2021**



*Guide for Registered Auditors*

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**GUIDANCE ON PERFORMING AUDITS ON BEHALF  
OF THE AGSA (REVISED AUGUST 2021)**

This *Guide for Registered Auditors: Guidance on Performing Audits on behalf of the AGSA (Revised August 2021) (this Revised Guide)* has been developed by the Committee for Auditing Standards (CFAS), a statutory committee of the Independent Regulatory Board for Auditors (IRBA), jointly with the Auditor-General of South Africa (AGSA). It provides information that will assist registered auditors from audit firms (auditors) in understanding the public sector environment within which public sector audit engagements are conducted. This Revised Guide was approved for issue in August 2021 and replaces the previous IRBA Guide – *Guidance on Performing Audits on behalf of the AGSA* – that has since been withdrawn.

This Revised Guide has been approved by the IRBA for joint publication with the AGSA, to help improve the understanding and enhance the performance of quality public sector audit engagements by auditors in public practice. These are auditors who perform audit engagements on behalf of the AGSA, including the audit of financial statements, reported performance information, compliance with key legislation and the additional audit procedures relating to focus areas, in accordance with the requirements of the Public Audit Act, No. 25 of 2004, as amended by the Public Audit Amendment Act, No. 5 of 2018.

As this is only a Guide, auditors should refer to the legislation, which is the primary source of information, to obtain a comprehensive understanding regarding the requirements for public sector audits.

This *Guide for Registered Auditors: Guidance on Performing Audits on behalf of the AGSA (Revised August 2021)* may be downloaded free of charge in both Word and PDF formats from the IRBA website.

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This *Guide for Registered Auditors: Guidance on Performing Audits on behalf of the AGSA (Revised August 2021)* (this Revised Guide) provides guidance for audit firms that perform audits on behalf of the AGSA. This includes the audit of financial statements, reported performance information, compliance with key legislation and the additional audit procedures relating to focus areas, in accordance with the AGSA's specific requirements and the requirements of the Public Audit Act, No. 25 of 2004.

Guides are developed and issued by the IRBA to provide guidance to auditors in meeting specific legislative requirements imposed by a regulator. Guides do not impose requirements on auditors beyond those included in the International or South African Standard/s or South African regulatory requirements; and they do not change an auditor's responsibility to comply, in all material respects, with the requirements of the International or South African Standards or with South African regulatory requirements relevant to the audit, review, other assurance services or related services engagement.

An auditor is required to have an understanding of the entire text of every Guide to enable the auditor to assess whether or not any particular Guide is relevant to an engagement; and if so, to enable the auditor to properly apply the requirements of the particular International or South African Standard/s to which the Guide relates.

In terms of Section 1 of the Auditing Profession Act, No. 26 of 2005 (the APA), a Guide is included in the definition of "auditing pronouncements"; and in terms of the APA, the auditor must, in the performance of an audit, comply with those standards, practice statements, guidelines and circulars developed, adopted, issued or prescribed by the Regulatory Board.

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## **1. INTRODUCTION**

- 1.1 This Revised Guide provides guidance for audit firms that perform public sector audit engagements on behalf of the Auditor-General of South Africa (AGSA), including the audit of financial statements, reported performance information, compliance with key legislation and the additional audit procedures relating to focus areas, in accordance with the AGSA's specific requirements and the requirements of the Public Audit Act, No. 25 of 2004 (PAA).
- 1.2 The reputation promise/mission of the AGSA determines that as the Supreme Audit Institution of South Africa, the AGSA exists to strengthen South Africa's democracy by enabling oversight, accountability and governance in the public sector through auditing, thereby building public confidence.
- 1.3 The AGSA, as the statutory auditor, retains overall responsibility for these audits and will sign and issue the auditor's report.
- 1.4 Audit firms are also referred to the *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)*, to assist them in understanding the public sector environment within which public sector audits are conducted.
- 1.5 Engagements where the AGSA has opted not to perform the audit of a public sector entity, in accordance with Section 4(3) of the PAA, are dealt with in the *Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit (Revised March 2021)*.
- 1.6 Engagements where audit firms are contracted in, or seconded to, the AGSA are not dealt with in this Revised Guide.
- 1.7 The unique requirements of performance audits and investigations performed on behalf of the AGSA are also not dealt with in this Revised Guide.

## **2. DEFINITIONS**

<b>Auditor-General of South Africa</b>	The institution contemplated in Section 181(1)(e) of the Constitution.
<b>Auditee</b>	An institution or accounting entity referred to in Section 4 of the PAA that is, or is to be, audited in terms of the said Act, and this includes any group of such institutions or accounting entities whose financial statements are, or are to be, consolidated in terms of legislation referred to in Section 4(2) of the PAA.
<b>Engagement Team<sup>1</sup></b>	All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the

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<sup>1</sup> The definition per International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* (effective for audits of financial statements for periods beginning on or after 15 December 2022) is used as it is deemed to be more appropriate in the context of this Revised Guide. The definition per the extent ISA 220 can be downloaded from the [IRBA website](#).

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engagement, excluding an auditor's external expert and internal auditors who provide direct assistance on an engagement.

