

Guide
August 2015



Guide for Registered Auditors

**GUIDANCE ON PERFORMING AUDITS WHERE THE
AGSA HAS OPTED NOT TO PERFORM THE AUDIT**

MESSAGE BY THE CHIEF EXECUTIVE OFFICER OF THE IRBA

The mandate of the IRBA is to protect the public interest through issuing high quality auditing standards and guidance to auditors. The public interest is best served when audit quality is achieved in both the private and the public sectors, which in turn enhances confidence in the financial markets, stimulates investment, transformation and employment opportunities in the South African economy.

I am pleased with the continued collaboration between the IRBA and the Auditor-General to develop guidance that supports registered auditors performing audits in the public sector, which will ultimately improve governance and financial management in the public interest.

The IRBA regards the Auditor-General as an important stakeholder in the public sector financial reporting and governance framework, as well as in the auditing profession. We are confident that the co-operation with the Auditor-General on the current and future initiatives will benefit the public, government and our country.

Bernard Peter Agulhas

This Guide for Registered Auditors: *Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit* was prepared by the Public Sector Standing Committee of the Committee for Auditing Standards (CFAS) comprising representatives of large, medium and small audit practices and the Auditor-General of South Africa (AGSA). This Guide was approved by the Independent Regulatory Board for Auditors (IRBA) in June 2015 for issue by way of joint publication with the AGSA for the purpose of improving the understanding of and enhancing the quality of public sector audits by registered auditors in public practice (registered with the IRBA), who perform public sector audit engagements that the AGSA has opted not to audit.

Guidance is provided to registered auditors who are appointed to audit public entities or institutions which the AGSA has opted not to audit, including the audit of the financial statements in accordance with International Standards on Auditing (ISAs), the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA).

This Guide addresses the following matters:

- The roles and responsibilities of the audit firm and the appointment and discharge of audit firms;
- The auditing standards and ethical requirements to be complied with and the technical consultation process;
- Communication between the auditor, the AGSA, the auditee, the executive authority and oversight bodies; and
- Reporting.

Guide for Registered Auditors: *Guidance on Performing Audits where the AGSA has opted not to Perform the Audit* may be downloaded free of charge from the IRBA website: www.irba.co.za and the AGSA website: www.agsa.co.za.

Copyright © August 2015 by the Independent Regulatory Board for Auditors (IRBA), all rights reserved. Permission is granted to make copies of this work provided that such copies, in whichever format, are for the purpose of registered auditors discharging their professional duties, for use in academic classrooms or for personal use and provided such copies are not sold for income and provided further that each copy bears the following credit line:

Copyright © by the Independent Regulatory Board for Auditors. All rights reserved. Used with permission of the IRBA. Otherwise, written permission from the IRBA is required to reproduce, store or transmit this document except as permitted by law.

CONTENTS

GUIDE FOR REGISTERED AUDITORS PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT

(Effective for engagements commencing on or after 1 September 2015)

Contents	Page
MESSAGE BY THE CHIEF EXECUTIVE OFFICER OF THE IRBA	2
1. INTRODUCTION.....	5
2. DEFINITIONS	5
3. ROLE AND RESPONSIBILITIES OF THE AUDIT FIRM	6
4. APPOINTMENT AND DISCHARGE OF AUDITORS.....	6
5. REQUEST FOR ADDITIONAL INFORMATION	7
6. AUDITING STANDARDS	7
7. COMMUNICATION	9
8. REPORTING.....	10
9. OTHER REQUIREMENTS.....	10
APPENDIX 1: SCHEMATIC ILLUSTRATION OF THE AUDITEE, AUDIT FIRM AND AGSA RELATIONSHIP	11
APPENDIX 2: SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS	12
APPENDIX 3: SCHEMATIC ILLUSTRATION OF THE DISCHARGE OF AN AUDITOR.	13

This Guide for Registered Auditors: *Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit* provides guidance to registered auditors who are appointed to audit public entities or institutions which the AGSA has opted not to audit, including the audit of the financial statements in accordance with International Standards on Auditing (ISAs), the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act, (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 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 apply the requirements of the particular International or South African Standard/s to which the Guide relates properly.

In terms of section 1 of the Auditing Profession Act, No 26 of 2005 (the Act), a Guide is included in the definition of "auditing pronouncements" and in terms of the Act, 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.

