



PUBLIC INSPECTIONS REPORT

2016

ABOUT THE IRBA

Mandated by the Auditing Profession Act, 2005 (Act 26 of 2005), as amended, the objective of the IRBA is to endeavour to protect the financial interests of the South African public and international investors in South Africa through the effective and appropriate regulation of audits conducted by registered auditors, in accordance with internationally recognised standards and processes.

DISCLAIMER

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1. INTRODUCTION

The Independent Regulatory Board for Auditors (IRBA) performs inspections on selected firms to evaluate the design and effectiveness of their quality control policies and procedures, including their performance on a selection of assurance engagements.

The objective of this report is to promote sustainable high audit quality by providing an analysis of key findings arising from firm and assurance engagement inspections performed for the financial year ended 31 March 2016. The report is not only aimed at auditors, but also other financial stakeholders, such as audit committees, investors, company directors and chartered accountants, to assist them in their respective roles by encouraging robust discussion around matters affecting audit quality. The report also includes an overview of the scope of the IRBA's inspections and the inspections process.

The 31st of March 2016 marked the end of the first year of the IRBA's sixth inspections cycle, with 20 (2015: 37) selected firm inspections and 237 (2015: 368) selected assurance engagement inspections performed and reported to the Inspections Committee. The majority of selected inspections showed one or more significant findings, with 15% of firms and 14% of engagement partners being referred by the Inspections Committee for investigation by the IRBA's Investigating Committee. There was an overall regression in the inspection results compared to the previous year. However, the inspection results should be interpreted with caution. The IRBA focuses its inspections on higher-risk audit areas or areas where deficiencies could potentially create risks to the public, if not appropriately responded to by the auditor. The risk-based approach is not intended to select a representative statistical sample of all audit work, and the inspection results can therefore not be extrapolated across the entire auditor population.

Key quality control areas at firm level that require improvement are ethical requirements, including independence, engagement performance and engagement monitoring. The misalignment of firm methodologies to the standards and lack of demonstrating an appropriate level of professional scepticism are also prevailing areas of concern. At engagement level, there is a continuing trend of a lack of sufficient appropriate evidence being documented on the audit file by engagement partners

to support their professional judgements and conclusions. This includes insufficient documented evidence of robustly challenging management's assumptions and representations on, for example, property plant and equipment; investment property; financial assets and liabilities; financial statement presentation and disclosure; inventory; fair value measurements; valuations; and estimates. Prevalent areas in the audit process that require improvement comprise risk assessment and response, including fraud risk; revenue and income testing; internal control testing; and the appropriateness of the audit/assurance reports.

In the sixth inspections cycle the IRBA continued to evolve its risk-based selection of firms, engagement partners and engagements for inspection based on a more robust and sophisticated analysis of relevant risk-factors and business intelligence, including financial reporting reviews. The reduction in the number of inspections performed this year is a direct result of the implementation of the sixth cycle risk-based scope for inspections. The IRBA, having expanded its capacity and expertise, focused more of its attention and resources on auditors of entities where there is a greater element of public interest impact and risk. The size and complexity of these audits demanded more time and resources than before, which resulted in fewer but more in-depth inspections being performed, in alignment with the IRBA's objective to set quality before quantity. This is evidenced by the fact that, although fewer inspections were performed compared to the previous year, there was a 41% increase in the number of significant findings raised on engagement inspections.

One of the objectives of the IRBA is to promote continuous improvement in audit quality and investor confidence by actively encouraging auditors to constructively buy into the regulatory monitoring process and take responsibility for audit quality in their firms. The IRBA's Remedial Action Process is an initiative to promote the audit firms' internal processes of continuous improvement by prompting corrective action on external inspection findings. Quality control standards require firms to evaluate, communicate and remediate deficiencies identified through their monitoring processes, which do not always adequately incorporate external inspection findings. The IRBA has actively engaged with 136 (72%) auditors that received an unsatisfactory inspection result this financial year.

After assessing the root cause analyses and action plans submitted by auditors, it became apparent that there is a significant misunderstanding of what constitutes a root cause. Auditors are therefore encouraged to identify the real underlying reasons that could have resulted in inspection findings and to address the causes rather than the symptoms in order to strengthen audit quality on all their audits.

The IRBA is committed to its initiatives with the auditors and relevant stakeholders, internationally and locally, in promoting high audit quality. The IRBA also encourages auditors to communicate with their clients and audit committees, and to be transparent with their inspection results. Audit committees need audit quality indicators such as monitoring results to effectively exercise their oversight responsibilities.

The IRBA will continue to focus its inspections on risk factors impacting the quality of audits in terms of its risk-based approach, including financial reporting reviews. As a world-class regulator, the IRBA continues to assess and implement appropriate reforms in our jurisdiction, where deemed necessary. There will be a heightened focus on the auditor's compliance against standards, such as the new and revised Auditor Reporting Standards, practice statements and authoritative guides issued by the IRBA. Auditors are encouraged to study all publications and information on the IRBA website in order to remain up to date with all the latest regulatory requirements.

2. KEY INSPECTION OUTCOMES

2.1 INTRODUCTION

In this section we provide an analysis of identified findings of firms and individual auditors' assurance engagements inspected in the 2016 financial year, and highlight the key inspection outcomes arising and other matters that we wish to draw to the attention of stakeholders.

We emphasise that the risk-based methodology for selecting engagement files for inspection is not intended to select a representative sample of a firm's audit work. Instead, it is biased towards higher-risk audit areas and specific risk indicators. This means any deficiencies in these areas could potentially create risks to the public, if not identified and appropriately responded to by the auditor. The risk-based approach also assists the IRBA to focus on those identified areas where deficiencies are likely. Inspection results can therefore not be extrapolated across the entire audit population and the inspection results in any one year should not necessarily be considered in isolation.

An assessment that an audit is unsatisfactory does not necessarily mean that an inappropriate audit opinion was expressed, or that the financial statements were misstated, or that there was misconduct on the part of the firm or the auditor. Our inspections are confined to a sample of assurance engagements undertaken by the auditors and our findings are therefore not necessarily exhaustive. Inspection results should not be seen as

a guarantee of future audit quality, as auditors have a responsibility to continually update their competence and remain competent throughout their professional lives.

The findings reported below do not include low-risk findings, but include only significant findings that were formally reported on, resulting in an overall unsatisfactory inspection outcome. *(Refer to the Inspections Process on the IRBA website, www.irba.co.za, for the definition of inspection findings.)* High- and medium-risk findings are regarded as significant findings/deficiencies, for purposes of this report. Unsatisfactory inspections that are referred for investigation reflect fundamental deficiencies, whereas unsatisfactory re-inspections are subject to the remediation process to drive improvement in the quality of audits performed by the auditors concerned.

The report also reflects on the inspection results of larger and smaller firms. For purposes of this report, larger firms are audit firms that audit listed entities. Smaller firms are audit firms that do not audit listed entities.

This year, our firm inspections focused mainly on the International Standard on Quality Control (ISQC 1) elements of Leadership Responsibilities; Ethical Requirements, including Independence; Engagement Performance; and Monitoring.

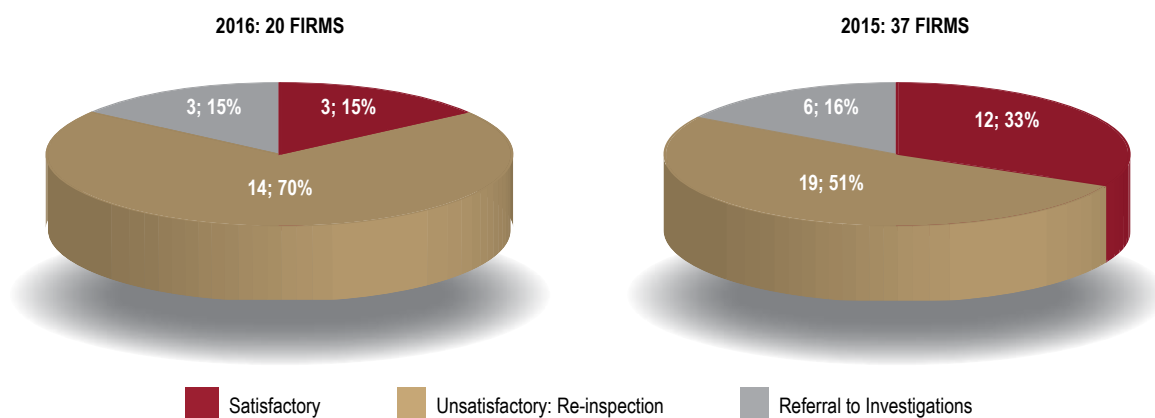


Diagram 1: Overall firm inspection results for 2016 and 2015

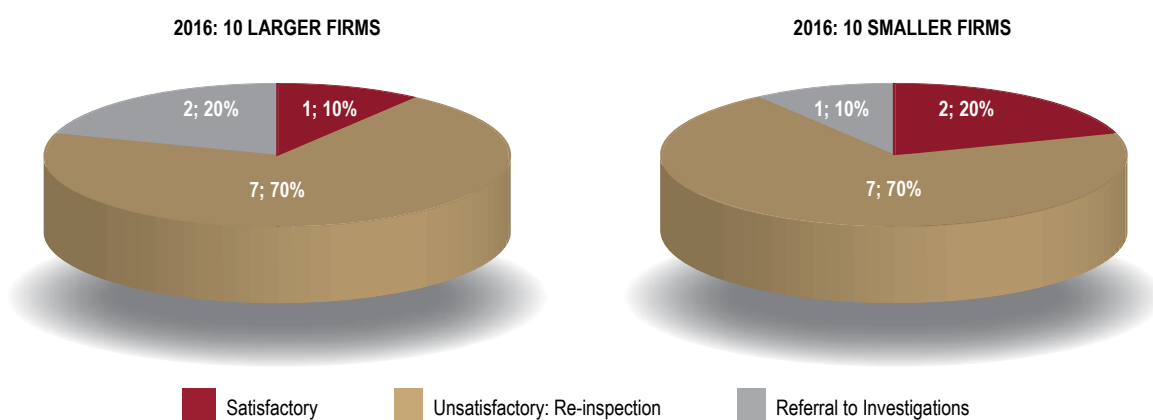


Diagram 2: Firm inspection results of larger vs smaller firms for 2016

2.2 KEY FINDINGS – FIRM WIDE

2.2.1 Overview

During the 2016 financial year, 20 (2015: 37) selected firm inspection reports were presented to the Inspections Committee. The majority of these firms showed one or more significant finding during inspection. There is an overall regression in the overall results compared to the previous year.

The key inspection findings below were formally reported to inspected firms during the year. The following graph provides a breakdown of the number of inspected firms with at least one significant inspection finding, presented per element of ISQC 1, which resulted in an unsatisfactory overall outcome.

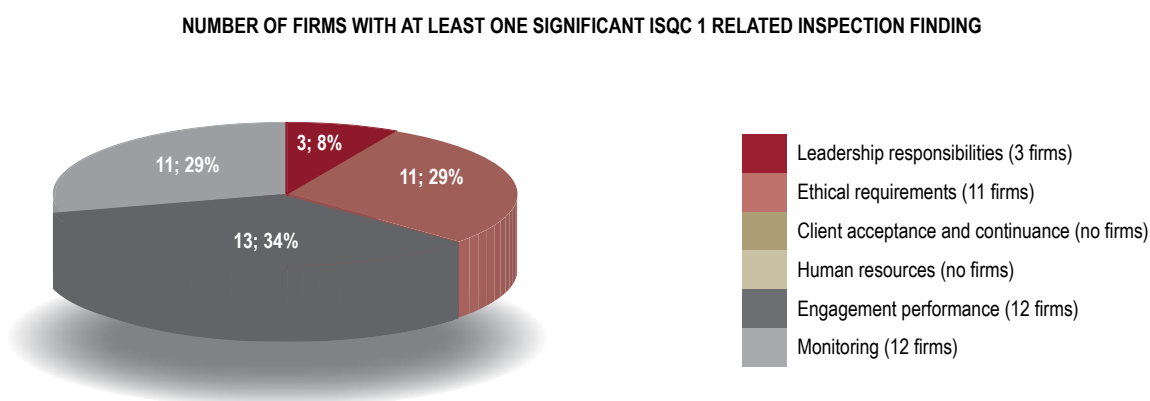


Diagram 3 – Number of firms with at least one significant ISQC 1 related inspection finding

Key Findings

The following graph compares the number of larger and smaller firms with at least one significant ISQC 1 related inspection finding that resulted in an unsatisfactory overall outcome. There were no specific findings in the elements of Human Resources as well as Acceptance and Continuance since these elements were not specifically focused on this year.

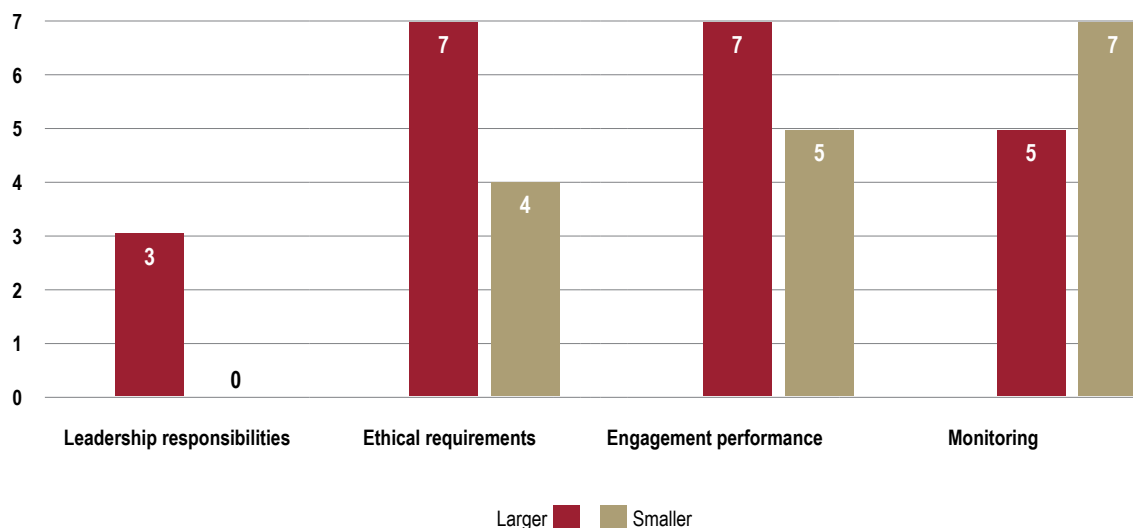


Diagram 4: Larger vs smaller firms with at least one significant ISQC 1 related inspection finding

Below are examples of significant findings identified during firm inspections, and these are presented per element of ISQC 1 in no particular order of importance.