<b>Auditor-General</b>	The individual appointed as the Auditor-General or acting as such.
<b>Audit Firm (Firm)</b>	A firm registered as an auditor with the Independent Regulatory Board for Auditors (IRBA) in terms of Section 38 of the Auditing Profession Act, No. 26 of 2005 (APA), engaged in public practice.
<b>AGSA Engagement Manager</b>	The person within the AGSA who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the AGSA; and who, where required, has the appropriate authority from a professional, legal or regulatory body.
<b>Engagement Partner</b>	The partner in the audit firm who is responsible for ensuring that the engagement is delivered in line with the requirements of the Memorandum of Agreement.
<b>Executive Authority</b>	This is as defined by the Public Finance Management Act, the Local Government: Municipal Systems Act and the Financial Management of Parliament and Provincial Legislatures Act.
<b>Material Irregularity</b>	Any non-compliance with or contravention of legislation, fraud, theft or a breach of fiduciary duty identified during an audit performed under the PAA that resulted in or is likely to result in material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public (as defined in the PAA).
<b>Memorandum of Agreement</b>	A contractual undertaking between the AGSA and the audit firm for performing an audit/(s) on behalf of the AGSA.
<b>Non-audit Services</b>	For the purposes of contract work contracting, any other service or work conducted for the auditee outside the statutory external audit engagement.
<b>Product Champion</b>	The person in each audit business unit within the AGSA who is responsible for dealing with technical accounting and auditing matters within the business unit.
<b>Public Audit Manual</b>	The AGSA audit methodology, including application guidance and technical updates.

### **3. CONTRACTING WITH AUDIT FIRMS**

- 3.1 Section 12 of the PAA authorises the Auditor-General to appoint one or more persons who are suitably qualified to perform or assist in the performance of audits on its behalf.
- 3.2 The contracting of audit firms provides additional capacity to execute the AGSA's mandate, and also serves as a mechanism to support transformation and capacity building in the auditing profession.
- 3.3 The AGSA follows a tender process to compile an approved list of audit firms to perform audits on its behalf. Work is allocated to audit firms that appear on the approved list. Information relating to the tender process is made available by the AGSA on its website.
- 3.4 Audit firms' engagement teams that are contracted to perform audits on behalf of the AGSA are regarded as an extension of the AGSA's audit engagement team. In this context, the requirements of part 1 of Chapter 3 of the PAA (relating to audits by the Auditor-General) are applicable to an audit firm's engagement team performing audits on behalf of the AGSA.
- 3.5 The terms and conditions of the contract are agreed with audit firms and included in the Memorandum of Agreement (MoA) entered into between the audit firm and the AGSA for each audit engagement separately.

### **4. GENERAL ROLES AND RESPONSIBILITIES**

- 4.1 The AGSA and the audit firm have different roles and responsibilities where an audit is performed on behalf of the AGSA. Appendix 1 provides a summarised view of the relationship.
- 4.2 As indicated in the introduction, the AGSA, as the statutory auditor, retains overall responsibility for the audit and compliance with the standards, as detailed in Section 6 of this Revised Guide. The relationship between the AGSA and the audit firm is contractual and designed to assist the AGSA to achieve the objectives and requirements of the standards, as mentioned above.
- 4.3 The key responsibilities of the two parties are provided below, and the details on specific areas of responsibility are included in the remainder of this Revised Guide.

#### **AGSA**

- 4.4 Each audit is assigned to an AGSA engagement manager, who is responsible for the overall quality of the audit and the appropriateness of the final auditor's report, as required by the standards and detailed in Section 6 of this Revised Guide. While the AGSA engagement manager assigns certain tasks or responsibilities to the engagement partner, in terms of the MoA, the AGSA engagement manager remains responsible overall for the assigned tasks under the standards, as mentioned above.
- 4.5 The AGSA engagement manager is responsible for establishing the terms of the engagement with the auditee and for the engagement letter. The engagement letter is shared with the engagement partner, to confirm the terms of the audit engagement.
- 4.6 The final auditor's report is signed by the person with the delegated authority to sign and issue the auditor's report on behalf of the Auditor-General. The person with the

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delegated authority to sign may not always be the AGSA engagement manager and is appointed in terms of the AGSA's internal process. Where this is the case, it does not reduce or remove any of the responsibilities of the AGSA engagement manager.

- 4.7 The AGSA engagement manager provides direction on the audit by advising the engagement partner of matters such as:
- The objectives of the work to be performed;
  - The respective responsibilities of the engagement partner and the AGSA engagement manager;
  - The nature of the auditee's business;
  - Risk-related issues and problems that may arise;
  - AGSA-specific audit and reporting requirements regarding the auditing of reported performance information, compliance with key legislation and the focus areas; and
  - AGSA policies and procedures, with which the audit firm is expected to comply.
- 4.8 The AGSA engagement manager is responsible for communicating and detailing his/her expectations with the engagement partner on reporting requirements and agreed timelines. This will include the due dates for the submission of the proposed draft management report and the proposed draft auditor's report for review by the AGSA engagement manager.
- 4.9 The audit firm has to comply with the AGSA audit engagement performance policy, which the AGSA engagement manager must provide to the engagement partner who is responsible for ensuring that the audit is carried out in compliance with this policy.
- 4.10 The AGSA engagement manager shall have access to the audit engagement file at any time during the audit process, to allow for a review of the audit work. This process is set out in Section 8 of this Revised Guide.
- 4.11 Each AGSA audit business unit has a product champion (PC) who is responsible, inter alia, for dealing with the technical matters that are referred to him/her by the AGSA engagement manager.

**Audit Firm**

- 4.12 Audit firms must perform work on behalf of the AGSA in terms of the MoA, which sets out the following:
- The scope of the audit engagement.
  - The audit standards, as detailed in paragraph 6.1 of this Revised Guide, as well as legal and regulatory requirements for the audit engagement, which are the same as those that apply to the AGSA.
  - All duties and responsibilities in terms of the agreement. All work needs to be carried out in an ethical manner and with the required level of skill, care and diligence, as reasonably expected in terms of the requirements of the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018)*, as amended (IRBA Code).