1. INTRODUCTION

- 1.1 This Guide provides guidance for registered auditors to audit public sector which the AGSA has opted not to audit, including the audit of the financial statements in accordance with International Standards on Auditing (ISAs), the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the PAA. The registered auditor has overall responsibility for these audits and signs the auditor's report.
- 1.2 Auditors are also referred to the *Guidance for auditing in the public sector Volume 1: Auditing in the public sector and Audit of predetermined objectives*¹ in this regard.
- 1.3 Engagements where audits are performed on behalf of the AGSA are dealt with in the *Guide for Registered Auditors: Guidance on Performing audits on behalf of the AGSA*.
- 1.4 The AGSA, the audit firm and the auditee have different roles and responsibilities where the AGSA has opted not to perform an audit in terms of section 4(3) of the PAA. Appendix 1 provides a diagrammatic explanation of this relationship.

2. DEFINITIONS

Audit firm:	A firm of registered auditors engaged in public practice as Registered Auditors, appointed by an auditee which the AGSA opted not to audit. "Audit firm" has the same meaning as "firm" as defined in the IRBA <i>Code of Professional Conduct for Registered Auditors</i> .
Audit partner:	The partner in the audit firm who is responsible for the engagement and its performance and who signs the auditor's report.
Registered auditor:	An individual or firm registered as an auditor with the IRBA.
Senior manager (SM):	The contact person in each AGSA audit business unit responsible for the audit of the controlling department to which the section 4(3) auditee reports.
Product champion (PC):	The person in each audit business unit within the AGSA who is responsible for dealing with technical matters within the business unit.
Controlling department:	The department which the trading entity or public entity reports to or is controlled by.
Executive Authority	The Executive Authority as defined by the PFMA.

¹ The guide can be downloaded from the IRBA website www.irba.co.za.

3. ROLE AND RESPONSIBILITIES OF THE AUDIT FIRM

- 3.1 The appointed audit firm performs its functions as auditor in terms of the Auditing Profession Act, Act No. 26 of 2005 (APA) and the PAA. The audit firm has the same general auditing powers as assigned to the AGSA in terms of section 15 of the PAA.
- 3.2 A directive is issued by the Auditor-General (hereafter referred to as the AG Directive)² in terms of sections 2(b) and 13(3)(b) of the PAA and prescribes and explains certain matters related to public sector audits. The AG Directive is updated from time to time.

4. APPOINTMENT AND DISCHARGE OF AUDITORS

Appointment of auditors

- 4.1 In terms of section 25(1) of the PAA, the AGSA notifies the auditee before the start of the auditee's financial year of its decision not to perform the audit. In practice the AGSA will notify the auditee six months prior to the start of the auditee's financial year if it has changed its decision.
- 4.2 If the AGSA has opted not to perform the audit, the auditee appoints an audit firm registered with the IRBA to perform the audit.
- 4.3 Before appointing an auditor, the auditee notifies the AGSA of the suggested appointment, including information on the anticipated extent that other services will be provided during the period of the appointment, as well as previous involvement with the auditee. The legislative requirements relating to the auditee are also taken into consideration by the AGSA before consent is provided. The AGSA may consult with the responsible executive authority on the appointment of the audit firm.
- 4.4 The AGSA consents to the auditee's appointment of the registered auditor within 14 calendar days of receiving the notice, or a longer period as agreed. If no response is received, it can be assumed that the AGSA is in agreement with the appointment.
- 4.5 If the suggested appointment is not accepted by the AGSA, the auditee has to repeat the process in 4.3.
- 4.6 In terms of the PAA, appointments may not be made for periods exceeding one financial year of the auditee.
- 4.7 The auditee may not appoint alternative auditors if the AGSA has opted to perform the audit or if auditee-specific legislation prescribes that the audit be conducted by the AGSA.
- 4.8 Refer to appendix 2 for a schematic illustration of the appointment process.

² The AG Directive can be downloaded from the AGSA website www.agsa.co.za.

Discharge of auditors

- 4.9 In terms of section 26(1) of the PAA, an auditee may discharge an auditor before the term of appointment expires with the consent of the AGSA and the relevant executive authority, where applicable.
- 4.10 Before discharging the auditor, the auditee provides the auditor with:
- A written notice setting out the reasons for the discharge; and
 - An opportunity to make written representations to the AGSA within 20 days of receipt of the notice.
- 4.11 The auditee at the same time notifies the AGSA of its intention to discharge the appointed auditor by completing the checklist included in the AG Directive and submitting it to the SM.
- 4.12 The AGSA considers the notice and communicates its consent or otherwise to the auditee after written representations from the auditor have been considered, if applicable. The AGSA may consult with the relevant executive authority on this matter.
- 4.13 The AGSA reports any discharge of an audit firm to the relevant legislature.
- 4.14 Refer to appendix 3 for a schematic illustration of the discharge of auditors' process.