2.2.2 Leadership Responsibilities for Quality within the Firm

The firm is required to establish policies and procedures designed to promote an internal culture that recognises quality as essential when performing engagements. Such policies and procedures require the firm's chief executive officer or board of partners (or equivalent) to assume ultimate responsibility for the firm's system of quality control (ISQC 1.18). Leadership plays a crucial role in addressing deficiencies in the other elements as well as in driving remedial action and audit quality within the firm.

Although there are not many reported findings on the leadership element of ISQC 1, the significant findings reported in the other elements in this report have a direct bearing on leadership's tone at the top of driving a culture of high audit quality within the firm.

Examples of findings

- **System of quality control:** There is a real risk that the firm may appear to obtain reasonable assurance from its monitoring processes, but the risk-based selection and external regulatory inspection of selected assurance engagements identify engagements with

significant findings, which were either not selected and/or identified through the firm's internal quality control processes. This should prompt leadership to strengthen the firm's quality control policies and procedures to avoid or reduce the risk of possible undetected audit deficiencies. (ISQC 1.18; 32, A4)

Example of a finding: In the previous year firm inspection, the IRBA selected a sample of assurance engagements for inspection as part of the ISQC 1 firm inspection. Significant risk findings were raised on the majority of these engagements. In the following year, the IRBA selected another sample of engagements for inspection as part of the ISQC 1 firm inspection. The findings were discussed with the responsible engagement partners. Significant risk findings were again raised on a majority of these engagements. This casts significant doubt on the effectiveness of the firm's system of quality control to provide leadership with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partners issue reports that are appropriate in the circumstances.

- **Appointment of directors:** Certain individuals were appointed as directors of the firm, even though at the time of appointment these individuals were not registered auditors (RAs), and at the time of

the firm inspection they were still not registered. Certain individuals were reflected as directors on the letterhead of the firm, thereby creating the impression that they are RAs.

In terms of the Auditing Profession Act (APA) 2005, Act 26 of 2005, only individuals registered as RAs with the IRBA may be members of a firm and share in any profits derived from performing an audit. In terms of Section 41(2) of the APA no person may pretend to be or hold out in any manner to be an RA, if they are not registered as such with the IRBA. Individuals “holding out” to be RAs are guilty of an offence in terms of Section 54 of the APA. All the directors of the firm and the firm assisting such individuals to hold out as RAs, commonly referred to as “assisted holding out”, are guilty of an offence in terms of Section 54 of the APA and in contravention of the Rules of Improper Conduct 2.1 and 2.17.

2.2.3 Relevant Ethical Requirements, including Independence

The firm is required to establish policies and procedures to provide reasonable assurance that it, including its personnel, will comply with the relevant ethical and independence requirements. (ISQC 1.20)

Examples of findings

- **Reportable irregularities:** The IRBA selected a sample of possible reportable irregularities identified by the firm to test the firm’s compliance with the requirements of Section 45 of the APA. This is in terms of the fundamental principle of Professional Conduct per the IRBA Code of Professional Conduct (IRBA Code) that requires registered auditors to comply with relevant laws and regulations and avoid any action that discredits the auditing profession. The IRBA noted the following types of findings at a significant number of firms:
 - o Reportable irregularities were identified on 48 voluntary audits that were not reported to the IRBA.
 - o The second letter for a number of reportable irregularities was not submitted to the Board within 30 days, in accordance with Section 45(3).
 - o A number of reportable irregularities, as per the

IRBA’s schedule, did not appear on the firm’s control schedule of reportable irregularities.

- o Although the second report was received on time, there was no documented conclusion contained in the letter.
- o There were no documented considerations of whether the non-compliance identified constituted a reportable irregularity or not.
- **Section 90(2) of the Companies Act, No. 71 of 2008 (Companies Act):** Numerous contraventions of Section 90(2) of the Companies Act were identified, especially where firms implemented inappropriate network structures or practices to continue providing prohibited services to their audit clients. Some examples of findings include:
 - o Y (Pty) Ltd prepared the annual financial statements for certain companies that were audited by the firm. Y (Pty) Ltd appears to fall within the definition of a network firm, in terms of paragraphs 290.13-24 of the IRBA Code. The financial statements of these companies do not state that Y (Pty) Ltd prepared the annual financial statements; however, working papers in the audit files indicate that the annual financial statements were drafted or prepared by Y (Pty) Ltd. This was also raised at file level with the engagement partners concerned, and they acknowledged that the annual financial statements were prepared by Y (Pty) Ltd.
 - o The firm’s policy stated: *“Where we provide any accounting services resulting in the preparation of financial statements, this will now be performed in the name of Xyz CC. Where we have compiled the financial statements, the name of Xyz CC will therefore be displayed as the compiler of the set of financial statements as required by the Companies Act.”*

The firm policy states that the firm will use what appears to be a network firm to perform accounting services to audit clients, and the following came to our attention during the inspection, resulting in a possible contravention of Section 90(2):

 - The entity has the same physical address as the audit firm.

- The member of the entity has a firm e-mail address.
 - The accounting officer of the entity is the firm.
- o It was noted that the company secretary of two inspected engagement files is W (Pty) Ltd. The physical address is exactly the same as the audit firm's physical address. W (Pty) Ltd could meet the definition of a network firm, which is a contravention of Section 90(2) of the Companies Act and the IRBA Code. No documented identification or consideration of the possible non-compliance by the firm quality control processes could be found.

(Refer to the engagement section in this report for similar examples of findings raised at engagement level.)

- **Trusteeships:** There were a number of instances where a director of the firm is a trustee of a trust where another director or the same director of the firm audits the entities where the trust holds an interest. In terms of the IRBA Code this relationship is prohibited when all four conditions of paragraph 290.114 of the IRBA Code are not met. In most instances the interest in the audit client held by the trust is material to the trust, e.g. 100% ownership. The IRBA will raise a significant risk finding if it is found that not all four conditions have been met.
- **Policies and procedures:** Certain instances were found where the firm has not adopted the IRBA Code or the firm's policies make reference to the International Federation of Accountants (IFAC) Code instead of the IRBA Code, which is specific to South Africa and more stringent.

Paragraph 100.1 in the IRBA Code states: "A distinguishing mark of the auditing profession is its acceptance of the responsibility to act in the public interest. Therefore, a registered auditor's responsibility is not exclusively to satisfy the needs of an individual client. In acting in the public interest, a registered auditor shall observe and comply with this Code."

- **Partner rotation:** Although the firm's policy requires the rotation of the engagement partner on the audits

of listed entities, the firm's policy was not updated to reflect the partner rotation requirements of the IRBA Code for all public interest entities as well as Section 92 of the Companies Act.

- **Independence:** The firm did not monitor its personnel's independence declarations. (ISQC 1.23; 24)

2.2.4 Acceptance and Continuance of Client Relationships and Specific Engagements

The firm is required to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements designed to provide it with reasonable assurance that it will only undertake or continue engagements it is competent and capable to perform, including time and resources. It is also required to show it can comply with the relevant ethical requirements, has considered the client's integrity and does not have information that would lead it to conclude that the client lacks integrity. (ISQC 1.26)

Although no significant findings were specifically raised on client acceptance and continuance this year due to it not being a specific focus area, a number of significant findings in other areas raised doubt whether the firm indeed considered the capabilities, available resources and time to perform a high-quality audit, or to assess the integrity of the client before accepting a new or continuing with an audit client engagement. *(Refer to the Root Cause Analyses section of this report where a significant number of auditors identified deficiencies in capabilities, available resources and time as possible underlying reasons for the significant findings raised by the IRBA.)*

2.2.5 Human Resources

The firm is required to establish policies and procedures designed to provide reasonable assurance that it has sufficient personnel with appropriate technical competence, capabilities and commitment to ethical principles to perform engagements in accordance with professional standards and applicable legal and regulatory requirements that will enable the firm or the engagement partner to issue reports that are appropriate in the circumstances. (ISQC 1.29)

Although no significant findings were raised on human resources this year, certain low-risk matters were reported to a number of firms on areas such as, not allowing sufficient time for staff training, frequently not charging

actual time and incomplete filing of personnel records. *(Refer to the Root Cause Analyses section of this report where a significant number of auditors identified certain deficiencies that are linked to human resources as possible underlying reasons for significant findings that were raised.)*

ISQC 1 in paragraph 29 states: *“The firm shall establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities, and commitment to ethical principles necessary to:*

- a) Perform engagements in accordance with professional standards and applicable legal and regulatory requirements; and*
- b) Enable the firm or engagement partners to issue reports that are appropriate in the circumstances (Reference Paragraph A24–A29).”*

Effective recruitment processes and procedures can help the firm select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the firm’s work and who possess the appropriate characteristics to enable them to perform competently. (ISQC 1.A24)

SAICA accredits and monitors auditing firms in terms of its Training Office and Training Officer processes.

2.2.6 Engagement Performance

The firm is required to establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards as well as applicable legal and regulatory requirements, and that the firm’s engagement partners issue reports that are appropriate in the circumstances. (ISQC 1.32)

Examples of findings

Below are examples of significant findings that were identified during the inspection of engagement performance and the re-performance of the firm’s Engagement Quality Control Reviews (EQCRs) on selected engagements. There are similarities to the findings listed under the engagement level findings section in this report.

- **Criteria to determine files for EQCR:** The firm did not set out criteria against which all other audits and reviews of historical financial information and other assurance and related services engagements would be evaluated to determine whether an EQCR should be performed. (ISQC 1.35)
- **Criteria for eligibility of Engagement Quality Control Reviewers (ISQC 1.39):** In terms of the firm’s Quality Control Manual, the Engagement Quality Control Reviewer should be an independent director who is not engaged in the performance of the audit or the provision of other services to the client entity or group of entities. The EQCRs completed on a number of audits were not performed by an independent director but by a manager in the technical department.
- **EQCR:** No EQCRs were performed by the firm. We were therefore unable to re-perform and test the firm’s policies and procedures on EQCR in terms of ISQC 1. (ISQC 1.35)
- **Scope of the Engagement Quality Control Reviewer:** The scope of the Engagement Quality Control Reviewer did not include certain material balances, and significant risk findings were raised on the material balances not reviewed by the reviewer. (ISQC 1.38)
- **Re-performance of EQCRs:** The IRBA re-performed a sample of pre-issuance reviews (EQCRs) performed by the firm. Significant risk findings, which were not raised by the Engagement Quality Control Reviewers, were raised by the IRBA.

(Refer to the engagement section in this report for similar examples of findings raised at engagement level.)
- **Nature, timing and extent of EQCRs:**
 - o It is not evident that the EQCR review was started sufficiently early in the engagement to allow for timely consultation on significant matters identified during the engagement, as some of the planning working papers (for example, client acceptance) were reviewed on the same date as the audit report and the EQCR working paper. (ISQC 1.36, 37, 42, A43)

- o The EQCR was not started sufficiently early in the engagement to allow for timely consultation on significant matters identified during the engagement as the EQCR was completed a year after sign-off. Furthermore, recommendations for changes to the engagement file or financial statements were not implemented before the release of the financial statements as the EQCR was carried out post-issuance.
- o We were unable to assess the extent of involvement of the EQC Reviewer and whether sufficient time was spent to address his/her responsibilities as the working papers were not signed off or referenced as being reviewed. The lack of documented evidence resulted in us not being able to assess whether the standards were adhered to.
- **Methodology:** The IRBA noted, during the inspection of a sample of audit engagement files, that certain auditors did not follow the firm methodology, specifically with regards to the following areas:
 - o Risk assessment: Inherent, Control and Significant Risk.
 - o Sampling audit methodology and audit software contradictions. The methodology requires a minimum sample of 10, but the engagement team only elected a sample of three.
- **Substantive procedures:** The firm methodology does not specifically state that the auditor shall design and perform substantive procedures for each material class of transaction, account balance and disclosure, as required by ISA 330 in paragraph 18. This resulted in “insufficient documented audit evidence” findings being raised on engagement files selected for inspection.
- **Retention of working papers:** The firm’s policies do not include policies and procedures for maintaining the integrity and accessibility of its electronic working papers. (ISQC 1.46; 47)

2.2.7 Monitoring

The firm is required to establish a monitoring process designed to provide it with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate and operating effectively. (ISQC 1.48)

Examples of findings

- **Re-performance of the firm’s internal monitoring inspections on completed engagements:** The IRBA re-performed a sample of monitoring inspections conducted by the firm on completed audit engagements selected in terms of its monitoring policy (ISQC 1.48). A significant number of inspected firms received the following findings:
 - a. The IRBA agreed with the findings raised by the post-issuance (monitoring) reviewer; however, we identified additional significant findings that were not raised by the reviewer.
 - b. The final rating (satisfactory) given by the post-issuance reviewer was not appropriate.
 - c. The firm had no policies and procedures for monitoring reviews (post-issuance), and monitoring reviews were not done on completed audit engagements. As a result, we could not re-perform the reviews.

(Refer to the engagement section in this report for similar examples of findings raised at engagement level.)
- **Evaluating, communicating and remedying identified deficiencies (ISQC 1.49-54):** Firms either failed to communicate identified deficiencies or the monitoring report; or feedback on the post-issuance reviews done by the firm did not evaluate the deficiencies noted by the internal reviewers and did not clearly state the remedy for such deficiencies. For example, no documented recommendation for each type of deficiency was noted. There was no remedial action implemented or disciplinary action taken against the engagement team for significant issues identified. There was no indication that findings noted were communicated to those responsible for training and development.