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- 4.13 When contracting an audit firm, the AGSA expects that the audit firm would have established and be maintaining a system of quality control, as required by the quality control standard<sup>2</sup> and the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), to provide reasonable assurance that:
- The audit firm and its personnel comply with the applicable ethical requirements, audit standards and methodology, as detailed in Sections 5 and 6 of this Revised Guide; and
  - The proposed draft auditor's report and proposed draft management report prepared are appropriate in the circumstances.
- 4.14 In line with the terms of the MoA, the audit firm identifies the engagement partner who will be responsible for ensuring that the audit engagement is delivered to the required quality and standard agreed with the AGSA. While the audit firm and the engagement partner are not considered to be the statutory auditor, they remain contractually responsible to the AGSA for ensuring that work delivered meets the expectations agreed with the AGSA in the MoA.
- 4.15 Prior to the start of the audit engagement, the engagement partner must be satisfied that the audit firm's engagement team has the relevant public sector knowledge and competencies to perform the audit.
- 4.16 When an audit firm performs an audit on behalf of the AGSA for the first time, it may be requested to attend an induction programme presented by the AGSA prior to the audit. The audit firm may also be invited to attend relevant training sessions presented by the AGSA from time to time.
- 4.17 The engagement partner must be satisfied that the audit firm's audit engagement team (this does not include experts) has experience or appropriate training in audits in the public sector; and that it has been trained on the latest AGSA audit methodology for the audits of the financial statements, reported performance information and compliance with key legislation. If the audit firm uses its own methodology (when granted permission by the AGSA, as per paragraph 6.4) for the audit of the financial statements, then it is not necessary for the audit firm's audit engagement team to attend all of the AGSA's methodology training sessions for the audit of financial statements.
- 4.18 The engagement partner is responsible for the following, as outlined in the MoA between the audit firm and the AGSA:
- Ensuring that all planning documentation is communicated, discussed and agreed with the AGSA engagement manager timeously.
  - Providing the AGSA engagement manager with progress reports on the status of the audit, according to the agreed timeframes.
  - Agreeing to and holding audit-reporting discussions with the AGSA engagement manager timeously.

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<sup>2</sup> Refer to footnotes 5 and 6.

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- Providing the AGSA engagement manager with regular feedback on key developments and issues noted during the audit engagement.
  - Any other responsibilities, as reflected in the MoA.
- 4.19 The engagement partner assigns the audit firm's engagement team and is responsible for the direction, supervision and review of the work performed by the audit firm's engagement team, as agreed with the AGSA engagement manager.
- 4.20 The engagement partner is also responsible for determining that the proposed draft auditor's report, as presented to the AGSA engagement manager, is in line with the guidance and templates issued by the AGSA, and that it reflects the work performed under the MoA.

## **5. ETHICAL REQUIREMENTS**

### **Professional Codes of Ethics**

- 5.1 The engagement partner and the audit firm's engagement team performing audits on behalf of the AGSA are subject to the IRBA Code, which is consistent with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants<sup>3</sup>. In addition, the engagement partner and the audit firm's engagement team are required to comply with the relevant principles of the International Standard of Supreme Audit Institutions (ISSAI) 130, *Code of Ethics (ISSAI 130)*<sup>4</sup>, specifically relating to political neutrality and published by the International Organization of Supreme Audit Institutions.

### **Independence**

- 5.2 The audit firm, the engagement partner and each member of the audit firm's engagement team confirm their independence, taking into consideration any applicable legislative requirements, prior to accepting the audit engagement; and they remain independent throughout the audit. In this regard, the audit firm and any members of its network must not undertake any other engagement with the auditee, unless specific prior written authorisation has been given by the AGSA.
- 5.3 As agreed in the MoA, the audit firm is not permitted to accept and conduct any non-audit service engagements with the auditee for a period of 12 calendar months after the final auditor's report date of the auditee. The audit firm is, however, permitted to conduct external audit services again on behalf of the AGSA.
- 5.4 The engagement partner and members of the audit firm's engagement team sign a declaration for each audit engagement, thereby undertaking to adhere to the codes of professional conduct and standards – described in paragraph 5.1 above – that form part of the audit documentation.

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<sup>3</sup> <https://www.ifac.org/ethics>.

<sup>4</sup> The ISSAI Code of Ethics may be downloaded from [www.issai.org](http://www.issai.org).

## **Confidentiality**

- 5.5 The information contained in the engagement file and the material irregularity records remains the property of the AGSA and is confidential. In accordance with Section 50 of the PAA, this information may not be disclosed without the permission of the Auditor-General or his/her delegate, except in an auditor's report or in accordance with Section 18(4) of the PAA that provides for the disclosure of information in any proceedings before a legislature, an internal committee of a legislature or a court in a criminal matter.
- 5.6 The audit firm and the audit firm's engagement team are expected to comply with the confidentiality requirements contained in the AGSA audit engagement performance policy supplied by the AGSA engagement manager.
- 5.7 Any information obtained during the audit engagement that is not included in the audit file needs to be returned to the auditee or disposed of securely, after the finalisation of the audit.

## **6. AUDITING STANDARDS AND METHODOLOGY**

- 6.1 In terms of Section 13 of the PAA, the Auditor-General may clarify or prescribe the standards to be applied for audits performed through issuing a Directive that can be downloaded from the AGSA website ([www.agsa.co.za](http://www.agsa.co.za)).
- 6.2 The International Quality Control<sup>5,6</sup>, Auditing, Review, Other Assurance and Related Services Pronouncements issued by the IAASB and relevant auditing pronouncements developed, adopted, issued or prescribed by the IRBA must be applied in performing audits on behalf of the AGSA.
- 6.3 In addition, the audit engagement team applies the relevant principles contained in the ISSAIs<sup>7</sup> that provide additional considerations that are relevant to the public sector. These principles have been incorporated into the AGSA methodology and guidance, where relevant.