5. REQUEST FOR ADDITIONAL INFORMATION

- 5.1 In terms of section 27(5) of the PAA, the AGSA may request the audit firm to submit any information regarding the audit. Such information will be communicated by the SM responsible for the controlling department. It is recommended that audit firms include this matter in their engagement letter with the auditee.
- 5.2 In addition, in terms of the requirements of section 28(3)(c) of the PAA and in order to facilitate reporting on the full ministerial portfolio, and reporting and analysis by the AGSA, the audit firm furnishes the SM, either in hard copy or electronically, with the following as soon as the annual report has been finalised but not later than five months after the financial year-end or as otherwise agreed with the SM:
- A copy of the auditor's report, together with a copy of the audited financial statements;
 - Three copies of the annual report; and
 - The completed monitoring checklist in terms of the AG Directive.

6. AUDITING STANDARDS

- 6.1 Registered auditors perform audits in accordance with the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and relevant auditing pronouncements

developed and issued by the IRBA, and must comply with the *IRBA Code of Professional Conduct for Registered Auditors*.

- 6.2 In addition, audit firms take into consideration the principles contained in the following which have been incorporated into the AGSA guidance:
- International Standards of Supreme Audit Institutions (ISSAIs); and
 - INTOSAI Guidance for Good Governance.
- 6.3 It is recommended that audit firms include this matter in their engagement letter with the auditee.

Provision of the AGSA's technical information

- 6.4 In terms of section 27(3) of the PAA, an auditor may consult the AGSA regarding matters relating to the audit. Consultation first takes place within the audit firm, where a decision is then made to consult with the AGSA. This is done in the following manner:

- A written consultation form is prepared using the AGSA's format.
- The consultation form is submitted to the SM of the controlling department who, in turn, submits it to the AGSA's technical division via the PC.
- The consultation is accompanied by the technical opinion of the audit firm.
- The audit firm may not provide the AGSA's consultation response to the auditee.

It is recommended that audit firms include this matter in their engagement letter with the auditee.

- 6.5 The responsible SM provides the audit firm with technical guidance published by the AGSA to enable the audit firm to perform the audit of predetermined objectives, the audit of compliance with legislation, and procedures regarding the AGSA focus areas as well as to report in terms of section 28 of the PAA.

Auditing of performance against predetermined objectives

- 6.6 In terms of section 28(1)(c) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's performance against predetermined objectives. The manner in which this is achieved is described in the AG Directive. The audit of performance against predetermined objectives is performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The criteria used for the audit of the performance report is developed from the applicable *Performance management and reporting framework*. AGSA guidance on the audit of predetermined objectives is available to audit firms.

Auditing of compliance with applicable legislation

- 6.7 In terms of section 28(1)(b) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's compliance with any applicable legislation relating to

financial matters, financial management and other related matters. The manner in which this is achieved is described in the AG Directive. The audit of compliance with legislation should be performed in accordance with the principles in the applicable International Standards of Supreme Audit Institutions (ISSAIs) and ISAE 3000 (Revised). AGSA guidance on the audit of compliance with legislation is available to audit firms.

Internal control

- 6.8 The AGSA identifies and communicates the root cause of internal control deficiencies that resulted in the material audit findings from the audit of the financial statements, predetermined objectives and compliance with legislation. The AGSA guidance in this regard is available to audit firms.

Focus areas

- 6.9 The AGSA from time to time identifies specific focus areas based on its annual risk assessment. In order for the AGSA to report on these matters for the relevant portfolio as a whole, the audit firm is advised of the specific focus areas. The audit firm informs the auditee of the additional audit procedures to be performed, which are an extension of those that form part of the audit process.
- 6.10 It is recommended that audit firms include this matter in their engagement letter with the auditee.

7. COMMUNICATION

Audit committee meetings

- 7.1 When the audit firm attends audit committee meetings the responsible SM is invited to accompany the audit firm to such meetings.

Interactions and meetings with the executive authority and oversight bodies

- 7.2 The AGSA interacts proactively with the executive authority and oversight bodies such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and to enhance public governance.
- 7.3 The SM facilitates meetings with the executive authority as well as portfolio committees meetings to which the audit firm is invited. The audit firm provides the SM with relevant information for such meetings.
- 7.4 It is recommended that audit firms include this matter in their engagement letter with the auditee.