2.3 KEY FINDINGS – ENGAGEMENT LEVEL

2.3.1 Overview

During the 2016 financial year, 237 (2015: 368¹) selected assurance engagement inspections were performed and reported to the Inspections Committee. The majority of these engagements showed one or more findings during inspection, representing a general regression in the overall inspection results compared to the previous year.

All engagements

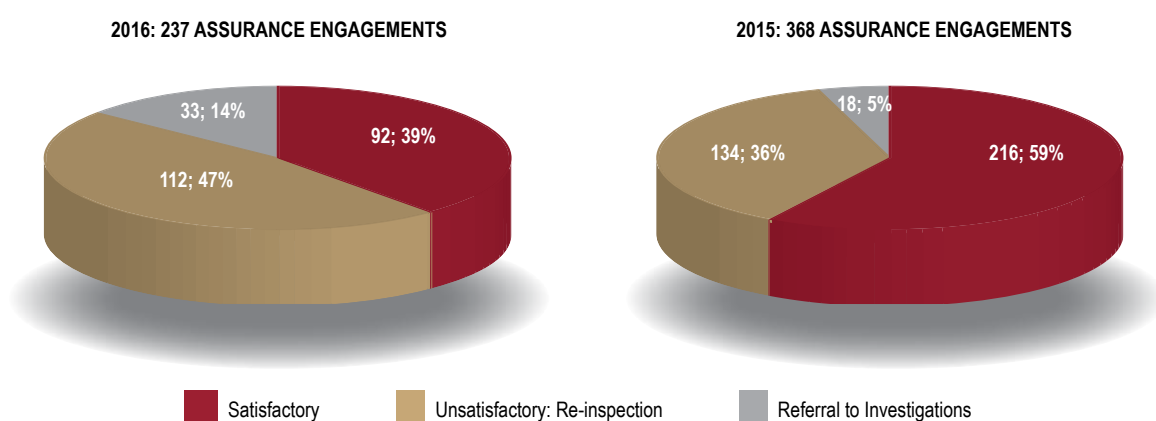


Diagram 5: Overall engagement inspection results for 2016 and 2015

Larger vs smaller firm engagements

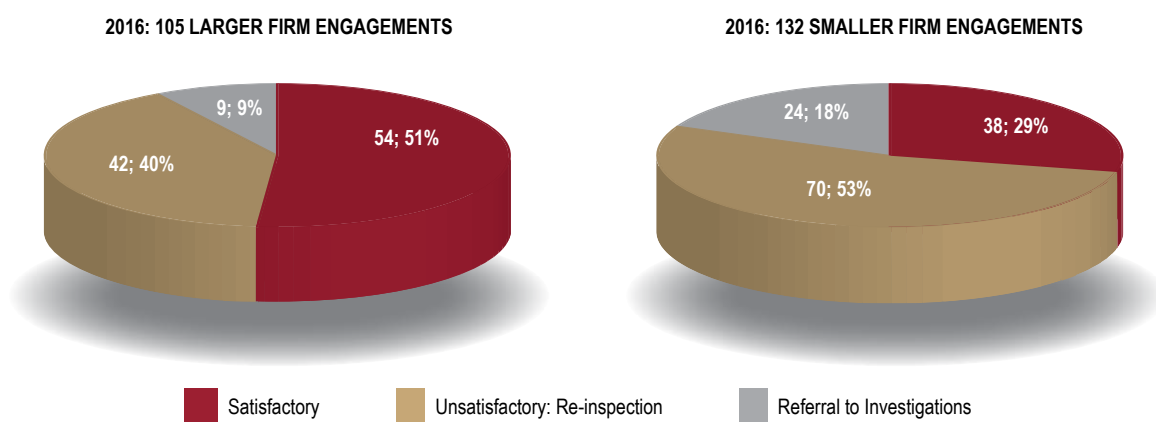


Diagram 6: Engagement inspection results of larger vs smaller firms for 2016

¹ This has been restated to reflect the number of inspection reports tabled before the Inspections Committee during the financial year.

Key Findings

Auditors involved in the audit of high-risk assurance engagements were subject to risk-based assurance engagement inspections selected as part of the current three-year inspection cycle. The scope of these inspections ranged between full scope and partial scope, whereby only selected components of the engagement file were tested, based on the size and complexity of the entity and public risk exposure.

The key assurance inspection findings below were formally reported to the auditors during the year.

ANALYSIS PER INSPECTION THEME	TOTAL NUMBER OF SIGNIFICANT FINDINGS 2015/2016	%	TOTAL NUMBER OF SIGNIFICANT FINDINGS 2014/2015	%	SIGNIFICANT FINDINGS AT LARGER FIRMS 2015/2016	%	SIGNIFICANT FINDINGS AT SMALLER FIRMS 2015/2016	%
Property, Plant and Equipment/Investment Property	294	20%	57	5%	82	26%	212	18%
Risk Assessment and Response	147	10%	134	13%	30	10%	117	10%
Revenue and Income	130	9%	74	7%	35	11%	95	8%
Financial Assets and Liabilities	121	8%	149	14%	16	5%	105	9%
Internal Control Testing	94	6%	6	1%	6	2%	88	8%
Broad-Based Black Economic Empowerment (B-BBEE)	93	6%	0	0%	47	15%	46	4%
Financial Statement Presentation and Disclosure	93	6%	71	7%	12	4%	81	7%
Inventory	68	5%	40	4%	8	3%	60	5%
Fair Value Measurement, Valuations and Estimates	66	4%	185	18%	8	3%	58	5%
Audit/Assurance Report	45	3%	75	7%	16	5%	29	2%
Audit of Attorneys and Estate Agency Trust Accounts	39	3%	0	0%	0	0%	39	3%
Pre-engagement Activities and Planning	37	2%	47	4%	0	0%	37	3%
Expenses	35	2%	19	2%	3	1%	32	3%
Journals	35	2%	26	2%	4	1%	31	3%
Completion	31	2%	10	1%	7	2%	24	2%
Auditor's Own Compliance with Laws and Regulations	23	2%	20	2%	6	2%	17	1%
Taxes	19	1%	2	0%	6	2%	13	1%
Related Parties	18	1%	25	2%	1	0%	17	1%
Group Audits	17	1%	12	1%	2	1%	15	1%
Going Concern	15	1%	6	1%	3	1%	12	1%
Intangible Assets	13	1%	0	0%	7	2%	6	1%
Working Papers/Documentation	11	1%	74	7%	5	2%	6	1%
Other Auditors, Experts and Specialists	10	1%	0	0%	4	1%	6	1%
Subsequent Events	10	1%	9	1%	0	0%	10	1%
Substantive Analytical Procedures	6	0%	0	0%	5	2%	1	0%
Opening Balances	4	0%	7	1%	0	0%	4	0%
Review and Supervision/EQCR	4	0%	5	0%	2	1%	2	0%
Biological Assets	2	0%	0	0%	0	0%	2	0%
Statutory	2	0%	1	0%	0	0%	2	0%
	1482	100%	1054	100%	315	100%	1167	100%

Table 1: Summary of unsatisfactory assurance engagement inspection findings per inspection theme

Below are examples of significant findings identified during engagement inspections per inspection theme. All the examples are based on findings that were deemed significant or material to the audit. This report aims to give at least one example per significant finding as well as those that are similar in nature (and in cases where this applies, these are listed as sub-bullet points under the respective findings to which they are similar).

2.3.2 Property, Plant and Equipment (PPE)/Investment Property

Areas inspected where findings were most prevalent included:

PPE: Completeness; existence; ownership; valuation, including impairment and components; additions; and disposals. (ISA 200.5; 7, 17; ISA 230.8; ISA 315R.A122–A125; ISA 500.6; ISA 540.12-14)

Investment property: Classification, existence, completeness and ownership. (ISA 200.5; 7, 17; ISA 230.8; ISA 315R.A122–A125; ISA 500.6; ISA 540.12-14)

Examples of findings

- **Borrowing cost:** There is no documented evidence on file that the engagement team considered the treatment of borrowing cost on capitalised work-in-progress. (Audit of IAS 23.8)
- **Owner occupied property (no depreciation nor accumulated depreciation)**
 - o **Valuation (residual value):** There are two reasonability tests on file in respect of the residual value. One estimated the residual value as 75% of the current fair market value of the property and the other as 60% of the current fair market value. There is no documented justification for using 75% and 60% in this reasonability test, e.g. no documented consideration of the value of a similar property that is currently 20 years old in support of the underlying assumptions.
 - o The International Accounting Standard (IAS) 16, Property, plant and equipment, definition for residual value is: *“The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.”*

- **Property, plant and equipment (PPE) (cost and/or carrying value material)**
 - o **Accuracy and valuation:** There is no documented consideration of the depreciation method used and testing of the accuracy of the depreciation expense.
 - o **Classification:**
 - There is no documented evidence on file that the engagement team ensured that material computer or system software is correctly classified as PPE instead of intangible assets.
 - There is no documented consideration of the classification of software as PPE as opposed to an intangible asset.
 - o **Classification:** There is no documented evidence on the audit file that the engagement team assessed the classification of major items of PPE, e.g. strategic spares owned by the entity classified as either PPE or inventory.
 - o **Completeness:** Considering the assessed audit risk, there is no documented evidence on file that the engagement team assessed the risk of capital items being expensed. On its own, consideration of repairs and maintenance for risk of capital items being expensed is not deemed sufficient appropriate audit evidence for completeness of assets.
 - o **Completeness:** There is no documented evidence of the verification of a sample of assets for completeness. The documented evidence on file only provides evidence over the existence assertion and not the completeness assertion.
 - o **Existence and completeness:**
 - There is no documented evidence that the “old assets”, purchased prior to 28 February 201X (previous financial year), were tested for existence and completeness.
 - The roll forward procedure of agreeing the prior year closing balances to the current year opening balances does not address the completeness and existence assertions,

resulting in sufficient audit evidence not obtained and documented on file.

- The physical verification of PPE does not indicate the direction of testing. This indicates that either the existence or completeness assertion was not adequately verified.
- o **Existence, completeness or ownership:** There is no documented evidence on file that the engagement team verified the existence, completeness and ownership of all material asset categories. Individual material asset categories not verified include: information technology (IT) equipment as well as plant and machinery.
- o **Rights and obligations (ownership):** There is no documented evidence on file that the engagement team verified a sample of land for ownership.
- o **Valuation (impairment):** There is no documented evidence on file that the engagement team evaluated management's identification process and assessment of possible indicators of impairment related to items of PPE. The engagement team did not assess whether there are any reasonably known indicators of impairment that were not considered. The audit programme indicated the audit procedure for auditing possible impairment of PPE; however, the engagement team's considerations were not documented on file. Consideration of impairment indicators (external and internal), as detailed in the International Accounting Standard (IAS) 36 in paragraph 12, was not documented. Discussions held with management did not provide sufficient appropriate audit evidence of impairment over PPE. Capitalised work-in-progress was also not evaluated for possible impairment.
- o **Valuation (impairment):** Regarding the impairment of un-commissioned plant, it was noted that not all the indicators as per IAS 36 were considered. The standard requires that if any such indicators exist, the entity shall estimate the recoverable amount of the asset. Neither the client nor the auditor considered certain indicators.
- o **Valuation (residual values):** There is no documented consideration of the verification of the residual values of PPE with material cost. Management is required to assess the residual values of the assets annually in terms of the International Accounting Standards. The auditors cannot place reliance on management's representations alone and should apply professional scepticism by robustly challenging and testing management's assessment and assumptions. (Audit of IAS 16.51)
- o **Valuation (significant components):** There is no documented evidence on file that the engagement team considered possible significant components. (Audit of IAS 16.43-44)
- o **Valuation (useful lives and residual values):** Although there was a conclusion documented regarding residual values and useful lives, there was no documented calculation or audit work for re-performance purposes to support the conclusion. Furthermore, there are assets at R1 on the fixed assets register and financial statements. This is an indication that the useful lives of assets could be incorrect. (IAS 16.51)
- o **Valuation (useful lives):** Only a conclusion has been recorded that the useful life is incorrect, and that the impact is not material. However, details of the auditor's considerations and procedures performed in support of this conclusion have not been recorded. Re-performance of such procedures was therefore not possible.
- o **Valuation (useful lives):** Sufficient appropriate audit evidence was not obtained regarding useful lives. Fully depreciated assets with a material cost were identified by the engagement team and were still in use, indicating the absence of the required annual assessment of remaining useful lives. Based on this, there is also an indication that the useful lives of other assets, which are not yet fully depreciated, are possibly inappropriate. In addition, it is not appropriate to use the South African Revenue Service (SARS) rates as a guide against which to compare useful lives. (IAS 16.51)

- o **Valuation (useful lives):** There is no documented consideration of the impact of the possible lease extensions on the useful lives of the assets. Changes to useful lives should be considered annually according to the framework.
- o **Valuation (useful lives):**
 - There is no documented consideration on file of the verification of the useful lives of PPE. SARS rates do not necessarily equal the useful lives of assets. Management is required to assess the useful lives of the assets annually based on the entity's usage of the assets. The engagement team cannot rely on management's assessment of useful lives without performing audit work to verify it.
 - In respect of motor vehicles, there is only a statement recorded on a working paper that it is industry practice to write-off vehicles over five years. There is no documented assessment of the reasonableness of this useful life. Useful life, as defined by the International Financial Reporting Standards for Small and Medium-sized Entities (IFRS for SMEs), is an entity specific period. (IFRS for SMEs 10.15-18 and 17.18-19)
- o **Valuation (useful lives):** There is only a statement recorded on a working paper that management is of the opinion that the buildings have a useful life of 50 years. There is no documented consideration of why this is acceptable to the auditor.
- **Investment property**
 - o **Classification:** A material amount was reclassified from investment property to PPE. No documented evidence could be found on file regarding the basis for reclassification or the reason thereof.
 - o **Classification:** There is no documented evidence on file that the engagement team considered the correct classification of the property included under investment property. (IAS 40.6)
 - o **Completeness:** There is no documented audit evidence on file that the engagement team verified the completeness of investment property.
 - o **Existence and rights & obligations (ownership):** There is no documented audit evidence that the engagement team verified the existence and ownership of the property.
 - o **Valuation:** There is no documented evidence on file that the engagement team verified the fair value of the investment property at year-end or evidence that a valuation was performed at the reporting date.