### **Decision on Using the Audit Firm's Own Audit Methodology/Software and Working Papers or Those of the AGSA**

- 6.4 The AGSA engagement manager must ensure that the AGSA's audit methodology, audit software and working paper templates are used for the audit engagement, unless the AGSA engagement manager and the engagement partner determine, in consultation

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<sup>5</sup> The International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, will be replaced by International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), and ISQM 2, *Engagement Quality Reviews* (ISQM 2).

<sup>6</sup> The effective dates for ISQM 1 and ISQM 2 are as follows: ISQM 1 – systems of quality management in compliance with this ISQM are required to be designed and implemented by 15 December 2022; ISQM 2 – audits and reviews of financial statements for periods beginning on or after 15 December 2022; and for other assurance and related services engagements beginning on or after 15 December 2022.

<sup>7</sup> ISSAIs can be accessed at <http://www.issai.org>.

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with the AGSA business executive, that the audit firm may use its own audit software, methodology and working paper templates for the audit of the financial statements. This determination shall be at the sole discretion of the AGSA.

- 6.5 Where the audit firm uses the AGSA methodology, it must establish whether an information system and a fraud specialist are required as part of the audit engagement team. For example, if there is a complex significant risk of fraud, a fraud specialist must be involved in the audit. The audit firm may use its own auditor's expert/s for this purpose. However, if it does not have these experts, it must approach the AGSA engagement manager for assistance.
- 6.6 The AGSA engagement manager provides the Public Audit Manual (PAM), working paper templates and the necessary technical guidance to the audit firm, where the audit firm uses the AGSA methodology. In addition to the above, the AGSA's technical updates, the PAA and regulations, the Directive, key application guidance and training material are also available on the AGSA website for audit firms providing services to the AGSA. Each audit firm has to obtain a username and password from the AGSA to access this information.
- 6.7 The audit firm's hardware and software used for the audit engagements and their information and communication technology policies and procedures must comply with the requirements of the MoA.
- 6.8 The audit firm provides the AGSA engagement manager with access to the methodology, software and working papers, to enable an effective review of the audit firm's working papers. Where the use of the audit firm's methodology and software is approved, the engagement partner and the AGSA engagement manager are required to agree on the review protocols in advance. The audit firm is not required to provide the AGSA with the audit software, should restrictive rights apply in respect of the audit firm's software licence. But the audit firm must provide the AGSA engagement manager with a hard copy of the engagement file or a soft copy in a format that can be accessed without using the audit firm's proprietary software.
- 6.9 The engagement partner assembles the audit engagement file and submits it to the AGSA within the timelines agreed to between the engagement partner and the AGSA engagement manager, to enable the finalisation of the audit engagement file within 60 calendar days of the date of the final auditor's report. No changes to the audit documentation should be made after the final auditor's report date without the advance approval of the AGSA engagement manager. When the AGSA's audit software is not used, the AGSA is provided with a hard copy of the audit engagement file or a soft copy in a format that can be accessed without using the audit firm's proprietary software.
- 6.10 The pre-issuance reviewer should also be granted timely access to the engagement file in an acceptable format, as set out above and agreed to between the engagement partner and the AGSA engagement manager.

## **Aspects of the AGSA Methodology to which the Audit Firm is Required to Adhere**

### *Overall*

- 6.11 The PAM developed by the AGSA provides detailed guidance on conducting annual audits. All the information that is relevant to these audits is available for performing audit work in the public sector.
- 6.12 The nature and scope of audits conducted in terms of Section 20 of the PAA are determined by the AGSA and published in the Directive.

### *Auditing of financial statements*

- 6.13 The objective of an audit is to reflect an opinion, conclusion or findings on whether the financial statements are prepared in accordance with an applicable financial reporting and regulatory framework<sup>8</sup>.
- 6.14 The audit of financial statements is performed in accordance with the standards determined in the Directive. The report on the financial statements of the auditee, in terms of Section 20(2)(a) of the PAA, must be prepared in the manner described in the Directive.
- 6.15 An engagement partner following their firm's methodology may be required to apply certain specific AGSA guidance or working paper templates, as communicated by the responsible AGSA engagement manager.

### *Auditing of reported performance information*

- 6.16 The objective of the audit is to reflect an opinion, conclusion or findings on whether the reported performance information for the selected programmes or objectives presented in the annual performance report is free from material misstatement, i.e. the reported performance information is useful and reliable in all material respects, in accordance with the applicable criteria, as developed from the performance management and reporting framework set out in the Directive<sup>9</sup>.
- 6.17 The audit of reported performance information is performed in accordance with the standards determined in the Directive. The report on the auditee's reported performance information in the proposed draft auditor's report, in terms of Section 20(2)(c) of the PAA, must be prepared in the manner described in the Directive.
- 6.18 The engagement partner follows the AGSA's methodology in the audit of reported performance information.

### *Auditing of compliance with key legislation*

- 6.19 The objective of an audit of compliance with key legislation is to reflect an opinion, conclusion or findings on whether the auditee, with respect to the individual compliance subject matters scoped into the audit, has complied with the specific provisions of key

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<sup>8</sup> In terms of Section 20 of the PAA.

<sup>9</sup> In terms of Section 20 of the PAA.

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legislation that have been selected as the compliance requirements/criteria for the audit engagement<sup>10</sup>.

- 6.20 The audit of compliance with key legislation is performed in accordance with the standards determined in the Directive. The report on the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters in the proposed draft auditor's report, in terms of Section 20(2)(b) of the PAA, must be prepared in the manner described in the Directive.
- 6.21 The engagement partner follows the AGSA's methodology in the audit of compliance with key legislation.