8. REPORTING

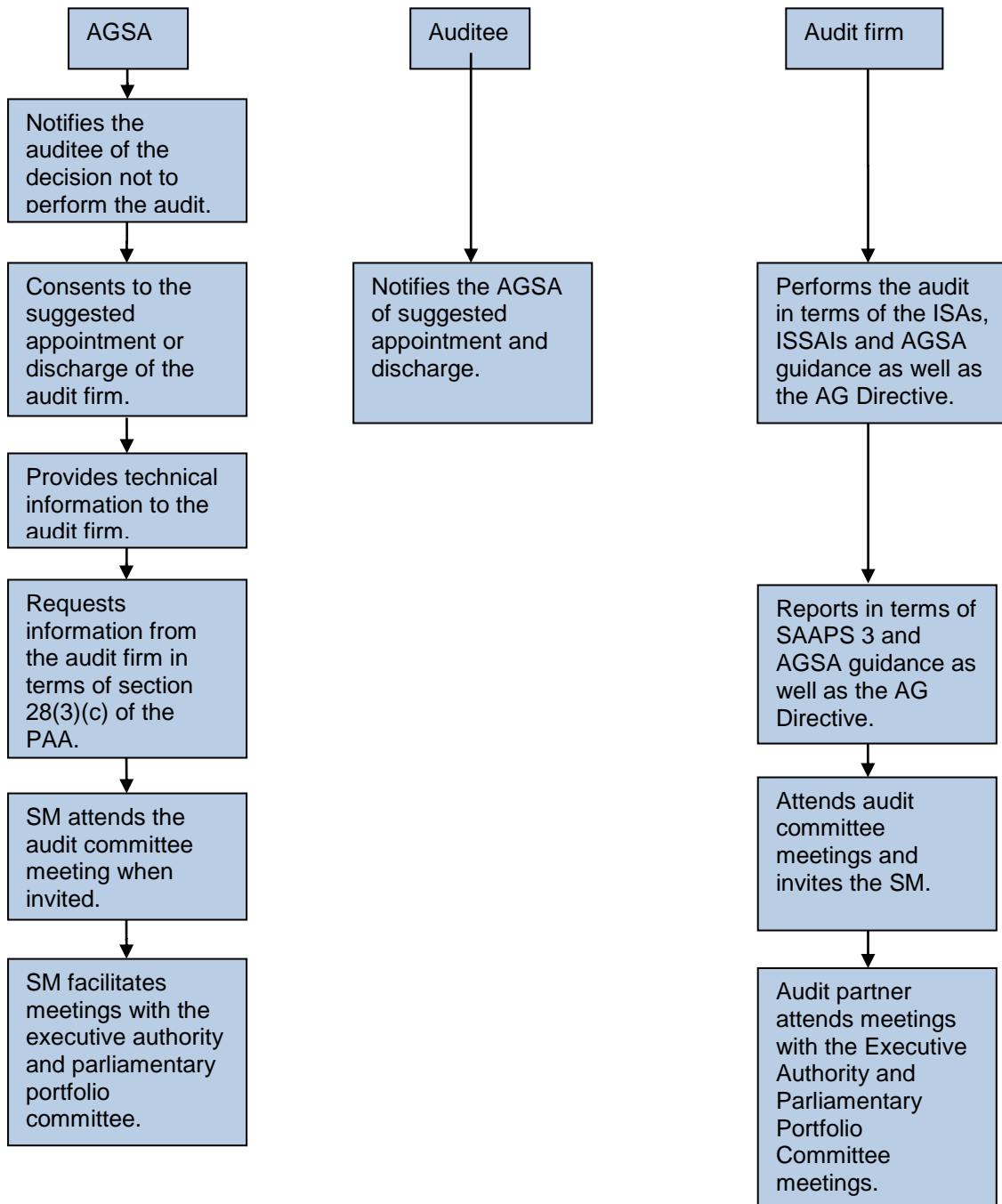
- 8.1 Audit firms prepare the auditor's report in the format for public sector reports as contained in South African Auditing Practice Statement (SAAPS) 3 (Revised November 2013): *Illustrative reports*, R3: Reporting guide and any other guidance that may be published by the AGSA from time to time. The prescribed format and content of the audit report may not be deviated from.
- 8.2 In order to facilitate the provision of a portfolio overview to the executive authority, it is recommended that the audit firm use the AGSA's management report template for communication with the auditee on completion of the audit.