2.3.3 Risk Assessment and Response

Areas inspected where findings were most prevalent included risk assessment, significant risks, samples (extent) and fraud procedures.

Examples of findings

- **Audit approach:**
 - o The audit plan indicated that a combined approach (test of controls and substantive procedures) will be followed for PPE and inventory. However, there was no documented test of control procedures on these sections.
 - o No documented decision to follow either a substantive or controls-based audit approach. (ISA 330.7–9, A43)
- **Audit at assertion level:** Some firm methodologies or audit programmes excluded certain assertions from being tested following the identification and assessment of the risks of material misstatement, resulting in sufficient audit evidence not obtained to support the auditor's conclusions on certain classes of transactions, account balances and disclosures. (ISA 300.9b; ISA 315R.25, A122–A125; ISA 330.4, 6, 18, 27, 28b, A8)
- **Extent:**
 - o The entire population was not subject to testing for purchases of inventory as only items greater than half of the materiality and one additional item were selected.

- o Certain material balances within operating expenses and PPE were only scanned for large and unusual items and no further work was performed on the remaining material balance. Therefore, these material balances have been inadequately verified on file. (ISA 200.3, 5, 6, 7, 11, 13c, 13i, A12; ISA 320.5, 11; ISA 330.4; 6, 18; ISA 500.A55; ISA 530.8)
 - **Extent:** The sample size of 10 items used to verify the completeness of revenue is not in terms of the firm's methodology of 50 items and not sufficient for a significant risk. Revenue was assessed as a significant risk. (ISA 330.6, 28b, A8; ISA 530.7)
 - **Extent:**
 - o There is no documented link between sample sizes (extent) and risk assessment or a risk matrix per the firm's methodology.
 - o Significant inconsistencies were identified in the sample sizes in relation to the risk assessment per assertion, e.g. the firm's methodology for completeness of revenue is to test 12 items for low risk, 18 items for medium risk and 24 items for significant risk. The assessed risk of material misstatement for rental revenue is significant and a sample of 24 lease agreements, instead of 12, should have been tested. (ISA 330.6, 28b, A8; ISA 530.7)
 - **Extrapolation:** Stock count differences noted per the sample were not extrapolated to the population and the possible material impact assessed. (ISA 530.14)
 - **Fraud risk:** There is no documented fraud risk assessment at the financial statement level. (ISA 240.25, 27)
 - **Fraud risk:** There is no documented fraud risk assessment for all balances, transactions and disclosures at the assertion level. (ISA 240.25, 27)
 - **Risk of material misstatement (RoMM):** The engagement team did not document its identification and assessment of the risk of material misstatement at the financial statement and assertion levels. (ISA 315R.25)
 - **Risk assessment:** There are no documented analytical review procedures as part of risk assessment. (ISA 315R.6)
 - **Significant risks:** There is no documented assessment of significant risks and controls relevant to significant risks. (ISA 315R.27-29)
 - **Significant risks (presumed fraud risk in revenue recognition):**
 - o Revenue recognition was not assessed as a fraud risk, as required by ISA 240.26, 47, A30
 - o Revenue streams not rated as a significant risk, as required by ISA 240.26.
 - o There is no documented justification on file why revenue was not identified as a significant risk, as required by ISA 240.26.
 - o No documented justification for rebutting the assumption that revenue is a significant risk. (ISA 240.A30)
- (Refer to below section on Revenue and Income regarding significant risk rebuttal of revenue recognition.)*
- **Significant risks (journals/management override):**
 - o No documented assessment of why journal entries were not a significant risk.
 - o Management override of controls was not assessed for a fraud risk or significant risk. (ISA 240.31-32)
 - **Significant risks (related parties):**
 - o Related party transactions outside the normal course of business were not considered or deemed significant risks.
 - o The engagement team discussion did not include specific consideration of the susceptibility of the financial statements for material misstatement due to fraud or error that could result from the entity's related party relationships and transactions.
 - o Related party transactions outside the normal course of business were assessed as a significant risk. However, the risk assessment was not considered and documented on the "audit plan and strategy" working paper and the work programmes, in view of the special audit consideration as required. The extent of testing for the significant risks was similar to that of normal risks, resulting in insufficient audit evidence. (ISA 550.11, 12, 18, 20)

2.3.4 Revenue and Income

Areas inspected where findings were most prevalent included completeness, occurrence, discounts/rebates and other income. In all examples the amounts are material and there is a deemed significant risk, unless specifically rebutted.

Examples of findings

- **Accuracy:** Sales of goods in foreign currency were not converted using the spot rate on the date risk and rewards were transferred, but were rather converted at the foreign exchange rate upon receipt of funds in the bank. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R. A124; ISA 500.6)
- **Accuracy and completeness:** There is no documented verification of the accuracy and completeness assertions of administration charges received. (ISA 200.5, 7, 17; ISA 230.8; ISA 330.18; ISA 500.6)
- **Completeness:** There is insufficient documented evidence of the verification of the completeness assertion of revenue. The audit team only recorded the sequence testing of invoices. Sequence testing does not provide sufficient and appropriate audit evidence on completeness of revenue. The engagement team cannot rely on the controls when it did not test the controls. (ISA 200.5, 7, 17; ISA 230.8; ISA 240.26, 47, A30; ISA 315R.27; ISA 500.6)
- **Completeness (direction of testing):** The direction of testing for the verification of completeness of revenue was from the bank statement to the premium listing for four out of the five underwriter managers tested. The direction does not appropriately address the completeness assertion, and therefore sufficient appropriate audit evidence to support the auditor's conclusion was not obtained. (ISA 200.5, 7, 17; ISA 230.8; ISA 240.26, 47, A30; ISA 315R.27; ISA 330. A45; ISA 500.6)
- **Completeness:** Completeness of revenue was tested for two months only. The selection of two months for testing is not in accordance with ISA 530, paragraph 8, which states: *"The auditor shall select items for the sample in such a way that each sampling unit in the population has a chance of selection (Reference Paragraph A12-A13)."* (ISA 500.A55)
- **Completeness (source):** The engagement team selected a sample of invoices from the invoice file and traced them back to the ledger. The engagement team documented that 98% of the value of the invoices had been tested and that missing invoices from the ledger were examined. The source document used to test for completeness of revenue is not appropriate. Therefore, sufficient appropriate audit evidence was not obtained to test for completeness of revenue. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R. A124; ISA 330.A45; ISA 500.6)
- **Completeness (direction of testing):** The direction of testing of dividend revenue does not appropriately address the completeness assertion. In addition, the detailed transactions tested were not documented and, consequently, the test cannot be re-performed. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.A124; ISA 500.6)
- **Completeness:** Except for the manual invoices at the branches, sufficient and appropriate documented audit evidence for the verification of the completeness of revenue on file was not obtained. The documented evidence for the verification of the completeness assertion for revenue should be expanded upon, as the existing analytical procedures (which are not predictive analytics) and the cut-off testing of invoices and credit notes performed do not sufficiently verify the completeness assertion. The other working papers referred to by the practitioner are referred to in mitigation for not performing and documenting detailed substantive procedures on completeness of revenue. These tests were performed for another purpose and not in connection with the objective of the verification of the revenue completeness. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.A124; ISA 500.6)
- **Construction contract revenue:** Working paper X refers to the testing of cost of sales. The entity has two cost of sales streams, namely sale of goods and construction costs recognised. A sample of 17 items was verified for testing from the general ledger to the invoice and order forms. Of these, 15 items were selected for testing related to the sale of goods and two sample items related to construction costs recognised. No documented justification was recorded for only testing two transactions for the material construction costs stream. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6, A55; ISA 530.8)

- **Construction contract revenue:** Working paper X refers to a “directors’ report disclosure” indicating the material “proportion of revenue” to be recognised for construction revenue. There is no documented audit work by the engagement team on this client’s prepared schedule. The stage of completion of revenue recognised and the measurement thereof were not appropriately verified on this document. There was no documented revenue occurrence test and, contrary to verbal representations, the progress certificates referred to were not noted on the audit file. There was also no documented verification on the audit file of the completeness of construction revenue recognised. (ISA 200.5, 7, 17; ISA 230.8; ISA 315.A124; ISA 500.6)
- **Cut-off:** There is no documented consideration or verification of cut-off of revenue. (ISA 230.8; ISA 240.26, 47, A30; ISA 315R.A124)
- **Occurrence and completeness (direction of testing):** The engagement team used the same direction of testing to test for both occurrence and completeness of revenue. Completeness and occurrence of revenue cannot be tested from the same sample. As a result, sufficient appropriate audit evidence was not obtained to test revenue. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.A122–A125; ISA 330.A45; ISA 500.6)
- **Occurrence:** There is no documented occurrence test on grants received and also no documented evidence of the verification of material differences between the grants received and the grant income in the general ledger. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.A124; ISA 500.6)
- **Occurrence:** There are no documented occurrence tests on file. Testing receivables for existence only verifies the balance as at year-end. Revenue occurrence needs to be verified throughout the year. (ISA 200.5, 7, 17; ISA 230.8; ISA 240.26, 47, A30; ISA 330.22; ISA 500.6)
- **Occurrence (source):**
 - o The engagement team made a selection from the sales ledger to test for occurrence of revenue. The invoices are not appropriate source documents to verify occurrence of revenue.
 - o Sufficient and appropriate documented audit evidence for the verification of the occurrence of revenue was not obtained. A sample of entries was selected and agreed to invoices that do not address the occurrence assertion.
- o A sample of entries was selected from the general ledger and agreed to invoices that do not address the occurrence assertion. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.A124; ISA 330.A45; ISA 500.6)
- **Occurrence:** There are no documented revenue occurrence tests on file. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.A124; ISA 330.28b, A45; ISA 500.6)
- **Occurrence:** There is no documented evidence on file that all material income streams were tested for occurrence. There is no documented evidence on file that the engagement team verified material discounts and rebates. (ISA 200.3, 5, 6, 7, 11, 13c, 13i, 17, A12; ISA 230.8; ISA 315R.A124; ISA 320.5, 11; ISA 330.4, 6, 18; ISA 500.6)
- **Occurrence:** During audit procedures performed on occurrence, it was noted that some proof of delivery vouchers could not be located. No alternative procedures were performed to confirm that the revenue transaction had occurred. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
- **Occurrence:** The entity had a large number of underwriters at year-end, excluding the underwriters who no longer exist (referred to as “run offs”). During the testing of revenue, testing was limited to five underwriters, these being the largest and most active underwriters. There is no rotation plan in place to ensure that all underwriter managers are subject to testing. The occurrence test needs to be expanded upon to include a random sample of non-material transactions. Only a selection of material sales transactions was tested. (ISA 530.8; ISA 500.A55)
- **Recognition:** Amounts recovered by head office from the entity’s own stores for advertising costs were recognised as revenue. There is no documented justification in terms of the accounting framework for recognising this as “revenue”. A material overstatement of revenue cannot be offset by an equivalent overstatement of expenses. (ISA 230.8; ISA 450.A14)

- **Recognition (stage of completion):** There is no documented consideration of the correct recognition of revenue in accordance with the framework. IFRS for SME in Section 23.14 states: *"When the outcome of a transaction involving the rendering of services can be estimated reliably, an entity shall recognise revenue associated with the transaction by reference to the stage of completion of the transaction at the end of the reporting period (sometimes referred to as the percentage of completion method)."* The accounting policy in the annual financial statements states: "Revenue from the sale of goods is recognised in accordance with the stage of completion method as per the contract entered into." However, all the working papers state that revenue is only recognised when 90% of the contract is complete, which is not in terms of the framework. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
 - **Recognition (stage of completion):** Reliance was placed on the independent consulting engineering firm that issues certificates stating the stage of completion of construction contracts. The stage of completion was not verified to be in accordance with paragraph 23.22 of IFRS for SMEs. There is no documented evidence on the audit file that the engagement team determined the cumulative amount of revenue to be recognised in accordance with the framework (percentage of completion x contract price). Further, there is no documented evidence on the audit file that the engagement team determined the amount due to/from customers. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
 - **Recognition (stage of completion):** There was no documented evidence on file that the stage of completion of construction contracts was verified in accordance with International Accounting Standard (IAS) 11. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
 - **Significant risk rebuttal (revenue):** Considering the selected sample of engagements inspected at the firm, revenue rebuttal is an apparent default practice and an indication of a lack of professional scepticism being applied in ensuring sufficient evidence is obtained as required by the standards for a significant risk. (ISA 240.26, 47, A30)
- to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property. However, the revenue for one entity, for example, is derived from the sale of motor vehicles, servicing motor vehicles and other minor sales such as smash and grab, licensing and registration of vehicles, thus it's not a single type of simple revenue. There is no appropriate basis or justification documented for rebutting the deemed significant risk.
- **Significant risk rebuttal (revenue):** The working paper for revenue fieldwork testing stated that the risk can be determined as low with specific reasons, whereas in another working paper (Risk assessment at assertion level) the revenue completeness assertion was flagged as a significant risk, with specific reasons. Thus, the documented risk assessment and reasons are contradicted and rebutted in the fieldwork working paper with no reference to the reasons documented during planning. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
 - **Significant risk rebuttal (revenue):** The risk of fraud in revenue recognition has been rebutted in the planning working paper. One of the main reasons given in the working paper is that the entity has sound internal controls. There is no documented evidence on file of the system descriptions of such controls, the walkthrough thereof or the testing of such controls. The entity does not have a single type of simple revenue transaction from limited sources (ISA 240.A30). The entity has various streams of cash revenue. ISA 315R in paragraph 27 states that an auditor shall exclude the effects of identified controls in determining if a risk is a significant risk. Therefore, the documented rebuttal is inappropriate.