*Identification of internal control deficiencies*

- 6.22 In terms of Sections 4(1) and 4(3) of the PAA, financial management must be audited and reported on. As part of the annual audit, the engagement partner and the audit firm's engagement team evaluate the implementation of internal controls in the areas of financial statements, reported performance information and compliance with key legislation, and the outcome of this is included in the management report of the auditee.
- 6.23 The proposed draft auditor's report prepared by the engagement partner must include deficiencies in internal controls that resulted in the basis for a modified opinion on the financial statements, as well as the material findings on the annual performance report and compliance with key legislation, in the manner described in the Directive and guidance made available by the AGSA.

*Focus areas*

- 6.24 To improve the efficiency and effectiveness of audits in the public sector, specific audit focus areas are identified annually by the AGSA. This process is based on an annual risk assessment performed by the AGSA and careful consideration of areas on which the AGSA could focus for additional useful information to be brought across in reports for users such as oversight bodies. Guidance on the scoping of the focus areas is provided annually in technical updates that are issued by the AGSA and made available to audit firms on its website. The AGSA engagement manager informs the auditee of the additional audit procedures to be performed, and these are incorporated as an extension of those that form part of the audit process.
- 6.25 The outcome of the audit procedures on these specific focus areas is included in the management report.

*Reportable irregularities*

- 6.26 Section 45 of the APA places a duty on the engagement partner, who is appointed by an entity to perform an audit, to report reportable irregularities, as defined in this Act. The engagement partner who is performing an audit on behalf of the AGSA is not appointed by the entity, as set out in Section 44(1) of the APA; therefore, Section 45 is not applicable to these audit engagements.

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<sup>10</sup> In terms of Section 20 of the PAA.

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*Material irregularities*

- 6.27 In addition to the mandate to audit and report, the AGSA can also take specific action in response to material irregularities identified during the audit. This mandate is included in Section 5 of the PAA.
- 6.28 The identification, consideration, reporting and subsequent processes relating to material irregularities, in accordance with the PAA, are defined in the relevant Material Irregularity Regulations issued in terms of the PAA, the Directive, the PAM as well as the policies and procedures of the AGSA.
- 6.29 In terms of the MoA, when auditors performing audits on behalf of the AGSA encounter material irregularities, in terms of the amended PAA, the engagement partner and the audit firm's engagement team are expected to adhere to the AGSA process of identifying and reporting any material irregularities, as part of the audit, to the AGSA engagement manager. In turn, the AGSA engagement manager is responsible for coordinating any required consultations and notifications within the AGSA arising from the material irregularity process.
- 6.30 The engagement partner must inform the AGSA engagement manager of any potential material irregularities as soon as these are noted by the audit firm's engagement team. The engagement partner is required to consider the impact of any potential material irregularities on the draft auditor's report, in line with the reporting requirements specified by the AGSA.
- 6.31 Where appropriate, Section 20(4) of the PAA determines that the auditor's report may include recommendations for addressing the identified material irregularity by a stipulated date, if the actions of the accounting officer or authority are not appropriate. The AGSA engagement manager determines when it would be appropriate to include such recommendations after completing the prescribed process.

*Non-compliance with Laws and Regulations*

- 6.32 The IRBA Code prescribes ethics requirements and guidance to assist the audit engagement team in dealing with non-compliance with laws and regulations (NOCLAR). NOCLAR comprises acts of omission or commission, intentional or unintentional, committed by an auditee, or by those charged with governance, management or other individuals working for or under the direction of a client, that are contrary to the prevailing laws or regulations.
- 6.33 Section 360 of the IRBA Code sets out the responsibilities of the engagement partner and the audit firm in responding to NOCLAR or suspected NOCLAR.
- 6.34 The audit firm and the audit firm's engagement team must apply the AGSA NOCLAR guidance. In this regard, the engagement partner should obtain the latest guidance from the AGSA engagement manager.

## **7. COMMUNICATION**

- 7.1 The audit engagement team, made up of persons from the AGSA and the audit firm, communicates with the auditee in such a manner that the audit firm and the AGSA are

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regarded as one team. All formal correspondence to the auditee is issued on behalf of the AGSA, on the AGSA letterhead and not that of the audit firm.

### **Interactions and Meetings with Those Charged with Governance**

- 7.2 Communicating with those charged with governance (TCWG) is an important facet of the audit process. The AGSA engagement manager should be notified of all meetings with TCWG at least seven (7) business days before a meeting, to facilitate attendance by an AGSA representative. Equally, the audit firm's engagement partner should be notified of all meetings with TCWG at least seven (7) business days prior, to facilitate attendance by the audit firm's representative. These include meetings scheduled by the auditee or the audit firm, and especially audit committee meetings. Specific meetings should address the audit strategy, the proposed draft management report and the proposed draft auditor's report.
- 7.3 The engagement partner is responsible for inviting the AGSA engagement manager to all steering committee meetings.

### **Interactions and Meetings with the Executive Authority and Oversight Bodies**

- 7.4 The AGSA interacts proactively with the Executive Authority and the legislative oversight mechanisms, e.g. portfolio committees. Effective interaction with the auditee's legislative oversight mechanisms, Executive Authorities and TCWG is aimed at leading to commitments for corrective actions that are required to improve audit outcomes, as well as for improved oversight, effective accountability and, ultimately, clean administration.
- 7.5 The AGSA engagement manager facilitates meetings with the Executive Authority and the oversight bodies, to which the engagement partner must be invited when it is appropriate to do so. The engagement partner provides the AGSA engagement manager with the relevant information for such meetings.