9. OTHER REQUIREMENTS

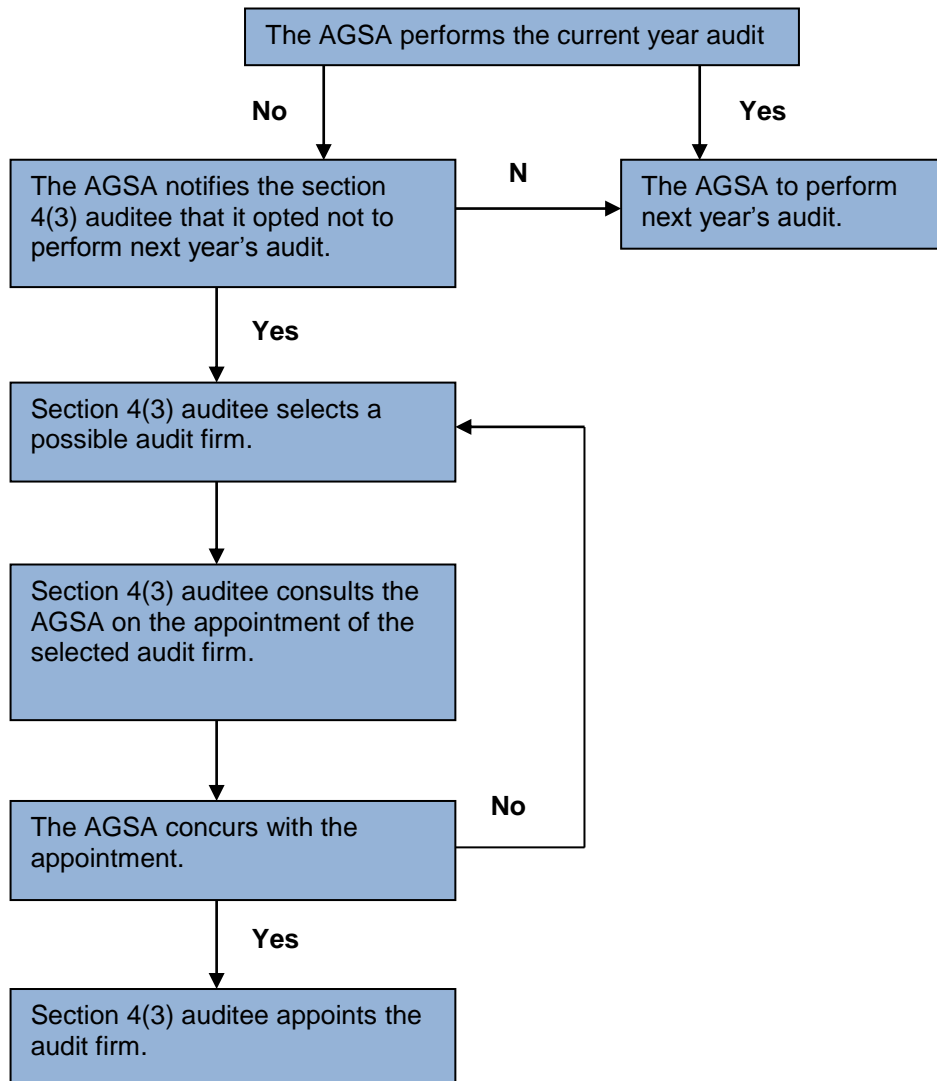
Complaints against audit firms

- 9.1 Should a registered auditor appointed in terms of section 25(1)(b) of the PAA be found to be in contravention of the requirements of the AG Directive or any provision of the PAA, the APA or any other act with which it is his/her duty to comply in his/her capacity as a registered auditor, the AGSA may lodge a complaint of improper conduct against such auditor with the IRBA after discussion with the audit firm involved.
- 9.2 In addition, a complaint of improper conduct may be lodged with the IRBA against a registered auditor appointed in terms of section 25(1)(b) of the PAA if it comes to the attention of the AGSA that the auditor had conducted him/herself in a manner that is improper, discreditable, unprofessional, dishonourable or unworthy or which brings the auditing profession into disrepute.

APPENDIX 1: SCHEMATIC ILLUSTRATION OF THE AUDITEE, AUDIT FIRM AND AGSA RELATIONSHIP



APPENDIX 2: SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS



APPENDIX 3: SCHEMATIC ILLUSTRATION OF THE DISCHARGE OF AN AUDITOR