ISA 240.A30 states that the auditor may conclude that there is no risk of material misstatement due

2.3.5 Financial Assets and Liabilities

Areas inspected where findings were most prevalent included accounts payable; accounts receivable; bank and cash; credit loans; debit loans; debt/equity classification; investments; leases; loan losses; and loan impairments. (ISA 200.3, 5, 6, 7, 11, 13c, 13i, 17, A12; ISA 230.8; ISA 320.5, 11, ISA 330.4, 6, 18; ISA 500.6)

Examples of findings

- **Accounts receivable:** Confirmation of debtor's balances was not properly documented. It is not clear whether positive or negative confirmations were used. The selection criteria used was also not documented. Results of the confirmations were not analysed, evaluated and documented. (ISA 505.6)
- **Bank and cash:** There is no documented evidence that bank reconciliations were verified (Reconciling items are material).
- **Bank and cash:** There were no bank confirmations obtained. The audit programme stated that bank confirmations should be obtained and no documented evidence was provided as to what alternative procedures were performed. (ISA 505.12, A10, A18, A19)

In Note X in the financials various bank guarantees are disclosed. No documented evidence could be found on file to which this disclosure in the financials was verified.

An "offer of banking facilities" dated 21 August 201X, signed 9 September 201X, was found on the audit file. The offer states that the company has various facilities, including overdraft, invoice discounting, revolving credit line, letters of guarantees, rental special projects for vehicle asset finance and fleet facility.

The details (as applicable) of the banking facilities were not disclosed in the financial statements, except for a listing of material bank guarantees and bonds.

The offer also states that the company provides unlimited suretyship for a subsidiary in respect of the facilities granted to the subsidiary in the same agreement. [South African Auditing Practice Statement (SAAPS) 6]

- **Consumer debtors:** There is no documented evidence of the verification of "unspent conditional grant receivable" with a material balance.
- **Consumer debtors:** During the testing of the reasonableness of the "provisions of doubtful debts", the audit team noted debtors that do not exist on the schedule of the "provision for doubtful debts". A finding was raised by the audit team; however, this difference was not taken to the schedule of unadjusted audit differences. Further, a sample tested from the age analysis for recoverability was not traced to the "provision for doubtful debts" schedule to ensure that debtors that are not recoverable are provided for. An inquiry of management alone is not sufficient appropriate audit evidence to assess the recoverability of the debtors; the engagement team should have considered obtaining third party evidence. (ISA 450.5; ISA 580.4)
- **Contingent liabilities:** Working paper X indicates a contingent liability of R3m (R300m in annual financial statements) which has not been verified to supporting documentation. There is no documented consideration for the difference between the working paper and the disclosure in note Y of the annual financial statements. (ISA 450.5)
- **Forward exchange contracts (commitments):** There is no documented evidence on the audit file that the engagement team considered the type of hedging relationship between the hedging instrument and the underlying asset. Also, there is no evidence on the audit file that the engagement team verified the gains and losses on the hedging instrument.
- **Investments:**
 - o There is no documented evidence that the engagement team verified material additions.
 - o There is no documented evidence that the engagement team verified the disposal of material investments.
 - o There is no documented evidence on file that the engagement team verified the ownership of material investments.
 - o There is no documented evidence on file that the engagement team verified the fair value

- as at 30 July 201X. The market value used was obtained from financial statements of the investee company, which ended 28 February 201X. There is a significant time lapse between the date of the financial statements and the year-end of the company. The market value of the shares increased from the date of their financial statements to the date they listed and the auditor failed to identify or address a potential material impact on the financial statements.
- o There are no documented considerations regarding a possible impairment of material investments.
 - **Investments in joint ventures:** There are no documented considerations regarding possible impairment of all material investments in joint ventures.
 - **Loans to group companies:** There is no documented evidence on file that the material movement in a loan to a subsidiary was verified.
 - **Loans to group companies:** There are no documented impairment considerations on file. The audit team did not audit management's assessment of whether there is any indication that an asset may be impaired as well as consider other indicators for possible impairment.
 - **Loans to group companies:** There is no documented consideration of Section 45 of the Companies Act, where financial assistance (lending money, guaranteeing a loan or other obligation, and securing any debt or obligation) was provided to a related or inter-related company or corporation.
 - **Leave pay accrual:** Although the leave pay accrual was reconciled between the payroll system and the general ledger, there is no documented evidence of verification of the leave pay accrual to supporting documents.
 - **Loans to group companies:** There is no documented consideration of the recoverability of a material loan to group companies.
 - **Other financial liabilities:** There is no documented evidence on file that the engagement team verified the material movement on "Other financial liabilities". The year-end balance is zero.
 - **Operating lease commitments:** A lease smoothing asset/liability was not raised in the Statement of Financial Position.
 - **Provision for rehabilitation:** The provision for rehabilitation of the mine was not assessed at year-end.
 - **Supplier rebates:** Paragraph 13.6 of IFRS for SMEs states that the costs of purchase of inventories comprise the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), as well as transport, handling and other costs directly attributable to the acquisition of finished goods, materials and services. Trade discounts, rebates and other similar items are deducted in determining the costs of purchase. It was, however, noted that material rebates from suppliers were recognised as a trade debtor.
 - **Trade and other receivables:**
 - o There is no documented evidence on the audit file that the engagement team revalued foreign debtors to the year-end spot rate.
 - o There is no documented evidence that exchange rate differences were verified at year-end.
 - **Trade and other receivables:** There is no documented evidence on the audit file that the engagement team verified the accuracy of the debtors' ageing (Material).
 - **Trade and other receivables:** Contradictory statements were made on the working paper, which states that no debts are considered uncollectable even though a provision for doubtful debts has been created.
 - **Trade and other payables:** Sufficient documented evidence of the verification of the completeness of liabilities was not obtained. Creditors' balances were only agreed to the creditors' reconciliation.
 - **Trade and other payables:** There is no documented verification of the valuation and completeness of material trade creditors.
 - **Trade and other payables:** There is no documented evidence on the audit file that the engagement team revalued foreign creditors to the year-end spot rate.

- **Unrecorded liabilities:** There is no documented evidence on the audit file that the engagement team performed procedures to identify unrecorded liabilities, identified as a high risk.

2.3.6 Internal Control Testing

Areas inspected where findings were most prevalent included an understanding and testing of internal controls.

Examples of findings

- **Accounting systems and IT systems:** There is no documented evidence on file confirming that an understanding of the information and accounting systems was obtained. (ISA 315R.18)
- **Audit approach:** The planned audit approach on certain sections was a combined approach (test of controls and substantive procedures). However, the documented test of control procedures performed was not in sufficient detail. The level of assurance obtained from the test of controls and substantive detailed tests was not documented as proof that sufficient audit evidence was obtained for such sections. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
- **Control risk assessment at financial statement level:** Control risk was assessed as medium. However, there is no documented test of the design, implementation and operating effectiveness of controls to reduce the risk level to medium. (ISA 330.8)
- **Control environment:** There is no documented understanding of the control environment, information systems and monitoring controls. Control risk was assessed as medium, but there were significant control deficiencies identified. Due to the weak control environment, as evidenced from prior year walkthroughs, it would be expected that the control risk would be assessed as high. (ISA 315R.14, 18, 22-24; ISA 330.8, 16, 17)
- **Controls surrounding journal entries:** There was no documented evidence of the testing of the design and implementation of controls surrounding journal entries. (ISA 315R.18-20)

The general controls documented did not address the controls surrounding journal entries; the design and implementation of those controls; an understanding of the entity's financial reporting process; controls over journal entries; and other adjustments to the annual financial statements.

- **Design and implementation of controls:** There was no documented assessment of the design and implementation of controls for all high and significant risks. Key controls relating to significant balances and transactions were also not documented. Irrespective of the audit approach adopted, the auditor shall obtain an understanding of the entity's controls for all internal controls relevant to the audit as well as for all significant risks identified. (ISA 315R.12-13, 20, 29)
- **Discussions with management were not corroborated:** Walkthrough tests on working paper X were not documented in sufficient details to enable re-performance. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.13, ISA 500.6, 9; A2)
- **Sale of goods:** The control testing over sale of goods was to select two months' management accounts and ensure that the accounts were discussed at the monthly management meeting and that action items were discussed. During the inspection of the system description of how sale of goods is captured, there were relevant controls that were not tested, and comfort was not obtained. Therefore, the control testing performed did not satisfy all assertions, and in the absence of appropriate substantive procedures this resulted in sufficient appropriate audit evidence not being obtained to support the auditor's conclusions. (ISA 330.8)
- **Transfer from trust investment account to trust banking account:** No documentation of the key controls identified by the attorney that address each of the control objectives listed below in respect of the transfers from the trust investment account:
 - o Transfers from the trust investment account are properly authorised (validity);
 - o The amount transferred is correct (accuracy); and
 - o Transfers are recorded in the correct accounting period (cut-off).

2.3.7 Broad-Based Black Economic Empowerment (B-BBEE)

As from 30 September 2016, the IRBA is no longer an “Approved Regulatory Body” as per Code Series 000, Statement 005 of the Codes of Good Practice. Inspections of assurance engagements on B-BBEE have therefore been discontinued.

Examples of findings

The following common findings were identified on the majority of B-BBEE assurance engagements selected for inspection:

- The auditor failed to determine materiality, be it either as it relates to the individual elements of the B-BBEE Scorecard or as it relates to the overall score and B-BBEE Status reflected on the B-BBEE Verification Certificate.
- The auditor failed to identify and report a material misstatement on the B-BBEE Verification Certificate, and that led to the overall Level Contribution Status being materially incorrectly reported.
- The auditor expressed an inappropriate level of assurance on the B-BBEE Verification Certificate. South African Standard on Assurance Engagements (SASAE) 3502 does not deal with, or provide specific guidance for, reasonable assurance engagements. As such, some of the B-BBEE Verification Certificates inspected reflected a reasonable assurance opinion as opposed to a limited assurance conclusion.
- The auditor failed to obtain or document sufficient appropriate evidence to support the assurance conclusion expressed.
- The engagement documents recorded neither the nature, nor timing nor the extent of the procedures performed, and nor did they record the results obtained from such procedures performed in support of the conclusions reached. Examples include:
 - o Insufficient or no documentation that demonstrates how the auditor concluded on the applicability of the Codes of Good Practice or the relevant Sector Code used in determining the B-BBEE Status reflected on the B-BBEE Verification Certificate.

- o Insufficient or no documentation that demonstrates how the auditor considered accumulated misstatements identified in determining whether the overall engagement strategy and plan needed to be revisited.
- o Insufficient or no documentation that demonstrates the significant professional judgments made by the auditor in interpreting the Codes of Good Practice or the relevant Sector Code used in determining the B-BBEE Status reflected on the B-BBEE Verification Certificate.

2.3.8 Financial Statement Presentation and Disclosure

Areas inspected where findings were most prevalent included the adequacy of financial statement presentation and disclosure, including classification. (ISA 200.5, 7, 17; ISA 230.8; ISA 450.4, 5; ISA 500.6)

Examples of findings

- **Biological assets:** The financial statements did not disclose the aggregate gain or loss arising from the change in fair value, less costs to sell, of biological assets. The movement on the agricultural assets was not disclosed in the financial statements as required by the framework.
- **Cash and cash equivalents:** There is no documented justification why investment in material unquoted preference shares was classified as cash and cash equivalents.
- **Classification of debit and credit loans:** The notes to the financial statements disclosed shareholders’ loans as unsecured, interest free and having no fixed terms of repayments. However, there are no documented reasons why the above debit and credit loans were classified as non-current.
- **Commitments:** There is no proper explanation documented on file of material differences between the commitments tested by the audit team and commitments disclosed in the annual financial statements.
- **Disclosure (revaluations):** The accounting policy did not indicate the frequency at which revaluations would be performed. The following information was not disclosed with regards to the revaluation of PPE:

- o The effective date of the revaluation;
- o For each revalued class of PPE, the carrying amount that would have been recognised had the assets been carried under the cost model; and
- o Any restrictions on the distribution of the balance to shareholders for the revaluation surplus.
- **Disclosure inconsistency:** A disclosure note error was identified in the financial statements. Notes to the financial statements describe the financial asset as a “financial derivative asset at fair value through other comprehensive income – held for trading”, while another note refers to a material cash flow hedge. The Statement of Comprehensive Income did not include other comprehensive income.
- **Employee benefit obligation:** The employee benefit obligation was incorrectly classified as “provisions” in the Statement of Financial Position. The misclassification is material.
- **Equity loan:** The “equity loan” from “I” Holdings Limited was classified as equity. There is no documented justification of this classification in terms of the International Accounting Standard (IAS) 32, paragraphs 11, 16-27, and AG 25-28. Special considerations of paragraphs 15 and 19 were not made on file. IAS 32 states that: *“As an exception, an instrument that meets the definition of a financial liability is classified as an equity instrument if it has all the features and meets the conditions in paragraphs 16A and 16B or paragraphs 16C and 16D.”* The consideration of these conditions is not recorded on file.
- **Estimates and fair value:** There is no documented consideration of absent or incomplete disclosure requirements in terms of IFRS 13.
- **Fair value:** The financial statements did not provide the details on fair value as required (e.g. valuation methodology and details of valuator) and there is no documented evidence that the disclosure requirements of IFRS 13 have been evaluated by the auditor.
- **Financial instruments:**
 - o The engagement team did not verify the disclosures in terms of IFRS 7.
 - o The auditor failed to identify and address the non-disclosure in terms of IFRS 7 in the annual financial statements. There are material financial instruments.
- **First-time adoption of IFRS:** There is no explicit and unreserved statement on the financial statements that the financials comply with IFRS for the first time. An opening Statement of Financial Position at the transition date of the first-time adoption of IFRS was not presented. The disclosures and presentation required by IFRS 1 – First-time Adoption of International Financial Reporting Standards – are not evident in the financial statements.
- **Goodwill:** No documented evidence could be found regarding the appropriate disclosure, as required by IFRS for SMEs, Section 19 paragraphs 25 and 26, was disclosed in the annual financial statements.
- **Land and buildings:** Land and buildings are not separated as required in terms of IFRS for SMEs, and buildings were not depreciated.
- **Loans from group companies:** There is a schedule reflecting 13 various loans to and from related parties. The financial statements, however, only reflect a loan from one entity and this reflects the total of all 13 loans. There is no documented justification and consideration of the rights and obligations of these loans on file.
- **Loans to group companies:** In the prior year financial statements, the loan to “L” was classified as long term. In the current year, the comparative as well as the current year balance has been re-classified as short term. A material balance was therefore remapped and was not adequately disclosed in the financial statements. The auditor failed to audit the change in classification.
- **Operating leases:** The auditor failed to identify that the note on operating leases is insufficient. There is no disclosure of operating leases in accordance with IAS 17.