## **8. SUPERVISION AND REVIEW**

- 8.1 The engagement partner is responsible for ensuring that supervision and reviews are performed throughout the audit engagement, in accordance with the audit firm's policies and procedures implemented in accordance with the quality control standard; and that sufficient appropriate audit evidence is obtained to support the proposed draft auditor's report.
- 8.2 The AGSA engagement manager remains responsible for the overall quality of the audit and the appropriateness of the final auditor's report; therefore, he/she plays an important part in the performance of the audit. The nature, timing and extent of the direction, supervision and review of the AGSA engagement manager are planned at the onset of the audit engagement and may vary depending on factors that include:
- The audit engagement risk assessment;
  - The complexity of the audit work to be performed;
  - The assessed risks of material misstatement (for example, an increase in the assessed risk of material misstatement for a given area of the audit ordinarily



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requires a corresponding increase in the extent of direction and supervision, and a more detailed review); and

- The knowledge, experience and proven abilities of the engagement partner and the individual team members performing the audit work.
- 8.3 Before the date on which the proposed draft auditor's report is finalised, the AGSA engagement manager determines, through a review of audit documentation and discussions with the engagement partner and the audit engagement team, that sufficient appropriate audit evidence has been obtained to support the material findings reported and the opinion expressed.
- 8.4 The AGSA engagement manager's review may be less detailed than that of the engagement partner, as reliance is placed on the review already performed. The knowledge, experience and capability as well as the results of previous quality control reviews of the audit firm will influence the reliance placed on the reviews conducted.
- 8.5 The AGSA engagement manager's review focuses on whether appropriate judgements were made in the planning of the audit and whether appropriate conclusions were reached, based on the information recorded per the audit documentation and knowledge of the auditee.
- 8.6 Supervision by the AGSA engagement manager entails, at a minimum:
- Determining compliance with independence and the ethical requirements set out in Section 5 of this Revised Guide;
  - A review of communication with TCWG, as set out in Section 7 of this Revised Guide;
  - Considering the experience of the audit engagement team, including whether the team members have sufficient time to carry out their work;
  - Tracking the progress of the audit engagement;
  - Approval of the audit strategy prior to discussions as well as changes after discussions with the auditee;
  - Addressing significant matters arising during the audit engagement, considering their significance and ensuring that the planned approach is appropriately modified;
  - Ensuring that all pre-issuance review findings, as detailed in Section 9 of this Revised Guide, are resolved;
  - Identifying matters for consultation;
  - Assisting, where necessary, in resolving differences of opinion; and
  - The appropriateness of the final auditor's report, as set out in paragraph 12.7 of this Revised Guide.
- 8.7 The AGSA retains the responsibility for the audit engagement acceptance and continuance process, which includes the audit engagement risk assessment process. The audit firm must promptly report to the AGSA engagement manager any information

obtained during the audit engagement that may impact the original assessment of audit engagement acceptance and continuance, and audit engagement risk.

### **Assessment of Quality on the Specific Audit Engagement**

- 8.8 The engagement partner must be satisfied that the audit engagement file, at each stage of the audit, has undergone all relevant internal quality control processes, in line with the audit firm's policies.
- 8.9 Prior to handing over the audit engagement file for review and sign-off, the engagement partner must sign a quality assurance certificate to provide assurance on the quality of the audit engagement file and the proposed draft auditor's report. The format of the quality assurance certificate is provided with the MoA.
- 8.10 An assessment of the quality of the work performed by the audit firm will be conducted on an ongoing basis after each stage of the audit. The purpose of this assessment is to evaluate the performance of the audit firm and the engagement partner in terms of the MoA, and to determine if there are areas that need to be reworked.
- 8.11 The assessment is completed by the AGSA engagement manager, who liaises with the engagement partner to discuss and address areas of concern. The assessment is then agreed with the engagement partner. The assessment results will be taken into consideration in the future allocation of contract work to the audit firm.

### **Annual Audit Engagement Quality Control Reviews**

- 8.12 The audit engagement files relating to an audit engagement may be subject to a review by the AGSA's quality control unit. The engagement partner must assist the AGSA engagement manager with matters relating to such a review. The results of this review will be considered when future contract work allocations are considered.

### **Penalties for Non-Performance and Liability**

- 8.13 In the event that the engagement partner fails to meet the quality standards or any other responsibilities, as agreed to in the MoA, the AGSA may impose a penalty fee. The AGSA will also consider whether these failures represent a breach of the IRBA Code and then consider lodging a complaint with the IRBA after discussions with the audit firm involved.
- 8.14 As agreed to in the MoA, the audit firm shall be liable with the AGSA, jointly and severally, in respect of all actions, proceedings, liabilities, claims, damages, costs and expenses arising from the performance of the audit engagements. This would be the case, irrespective of the fact that the AGSA retains overall responsibility for the audit in terms of the ISAs.

## **9. PRE-ISSUANCE REVIEWS**

- 9.1 A pre-issuance review is an audit engagement quality control review, as per the quality control standard set out in Section 6 of this Revised Guide. It is designed to provide an objective evaluation of the significant judgements that the audit engagement team made and the conclusions reached in formulating the proposed draft auditor's report before it is issued.

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- 9.2 A pre-issuance reviewer is assigned to audit engagements in line with the AGSA's policies and procedures, including those that are performed on behalf of the AGSA.
- 9.3 The reviews must be undertaken by AGSA staff or an external reviewer. Where external reviewers are selected, they are appointed in accordance with the AGSA's procurement policies and procedures and must not be appointed by the audit firm. The reviewer must not be an individual from the audit firm that performed the work on behalf of the AGSA and must not make any decisions on behalf of the audit engagement team.
- 9.4 The engagement partner resolves all findings with the pre-issuance reviewer before finalising the proposed draft auditor's report. The AGSA engagement manager is responsible for ensuring that all findings are resolved before signing off the final auditor's report.
- 9.5 The engagement partner must afford the pre-issuance reviewer sufficient time to conduct his/her reviews during planning, execution and reporting.

## **10. TECHNICAL CONSULTATIONS**

- 10.1 The engagement partner follows the audit firm's process to resolve technical matters with its own technical department; and informs the AGSA engagement manager that a matter that requires consultation has arisen.
- 10.2 The technical opinion arising from the audit firm's technical consultation is documented, discussed and agreed with the AGSA engagement manager and the PC prior to discussions with the auditee or any other party.
- 10.3 The engagement partner may only approach the AGSA's technical division through the AGSA engagement manager and the relevant PC.
- 10.4 The technical consultation process is illustrated in Appendix 2 of this Revised Guide.

## **11. DIFFERENCES OF OPINION**

### **Technical Consultations**

- 11.1 The engagement partner follows the audit firm's internal process to resolve a disagreement between the engagement partner and the audit firm's technical department regarding technical consultation. The outcome of the process is shared with the AGSA engagement manager.
- 11.2 If the AGSA engagement manager does not agree with this conclusion, it is discussed with the AGSA technical division. If the AGSA technical division disagrees with this opinion, the engagement partner is informed. If the engagement partner disagrees with the AGSA technical division's opinion, the AGSA's difference-of-opinion process is followed, as illustrated in Appendix 3 of this Revised Guide.

### **Pre-Issuance Review**

- 11.3 Disagreements between the engagement partner or the AGSA engagement manager and the pre-issuance reviewer are resolved by following the AGSA's difference-of-opinion process.

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- 11.4 All differences of opinion are resolved prior to signing the final auditor's report.
- 11.5 The AGSA's difference-of-opinion resolution process is illustrated in Appendix 3 of this Revised Guide.

**12. REPORTING**

**Timelines**

- 12.1 The AGSA engagement manager shall communicate timelines, based on the AGSA milestones, to the engagement partner prior to the commencement of the audit engagement. If the dates change in the cycle, it is the responsibility of the AGSA engagement manager to communicate these changes to the engagement partner.
- 12.2 For further guidance on legislated dates, refer to the *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)*.

**Management Report**

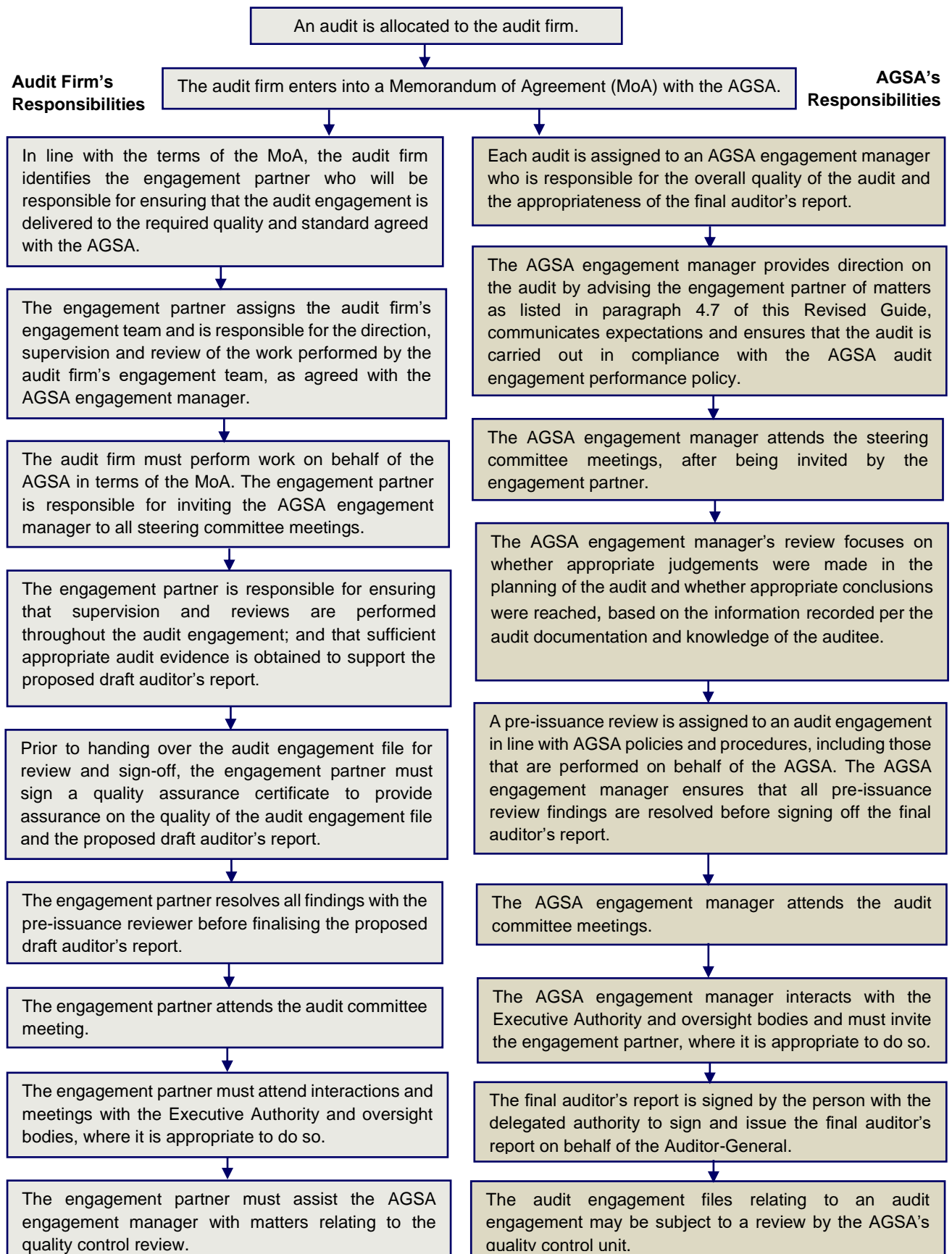
- 12.3 To facilitate further reporting by the AGSA, the engagement partner must provide the proposed draft management report to the AGSA engagement manager. In addition, to facilitate the provision of a portfolio overview to the Executive Authority, the engagement partner must use the AGSA's management report template. The proposed draft management report may only be discussed with the auditee once the AGSA engagement manager has approved it for discussion.
- 12.4 The management report template should not be deviated from, except for minor editorial changes or in exceptional circumstances where the changes have been agreed to by the AGSA engagement manager (after consulting internally within the AGSA). The final management's report is signed by the person with the delegated authority to sign and issue the auditor's report on behalf of the Auditor-General.