- **Other financial liabilities:** Material loans with short-term “terms” have been disclosed as long term in the financial statements, with no documented consideration by the auditor on file.
- **PPE:** The note in the financial statements relating to PPE does not disclose the different classes of assets but only reflects one class of assets, namely “property, plant and equipment”.
- **Rebates (classification):**
 - o There is no documented verification by the audit team of material rebates. Rebates received were recognised as other income and not deducted from purchases, with no consideration of the classification recorded on the audit file.
 - o Discount received is incorrectly disclosed as other income and not set-off against cost of sales (COS) as required. Rebates should be accounted for against inventory purchases in COS and the supplier (creditor).
- **Rental debtors:** There is no documented consideration of the classification as current or non-current of the straight-line rental debtors. All the straight-line debtors have been classified as current, although rental/lease agreements are running until 2022/2023, and therefore the non-current reclassification requirement is in line with IFRS for SMEs, sections 4.4-4.6. The disclosure regarding leases is to be expanded upon to include a commitment note (current, 1-5 years, over 5 years), as required by IFRS for SMEs, Section 20.
- **Subsidiaries:** The related parties’ disclosure in note X does not disclose the relationship between a parent and its subsidiaries nor does it disclose the transactions with these entities, as required by IFRS for SMEs, sections 33.5 and 33.9.

2.3.9 Inventory

Areas inspected where findings were most prevalent included completeness, existence, costing and net realisable value (NRV). (ISA 200.3, 5, 6, 7, 11, 13c, 13i, 17, A12; ISA 230.8; ISA 315.19, 20; ISA 320.5, 11; ISA 330.21; ISA 450.4, 5; ISA 500.6)

Examples of findings

- **Consignment stock:** There is no documented evidence on file that the engagement team verified material consignment stock to third parties (All assertions).
- **Finished goods:** There is insufficient documented evidence for the verification of the accuracy of the labour, transport, overheads and packaging materials amounts in the calculation of the finished goods costing.
- **Goods in transit:** There is no documented evidence on the audit file that the engagement team verified the existence, ownership and valuation of goods in transit.
- **Inventory:** Inventory was assessed as a significant risk (stock costing error due to system not functioning accurately), but there were no specific audit procedures to address the risk. In addition, the engagement team did not test the design and implementation of controls. (ISA 330.21; ISA 315R.13, 29)
- **Roll-forward:** No roll-forward procedures were documented on file for the inventory, which was not counted close to/before year-end. (ISA 501.5)
- **Stock count:** It is not possible to re-perform the stock count procedures. It is not clear what procedures were performed by the engagement team and whether the engagement team physically counted the inventory, or whether the stock count documented by the store’s staff was used as audit evidence. (ISA 230)
- **Stock count:** There were no test counts performed by the engagement team on material inventory locations. In terms of the risk assessment and planning, the engagement team was required to attend the stock count at all locations where the stock is material. (ISA 501.4)
- **Valuation:** There is no documented evidence on the audit file that the engagement team tested the net realisable value of a sample of inventory items.
- **Valuation:** There is no documented evidence on file that the engagement team verified the costing of inventory items to source documents to confirm the valuation of the inventory.

- **Valuation:** The spot rate for imported inventory was not verified on file.
- **Work-in-progress:** There is no documented completeness, existence, impairment, net realisable value (valuation) or raw material pricing tests on file. Also, there is no documented verification for the overhead allocation to work-in-progress, and no documented consideration and verification of finished goods.
- **Work-in-progress:** Except for a letter from management confirming that the value of stock and work-in-progress is correct, there is no documented verification of the material work-in-progress account disclosed in the Statement of Financial Position.
- **Work-in-progress:** Material income invoiced in advance has been set-off against the work-in-progress expense. This is not allowed in terms of IFRS for SMEs, Section 2.53. There is no documented verification of the completeness of the open work-in-progress schedule.

2.3.10 Fair Value Measurements, Valuations and Estimates

Areas inspected where findings were most prevalent included fair value measurement of PPE, investment property, revaluation, financial assets, discounting and biological assets. (ISA 200.5, 7, 17; ISA 230.8; ISA 450.4, 5; ISA 500.6)

Examples of findings

- **Discounting:** There is no documented consideration of the discounting of revenue on extended terms. The possible effect of discounting is material. (Audit of IAS 18.10)
- **Discounting:** There is no documented consideration of the discounting of purchases/expenses on extended terms. The possible effect of discounting is material.
- **Discounting:** The consideration and the verification of the impact of discounting of revenue and purchases/expenses on extended terms are not evident on file. The amount not discounted is material.

• **Estimates:** The engagement team failed to document an understanding of the requirements of the framework relating to estimates; the method used by management for making estimates; the controls management has in place for estimates; whether management used an expert; and the assumptions underlying the estimate. (ISA 540.8, 11,13)

The engagement team did not assess the risk of material misstatement of estimates, nor did it consider whether estimates are significant risks. There is no documented audit evidence on the audit file regarding the verification of estimates.

- **Impairment:** The engagement team identified long outstanding debtors and obtained reasons why the client believes that the balance should not be written off. There is no documented evidence that all significant balances and the remainder of trade debtors were assessed for impairment (recoverability). There is no documented evidence that the engagement team evaluated management's identification process and assessment of possible indicators of impairment relating to receivables. There is no documented evidence on file that the engagement team assessed whether any reasonably known indicators of impairment were not considered, or could reasonably have been expected to be known.
- **Net Realisable Value (NRV):** There is no documented evidence on the audit file that the engagement team tested the NRV on a sample of inventory items.
- **NRV (work-in-progress):** According to the annual financial statements, contracts are valued at lower of cost or NRV, including a portion of overheads. According to the working papers it seems as if the work-in-progress relates to invoices raised after year-end in respect of contracts at year-end. These contracts are then proportioned for the days to year-end and a gross profit percentage excluded to get to an inventory number. The recognition of such an asset is not in accordance with IAS 11. Consideration of the detail of the contract costs attributable to each contract was not documented on file.
- **Revaluation (PPE):** The accounting policy for PPE states that PPE is carried at a revalued amount for all other categories other than IT equipment.

There is no documented evidence on the audit file that the engagement team ensured that a revaluation is performed as often as necessary. IAS 16 in paragraph 31 requires that revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

- **Revaluation (land and buildings):** The year-end of the entity is 31 August 201X. The accounting policy states that “property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses” and “revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period”. Note 2 to the financial statements refers to the effective date of the revaluations and this was 1 September 2002. There is no documented justification on file that the fair value in 2002 is still the same for the year ending 31 August 201X. The potential material impact on the audit opinion is not considered on the file. Also, there is no documented verification of management’s assessment of residual values and useful lives for periods between revaluations. (Audit of IAS 16.31; 51)

2.3.11 Audit/Assurance Report

Areas inspected where findings were most prevalent included the opinion, level of assurance, framework and correctness of the content of the audit report.

Examples of findings

- **Accounting framework:** The engagement letter on file refers to IFRS for SMEs, while the financial statements and the audit report refer to IFRS. It was determined that the referencing on the audit report and the accounting policy was incorrect since the record of work performed on the audit file referred to IFRS for SMEs. (ISA 700.10, 12, 13)
- **Accounting framework:** For “C” Company (Pty) Ltd the audit report in the opinion paragraph indicates that the financial statements have been prepared in accordance with IFRS; however, the audit was conducted in accordance with IFRS for SMEs. (ISA 700.10, 12, 13)
- **Audit report:** The audit report does not meet the requirements of the South African Auditing Practice Statement (SAAPS) Revised 3 as it either does not contain the following or is insufficient compared to the requirements of the standard:
 - o The introduction paragraph does not state what the financial statement comprises of.
 - o The director’s (members’) responsibility paragraph.
 - o The auditor’s responsibility paragraph.
 - o The capacity and designation in which the auditor signed the audit report. (Section 150.6 of the IRBA Code of Professional Conduct)
 - o The annual financial statements contain a “members report”. No separate paragraph was included in the auditor’s report stating that the other reports required by the Companies Act were read, and that there were no material inconsistencies between the report and the audited financial statements.
 - o The audit report does not include a paragraph in respect of other reporting requirements as required by the Companies Act.
 - o The audit report does not indicate that the opinion is expressed on consolidated and separate financial statements.
- **Audit report:** There is no documented consideration as to why there is no separate paragraph in the audit report indicating non-compliance with the Companies Act with respect to the approval of the financial statements more than six months after year-end, which constitutes a possible reportable irregularity.
- **Assurance report:** The assurance report was dated 29 August 2014. After the incorrect date was queried by us, the practitioner noted that the date was incorrect and subsequently informed to the Law Society bringing its attention to this date issue. A new assurance report was dated 20 March 2015. It was noted on the engagement file that certain working papers were reviewed by the practitioner after the sign-off date of 20 March 2015.

- **Assurance report:** The format of the audit report was not in accordance with Appendices 4 and 6, as per the latest *IRBA Guide for Registered Auditors: Engagements on Attorneys Trust Accounts. (2014)*
- **Assurance report:** The assurance report is not in the format required by the *IRBA Guide for Registered Auditors: Engagements on Attorneys Trust Accounts (2014)*. The assurance report is in the old format of the South African Institute of Chartered Accountants' *Guidance for Auditors: The Audit of Attorneys' Trust Accounts in terms of the Attorneys Act, No. 53 of 1979 and the Applicable Rules of the Provincial Law Societies*, issued June 2004.
- **Audit qualification:** The audit report qualification refers to a significant limitation to test the "validity" of revenue.

The qualification refers to the "validity" of revenue, and from this it is not clear what assertion is being qualified on as this assertion was not defined in the audit file or in the firm's methodology. Validity is not a synonym for the assertions of completeness, accuracy or occurrence. (ISA 315R.A123-A125)

It is further concluded that the scope limitation is material but not pervasive and as such a disclaimer will not be expressed. No documented justification could be found on file supporting the conclusion that the impact is not pervasive. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6; ISA 700.5, 20)
- **Audit opinion:** The subsequent events on the going concern consideration working paper state that a qualified audit opinion should be issued. However, the going concern consideration working paper states that an unqualified opinion with an emphasis of matter should be issued. Thus, these working papers contradict each other. The going concern working paper also contradicts the audit report as an unqualified opinion with an emphasis of matter was issued. A possible incorrect audit opinion has been expressed as the working paper does not support the audit opinion. There is also no documented assessment and conclusion by the engagement partner of the audit opinion. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6; ISA 700.10, 11)
- **Audit opinion:** The conclusion on the revenue work programme reflects "unsatisfactory" results for the assertions of completeness, occurrence and valuation. No further documentation could be found on file on what further work was done. The audit report was not modified. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6; ISA 700.11)
- **Audit opinion:** Material differences were noted between cost of sales in the general ledger and the cost of sales system. These differences were not transferred to the schedule of unadjusted audit differences for consideration. This has a direct impact on the audit opinion, and therefore the audit evidence obtained does not support the unqualified audit opinion. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6; ISA 450.5; ISA 700.11)
- **Audit opinion:** The management letter stated that certain documentation could not be found during the audit. It was not documented what the financial impact was nor was it documented which balances these related to. The documented impact of a possible scope limitation on the audit opinion was not evident on file.
- **Audit opinion:** The financial statements of a technically insolvent subsidiary whose liabilities materially exceeded its assets were not consolidated. There is no documented consideration of a qualified opinion for non-compliance with International Accounting Standard (IAS) 27 and not preparing consolidated annual financial statements. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6; ISA 700.10-14)
- **Audit qualification:** The audit report was qualified with an "except for" qualification as borrowing costs were capitalised instead of expensed, as required in terms of IFRS for SMEs. The effect on the current year's profit figure was provided, however:
 - o The qualification does not include comparative information.
 - o The difference in the accounting treatment was not taken to the schedule of unadjusted audit differences.
 - o No documented assessment of the impact on the audit opinion (adverse vs "except for"). (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6; ISA 450.5; ISA 700.11)

2.3.12 Audit of Attorneys and Estate Agency Trust Accounts

Areas inspected where findings were most prevalent included trust account reconciliation between bank and creditors, trust investments, trust interest, trust transfers, client files and trust creditors. (2014 Guide for Registered Auditors: Engagements on Attorneys Trust Accounts)

Examples of findings

- **Investment trust S78(2A) accounts:** Material interest earned on the investment trust bank accounts at year-end is not journalised to the investment trust accounts. There is no documented verification for the interest earned on a monthly basis to be journalised to the investment trust accounts each month.

- **Transfer from trust investment account to trust bank account:** There is no documented evidence on file that the engagement team selected a sample of transfers made from the trust investment account and determined whether the amounts transferred to the trust bank account are recorded in the correct accounting period.

There is no documented evidence on file that the engagement team, for transfers made to the trust bank account, inspected the client mandate to determine whether the amount is authorised and accurate.

- **Trust account reconciliation:** There is no documented verification of the list of trust creditors to support the reconciliations of the trust funds in terms of Section 78(1), 78(2) and 78(2A) as at 31 August 201X and at 28 February 201X (amounts material).
- **Trust creditors:** There is no documented evidence on file that the engagement team selected a sample of trust creditor balances at year-end and the other test date to inspect:
 - o Client's files for supporting documentation and compared evidence of the transactions filed with those transactions recorded in the trust creditors' ledger.
 - o Postings to/transactions recorded in the trust ledger from all sources, scrutinising the ledger account tested, ensuring that entries therein are relevant.

- **Trust account reconciliation:** A material difference was noted between the trust creditors' balance and the trust investment account on the assurance report and the accounting records.
- **Trust bank account:** No bank confirmations were requested to verify bank balances. There are no alternative documented procedures evident on file.
- **Trust funds:** The total trust funds at 28 February 201X have been materially understated in the Attorney's Annual Statement on Trust Accounts.
- **Trust fixed deposit account:** A material balance is currently earning interest in the trust fixed deposit account. The interest received has not been accounted for in the books of the trust, has not been declared or paid over to the Law Society in terms of the Attorneys Act, No. 53 of 1979. There is also no documented verification of this balance on the audit file.

2.3.13 Pre-engagement Activities and Planning

Areas inspected where findings were most prevalent included planning and performance materiality; understanding of laws and regulations; compliance; knowledge of the business; environmental matters; audit approach; legal confirmations; ethics and independence; client acceptance or retention; staff assessment; and planning minutes.

Examples of findings

- **Laws and regulations:** There is no documented evidence that a general understanding of the relevant laws and regulations was obtained. (ISA 250.12)
- **Materiality:** There was no documented planning materiality set for the financial statements as a whole. (ISA 320.10, 14)
- **Materiality:** Materiality figures different from the calculated planning/performance materiality were used during fieldwork testing, resulting in insufficient audit evidence being obtained to support the auditor's conclusions. (ISA 200.5, 7, 17; ISA 230.8; ISA 320.11; ISA 500.6)

- **Performance materiality:** There was no documented consideration of performance materiality and the auditor's application thereof during the fieldwork and conclusion stage. (ISA 320.11; 14)
- **Planning materiality:**
 - o The engagement team used 1,7% of revenue to calculate its planning materiality, which seems excessive considering the nature of the entity and the risks identified. The firm's methodology on planning materiality does not guide the percentages to be used. The general norm for using revenue as a base is usually between 0,5% and 1%. There is no justification in terms of the firm methodology. There appears to be a lack of professional scepticism demonstrated by the auditor, which would normally be evidenced by demonstrating a more conservative approach.
 - o Materiality is determined at 3% of revenue. The amount seems excessive. The practitioner should apply professional scepticism in determining materiality as it increases the risk of undetected misstatements. (ISA 200.15, ISA 230.8)
- **Planning:** There is no documented consideration of the following items at the planning stage of the audit: (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
 - o Public interest score calculation.
 - o Client acceptance and retention. No documented consideration of the engagement team's capabilities and competence and client integrity. (ISA 220.12-14)
 - o Ethics, independence considerations and independence declarations. (ISA 200.14; ISA 220.9-10)
 - o There is no documented evidence on the audit file that the engagement partner made an assessment of the engagement team's capabilities and competence. (ISA 220.14)
 - o No documented team planning minutes detailing discussions regarding quality control; ethics; professional scepticism; appropriateness of the framework; knowledge of the business; fraud risk considerations (misappropriation of assets and fraudulent reporting); related

parties; risk assessment; sampling; audit approach; discussions with those charged with governance; planned scope and timing of audit; risk assessment; how the engagement team proposes to address significant risks; the engagement team's approach to internal control; materiality; and additional procedures requested to be included in the audit procedures by those charged with governance. (ISA 230.8; ISA 240.15; ISA 260.11, 14; ISA 300.5; ISA 315R.10, 27-29, 32; ISA 320; ISA 550.12, 17)

- o Environmental matters. (International Auditing Practice Statement 1010, ISA 315R.11, A26; ISA 250.12)
- o Legal letters to be sent to lawyers. (ISA 501.9)

2.3.14 Expenses

Areas inspected where findings were most prevalent included operating expenses, dividends, cost of sales, employee costs and finance charges.

Examples of findings

- **Cost of sales:** There is no documented evidence of the selection of material entries in the general ledger and tracing them to supporting source documents as required by the firm methodology. (ISA 200.3, 5, 6, 7, 11, 13c, 13i, A12; ISA 230.8; ISA 320.11)
- **Cost of sales:** There is no documented evidence on file indicating whether the stock system is integrated (perpetual) or non-integrated. The engagement team tested purchases of inventory under the cost of sales component. There is no evidence on the audit file that for an integrated stock system a sample of sales transactions was traced through to the inventory and cost of sales general ledger accounts (the engagement team did not record and verify a stock flow-through on the audit file). There is also no documented evidence that the opening balances, purchases, write-offs and closing balances (stock flow) were verified. There is no documented evidence on the audit file that for a non-integrated stock system the opening and closing inventory adjustments were verified and that the cost of sales general ledger was scrutinised to ensure that there were no other items recorded in the general ledger account. (ISA 200.5, 7, 17; ISA 230.8; ISA 315R.18; ISA 500.6)

- **Cost of sales:** There is no documented evidence that the engagement team verified the classification and accuracy of employee related costs, which were included under cost of sales. Although employee related costs are tested under salaries and wages, the classification to cost of sales was not documented as having been assessed to ensure it was correctly classified as administrative employee cost or relating to cost of sales. (Classification) (ISA 200.5, 7, 17; ISA 230.8; ISA 450.4; ISA 500.6)
- **Cut-off testing:** There is no documented cut-off testing in either expenses, cost of sales or accounts payable. (ISA 315R.A124)
- **Dividends:** There is no documented verification of the dividends declared. Reviewing the minutes of meetings as indicated on the audit programme is not sufficient audit evidence to prove that the dividends declared were verified to the minutes. There is no documented evidence on file that the dividends declared were discussed and approved at the annual general meeting. There is also no attendance register or minutes on file (or reference thereto) to prove that the auditor attended the annual general meeting. Further, there is no documented evidence in the tax section that proves that the dividends tax was verified. Performing a payments test does not verify the occurrence and accuracy of the dividends declared. Thus, there is insufficient audit evidence on the audit file that proves that the dividend declared was verified. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
- **Discounts:** Discounts allowed have been disclosed as an expense instead of having been deducted off revenue, as required by IFRS for SMEs in paragraph 23.3. (ISA 200.5, 7, 17; ISA 230.8; ISA 450.4, 5; ISA 500.6)
- **Employee costs:** There is no documented verification of a sample of salary and wage expense deductions – unemployment insurance fund (UIF), medical aid deduction and pay-as-you-earn (PAYE). (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
- **Employee cost:** There is no detailed documented verification of directors' remuneration and the disclosure thereof on the audit file. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
- **Operating expenses:** The nature, timing and extent of the audit procedures performed are not documented for the verification of material bad debts, employee costs and lease rentals on operating leases. (ISA 200.5, 7, 17; ISA 230.8; ISA 500.6)
- **Operating expenses:** There is no documented audit work on operating expenses. Operating expenses is a material class of transactions. (ISA 200.3, 5, 6, 7, 11, 13c, 13i, 17, A12; ISA 230.8; ISA 320.5, 11; ISA 330.18; ISA 500.6)
- **Not all material classes of transactions are verified:** No documented audit procedures are evident on file for material "Raw material purchases transport". (ISA 200.3, 5, 6, 7, 11, 13c, 13i, 17, A12; ISA 230.8; ISA 320.5, 11; ISA 500.6)

2.3.15 Journals

Areas inspected where findings were most prevalent included material year-end journals and journal testing throughout the year. (ISA 240.31-33; ISA 330.20)

Examples of findings

- The engagement team selected all material year-end journals for testing. They did not consider or select a random sample of non-material journal entries for verification. (ISA 500.A55, ISA 530.8)

In another related example:

- o Except for a signed-off audit programme, there is no documented verification of material and a random sample of non-material journals on file. The nature and extent of the work performed cannot be re-performed. (ISA 230.8; ISA 240.31; ISA 330.20)

- There is no documented understanding of the entity's financial reporting process and the controls over journal entries and other adjustments to the financial statements.

In another related example:

- o There is no documented evidence of the verification of controls surrounding journal entries.

- There is no documented evidence on file for the verification of material journals (i.e. those that are non-recurring, unusual, adjusting or made for the purpose of preparation of the financial statements greater than performance materiality) and a sample of non-material journals as required on the firm's audit programme. The sample size for journals was not in accordance with the audit firm's sample methodology for a significant risk.

Management override of controls was not assessed as a fraud risk or significant risk, as required by ISA 240.31; 32.

- Although there is audit work on journal entries that was documented under general expenses, the record of work done is not documented in sufficient detail to enable an experienced auditor to understand/re-perform. The sample of journals selected, the record of work done, audit procedures performed, results and conclusion reached are not documented. (ISA 230.8)
- Although the audit programmes refer to journal testing, the journal population and the nature, timing and extent of the procedures performed are not documented and cannot be re-performed. (ISA 230.8)

2.3.16 Completion

Areas inspected where findings were most prevalent included completion; ethics and independence; significant matters; final materiality; representation letters; and unadjusted audit differences.

Examples of findings

- **Communication with those charged with governance:** Communication with those charged with governance on their responsibilities, auditor's responsibilities and the outcome of the audit was not documented on file. (ISA 230.8; ISA 260.9, 14)
- **Completion:** The following were not documented during the completion stage on a number of inspected files:
 - o Ethics and independence.
 - o No documented evidence that a management

letter was reviewed by the engagement partner and discussed with management.

- o A management representation letter was not received from the entity.
- o No documented evidence that the financial statements were reviewed by the engagement team.
- o No documented evidence that the engagement team verified the comparatives in the financial statements and prior year accounting policies.
- o No documented evidence on the audit file that the engagement team verified the accuracy, completeness and classification of the cash-flow statement.
- o No documented disclosure checklist or similar tool on the audit file to ensure the completeness of the disclosure in the financial statements.
- o No documented evidence that all financial statement amounts were referenced to the lead schedules or trial balance, or other supporting audit working papers (differences noted).
- o The financial statements did not include reference to the company secretary.
- o Significant matters arising during the audit (significant risks) and how they were addressed were not documented on file.
- o Conclusions reached on significant matters were not documented on file.
- o Significant professional judgement applied on the audit (significant estimates) was not documented on file.

- **Final materiality:** There is no documented consideration found on file calculating final materiality and considering the possibility that insufficient audit evidence could have been obtained due to a lower final materiality. (ISA 450.10, A12)
- **Final materiality:** There are no final materiality considerations documented on file. (ISA 320.12, ISA 450.10)

- **Management representation letter:** The schedule of unadjusted audit differences was not attached to the management representation letter. The schedule of unadjusted audit differences must be communicated to those charged with governance and be attached to the representation letter. (ISA 450.14)
- **Management representation letter:**
 - o The management representation letter was signed three days after the audit report date.
 - o The management representation letter was dated nearly four months before the issue of the audit report. (ISA 580.14)
- **Schedule of unadjusted audit differences:** Substantial prior year unadjusted audit differences and the potential effect thereof on the current year figures are not included in the current year schedule of unadjusted audit differences. (ISA 450.11)
- **Schedule of unadjusted audit differences:** The unadjusted audit differences were not assessed for qualitative factors or whether they are possibly due to fraud. (ISA 240.35)
- **Schedule of unadjusted audit differences:** Material errors are not transferred to the schedule of unadjusted audit differences and the impact on the opinion assessed by the auditor. The schedule of unadjusted audit differences for "X Group" has an entry to non-current liabilities, which is greater than final materiality. The schedule of unadjusted audit differences of "X" Group Holdings Limited has uncorrected errors to non-current assets and non-current liabilities, which is greater than the final materiality of the group. (ISA 450.5, 11, A13; ISA 700.11)
- **Schedule of unadjusted audit differences:** An individual material line item was identified on the schedule of unadjusted audit differences, affecting accounts receivable and income. The individual item is material, but there was no adjustment nor documented consideration of the impact on the audit opinion on file. (ISA 450.5, 11, A13; ISA 700.11)

2.3.17 Auditor's Own Compliance with Laws and Regulations

Areas inspected where findings were most prevalent included reportable irregularities. [Section 45 of the APA and Section 90(2) of the Companies Act, Act 71 of 2008 (Companies Act)]

Examples of findings

- **Audit report (reportable irregularity):** The group and subsidiaries' annual financial statements and audit opinions were approved later than six months after year-end. There is no documented consideration of the possible reportable irregularity and an assessment of the impact on the audit report. (*Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act, SAAPS 3 Revised*)
- **Companies Act, Section 90(2):** The financial statements/CIPC indicated that "ABC" is the company secretary. "ABC" can be seen as a network firm. This is in contravention of Section 90(2) of the Companies Act and the IRBA Code. There is no documented consideration with regards to Section 90(2) or the IRBA Code on file.
- **Companies Act, Section 90(2):** Significant audit adjusting journals were made. Most of the journals relate to PPE. From the adjusting journals it was identified that the maintenance and updating of the fixed asset register was performed by the engagement team, which is prohibited in terms of the *Joint IRBA/SAICA Guidance on the provision of non-audit services by the auditor of a company*.
- **Companies Act, Section 90(2):** "B" CC is the entity's company secretary. The audit partner is the only member of "B" CC and therefore "B" CC is regarded to be a network firm. This is a contravention of Section 90(2) of the Companies Act.
- **Companies Act, Section 90(2):** The engagement partner maintained the entity's payroll system. In terms of the *joint IRBA/SAICA Guidance on the provision of non-audit services by the auditor of a company*, assisting the client in capturing and

maintaining its payroll is prohibited. There is no documented consideration with regards to Section 90(2) or the IRBA Code on file.