**Auditor's Report**

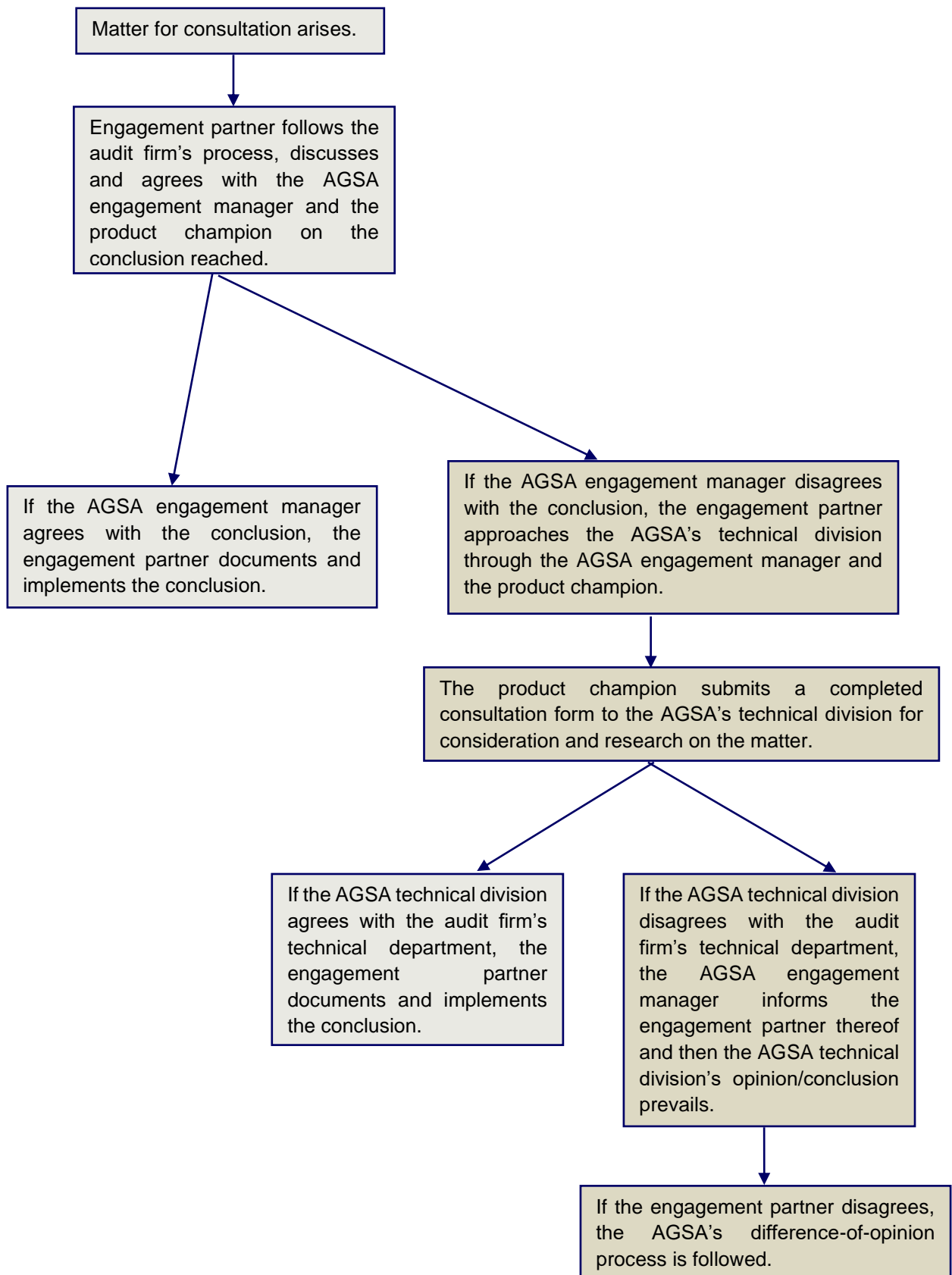
- 12.5 The engagement partner must prepare the auditor's report in the format prescribed by the AGSA in its Reporting Guide and templates issued therewith. The prescribed format and content of the auditor's report must not be deviated from, except for minor editorial changes or in exceptional circumstances where changes have been agreed to by the AGSA engagement manager (after consulting internally within the AGSA).
- 12.6 The proposed draft auditor's report may only be discussed with the auditee once the person with the delegated authority to sign and issue the final auditor's report on behalf of the Auditor-General has approved it for discussion.
- 12.7 The engagement partner completes his/her review of the proposed draft auditor's report before submission to the AGSA engagement manager. The engagement partner also evidences the review and approval of the proposed draft auditor's report by signing off on the electronic file. The final auditor's report is signed by the person with the delegated authority to sign and issue the final auditor's report on behalf of the Auditor-General.

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**APPENDIX 1: A SUMMARISED VIEW OF THE RELATIONSHIP STRUCTURE  
WHERE AUDIT ENGAGEMENTS ARE PERFORMED ON BEHALF OF THE AGSA**



## APPENDIX 2: CONSULTATION PROCESS WITHIN AND OUTSIDE THE AGSA



APPENDIX 3: DIAGRAM ON THE AGSA'S DIFFERENCE-OF-OPINION PROCESS