- **Companies Act, Section 90(2):** It is noted that the company that drafted the financial statements for the audit client “X” (Pty) Ltd for two consecutive years has the same address as the audit firm. The drafting company is not independent of the audit firm as the director of the drafting company is also a director of the audit firm. On file there is no documented assessment of the independence of the drafting company and the audit firm. Drafting the financial statements for an audit client is a fundamental contravention of Section 90(2) of the Companies Act and the IRBA Code.
- **Fraud indicators and money laundering:** The audit evidence recorded on working paper X states that outstanding debtors are occasionally overpaid and the reason for this is that there is a commission and “kickbacks” due on most deals. No documented evidence where the above statement was considered for fraud and money laundering requirements, resulting in a possible reportable irregularity.

There is a fraud and error questionnaire on file, relating to possible fraudulent financial reporting, related party transactions or misappropriation of assets. The responses to the questions could either be “yes” or “no”. It was concluded that based on the above factors, fraud risk can be assessed as low at both account balance and annual financial statement levels. The questionnaire does not address the fact of any “kickbacks” received; and although the auditor stated that the “kickback” values are immaterial, they are qualitatively material by nature due to possible fraud.

- **Reportable irregularity:** There is no documented consideration of a possible reportable irregularity for value-added tax (VAT) receivable rejected by the South African Revenue Service (SARS) due to invalid invoices being provided by the client to SARS for a VAT audit. The audit team did not consider if this was due to fraud and also whether the amount, which is material, is recoverable.

- **Reportable irregularity:** There was no documented consideration on file on whether a material loan to group companies is considered financial assistance, in terms of Section 45 of the Companies Act, and is a possible reportable irregularity. Section 45 (2) of the Companies Act does not only relate to directors of the company but also to all related and inter-related companies.

- **Reportable irregularity:** As per the directors’ report, all the assets and liabilities of the entity were sold on 31 August 201X, except for the tax liability. The company needs to comply with Section 112 (Proposals to dispose of all or greater part of assets or undertaking) and Section 115 (Required approval for transactions contemplated in Part) of the Companies Act. There is no documented evidence on file of the consideration of compliance with the Companies Act and confirmation that a reportable irregularity did not take place.

2.3.18 Remaining Inspection Themes

Below are examples of significant findings identified during assurance engagement inspections. They are ranked according to inspection themes that were less prevalent, but all examples are significant.

TAXES	
EXAMPLES	<ul style="list-style-type: none"> Deferred tax: <ul style="list-style-type: none"> There is no documented evidence on file that the engagement team considered appropriate justification for the recognition of the material deferred tax asset. No documented evidence relating to deferred tax could be found on file, including documented justification of the recognition of the deferred tax asset. (Audit of IAS 12.34) Deferred tax: Insufficient documentation of the verification of the tax values used in the deferred tax calculation. The tax values were tested by obtaining the schedule and casting the schedule. No further audit work was performed. Deferred tax (Rnil): The tax computation shows that there are material temporary differences. There is no documented assessment of these temporary differences for possible deferred tax implications and there is also no deferred tax disclosed in the financial statements. Deferred tax: There is no documented (appropriate) justification for the recognition of a deferred tax asset, nor is there a profit forecast documented. The company is technically insolvent. Employees' tax: No documented evidence could be found on file that the Skills Development Levy (SDL), Unemployment Insurance Fund (UIF) and pay-as-you-earn (PAYE) per the returns were reconciled to the payroll and general ledger. Value-added tax (VAT)/Revenue reconciliation: <ul style="list-style-type: none"> Material reconciling items were not verified to source documents. There is no documented verification of the VAT liability according to the general ledger to the actual VAT returns. VAT/Revenue reconciliation: The revenue per the financial statements is R236m and the revenue per VAT returns is R244m. No documentation could be found explaining the differences in revenue balances. VAT: The engagement team did not verify the validity of zero rated sales and material exempt sales. The sample selected for revenue did not include any zero rated or exempt revenue. VAT: Contrary to the planned audit procedures, the revenue occurrence test needs to be expanded on to test the accuracy of the calculations on the sample of selected invoices, including VAT. VAT: There is no documented evidence on the audit file that the engagement team agreed the proceeds from the disposal of PPE to the VAT reconciliation. VAT: There is no documented evidence on the audit file that the engagement team verified all material reconciling items to source documents.

RELATED PARTIES	
EXAMPLES	<ul style="list-style-type: none"> There is no documented evidence that the procedures, as per the audit plan or alternative procedures, were performed to identify all related parties and related party transactions (completeness). (ISA 550.15) There is no documented verification of related party relationships and related party transactions (accuracy and completeness). (ISA 550.25) The related party disclosure in the financial statements does not include the following: <ul style="list-style-type: none"> Three subsidiaries listed as investments, as per Note X. Transactions throughout the year with related parties. The disclosure only reflects balances at year-end. Any provisions relating to related parties. No director's emoluments are disclosed in the financial statements as required per the Companies Act. Sufficient appropriate audit evidence was not obtained by the audit team of transfer pricing discount with a related party not assessed for whether the transaction is at arm's length as well as the tax implications thereof. "X" was identified as one of the related parties on the related party identification working paper, but it was not disclosed as a related party in the financial statements.
GROUP AUDITS	
EXAMPLES	<ul style="list-style-type: none"> Audits of group financial statements: ISA 600 has been incorrectly applied to branches within the major trading subsidiary "I" (Pty) Limited, when it should have been applied to the "A" Limited entity. This has resulted in sufficient appropriate audit evidence not being obtained for material revenue streams. (ISA 600.12, 26, 27) Consolidation: The Company prepares consolidated financial statements for the joint operations that exist. It was noted that the financial statements did not take into account consolidation journal entries. The financial statement amounts were made up of the three trial balances (of the company and the two joint ventures). Some of the journals identified from the consolidation spreadsheet were not taken into account during the preparation of the financial statements. <p>There are no documented considerations with regards to IFRS 10 on file concerning control over the joint operations.</p> <p>There is no documented evidence on file that the engagement team considered whether there is joint control and whether the joint arrangement is either a joint operation or a joint venture, as per IFRS 11, paragraphs 15 and 16.</p>

EXAMPLES	<ul style="list-style-type: none"> Consolidation: The engagement team concluded on control over subsidiaries as follows: “The holding company has power over the investee, exposure to rights to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investors’ return. The holding company is involved in the day to day operations of the subsidiaries and duties are performed by the same persons. The holding company holds more than 50% of the shareholding of each of the subsidiaries”. <p>The audit documentation did not include procedures to ensure that all the elements of control, as per IFRS 10, were sufficiently addressed.</p> <ul style="list-style-type: none"> Investment in subsidiaries: There is no documented consideration on file as to why consolidated financial statements were not prepared by the entity when the entity has a material subsidiary. (Audit of IFRS 10.4) Investment in subsidiaries: No documented evidence could be found on file justifying why no consolidated group financial statements have been prepared, as required by IFRS for SMEs, sections 9.2, 9.3 and 9.27. The non-consolidation has also not been disclosed in the financial statements. Investment in subsidiaries: No documented evidence could be found on file of the consideration of the impact on the audit opinion of a subsidiary that was not consolidated [“C” Trading (Pty) Limited]. Non-consolidation disclosures are not disclosed in the financial statements. The departure from the accounting framework was not considered as a possible reportable irregularity. Joint ventures: The engagement team did not consider control over joint ventures. In addition, it did not consider if the control is joint. Also, the engagement team did not consider whether the joint arrangement is a joint operation or a joint venture. (Audit of IFRS 10; IFRS 11)
GOING CONCERN	
EXAMPLES	<ul style="list-style-type: none"> Going concern indicators were identified during the planning stage. There is no documented consideration of the effect of these indicators on the audit opinion and no documented going concern procedures during the engagement, up to audit report date, could be found on file. Going concern working papers were dated three months before the issue of the audit report, with no subsequent work performed on file. (ISA 560.6; ISA 570.11, 13) The documentation of going concern and subsequent events considerations need to be expanded upon, especially as the company made a loss in the current year and suffered a fire in the previous year, and was still waiting for an insurance pay-out (as documented in the audit file). The conclusion made that the company will continue to be a going concern in the foreseeable future is not supported by appropriate and adequate documented evidence as re-performance was not possible. (ISA 570.12) There are no documented going concern considerations on file. (ISA 570.10)

INTANGIBLE ASSETS	
EXAMPLES	<ul style="list-style-type: none"> Goodwill: The goodwill impairment “test” documented on file is not in accordance with Section 27.9 of IFRS for SME. Goodwill was not allocated to the smallest cash generating units (CGUs) before calculating the recoverable amount (value in use). Goodwill (Cost and carrying value material): <ul style="list-style-type: none"> Material additions have been noted per Note X to the financial statements. No documented evidence could be found on file where these additions were verified for completeness, existence, valuation and rights and obligations. The additions related to the acquisition of two trading entities (business combination). <p>There is no documented consideration of IFRS for SME, Section 19.22, stating: <i>“The acquirer shall, at the acquisition date:</i></p> <ol style="list-style-type: none"> <i>recognise goodwill acquired in a business combination as an asset, and</i> <i>initially measure that goodwill at its cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised in accordance with paragraph 19.14.”</i> <ul style="list-style-type: none"> IFRS for SMEs, Section 19.23, requires that after initial recognition, the acquirer shall measure goodwill acquired in a business combination at cost less accumulated amortisation and accumulated impairment losses. No documented evidence could be found on file that consideration was given to possible impairment of goodwill. There is no documented verification of goodwill amortisation (none in the annual financial statements). Intangible assets: There is no documented verification of the ownership of the patents and trademarks. There is no documented assessment of the useful lives of the patents and trademarks. It is not sufficient to test ownership by relying on prior year working papers. Patents and trademarks have a license and the licence indicates the number of years for which they are effective. Also, in terms of the Companies and Intellectual Property Commission (CIPC), the trademark licences have to be renewed every 10 years. Both the ownership and useful lives of the trademarks have therefore not been adequately verified. There is no documented consideration that these patents and trademarks are no longer in use.
WORKING PAPERS	
	<ul style="list-style-type: none"> The working paper subsequently provided was not on the archived audit file provided for inspection, was not dated at the time of preparation and was not dated at the time of review. It is therefore impossible to establish whether the audit evidence was obtained and considered during the time of the audit. (ISA 230.8;9)

EXAMPLES

- The “control activities design and implementation” working paper does not relate to the company, as it includes references to inventory and till slips. The company does not have inventory and does not operate tills.
- Although it was documented that the engagement team verified a sample of inventory items for existence and completeness, it is not evident which items were selected from the inventory list to the floor and which items were selected from the floor to the inventory list. The inventory lists were included on the file, but none of the tick marks were explained to enable an experienced auditor to understand/re-perform. (ISA 230.8-9)
- The record of work done on working papers is not documented in sufficient detail to enable re-performance. A description of the supporting documents inspected is not documented. Although audit programmes were available on each section, they were not cross referenced to working papers, the objectives of the procedures were not documented and the assertions tested were not identified. Conclusions reached were also not documented. (ISA 230.8-9)
- Working papers: Not all working papers reflected the following (ISA 230.8-9):
 - o Name of the preparer and date the document was finalised.
 - o Name of the reviewer and date it was reviewed.
 - o Objective of the test performed.
 - o Risk of material misstatement relating to the test.
 - o Sample size.
 - o Source of the sample.
 - o Method of sample selection (random, judgemental).
 - o Nature of the test performed.
 - o Details of the test.
 - o Results of the test.
 - o Conclusion.
- Electronic working papers were modified shortly (i.e. one day) before the inspection date, but the audit software program reflected the final review dates of the working papers before the date of the auditor’s report. This casts significant doubt on the integrity of the audit file and the conduct of the engagement team and the firm. The registered auditor was not in compliance with the auditing standards in that the audit file was modified after the 60-day file assembly period, with no documented reasons as required by the standards. (ISA 230.13-16; ISQC 1.45,46, A54)
- Documentation of the supporting working papers for the work documented as being performed on the audit programmes of various sections needs to be expanded upon, to include, among others, the following sections: related parties; revenue; other income; trade and other receivables; trade and other payables; PPE; inventory; and investments in shares.

	<ul style="list-style-type: none"> In some instances, re-performance of work performed was not possible. For example, the work programme would indicate the respective audit procedure, the procedure would be documented as performed, but there would be no supporting schedule/working paper reflecting the actual work performed or actual sample items tested, and any findings thereon. (ISA 230.8-9; ISA 500.6)
OTHER AUDITORS, EXPERTS AND SPECIALISTS	
EXAMPLES	<ul style="list-style-type: none"> For the recognition of revenue, reliance was based on certificates issued by the engineers of the service providers appointed by the client. No documentation could be found assessing the service provider of the client. (ISA 500.8) <p>No testing of a reconciliation (or similar) between the certificate information and the company's own system to verify the completeness, accuracy, validity and occurrence (e.g. number of items, rates in terms of contracts) of the information contained in the certificate and used as a basis to generate the invoice issued to the client.</p> <ul style="list-style-type: none"> Investment property (Material fair value): <ul style="list-style-type: none"> There is no documented assessment of the valuation method used and the assessment of the valuator. The assessment of the assumptions used by the independent valuator should be expanded upon to include details of supporting documentation inspected by the audit team to verify the assumptions. (ISA 500.8) Revenue: Reliance was placed on the independent consulting engineering firm which issued the certificates stating the stage of completion of construction contracts. There is no documented consideration on file for the evaluation of the adequacy of the expert's work. (ISA 500.8) Revenue: No documented consideration of the verification of a service organisation. The audit team relied on the system of the service organisation without testing the system. (ISA 402.9-10) The engagement team did not evaluate the appropriateness of the expert's work, as required by ISA 500 (management expert) or ISA 620 (Using the work of an expert). Use of other auditors: Another audit firm was used to assist with a stock count in another province. However, there is no documented understanding of, and appropriate consideration of, the nature and extent of the reliance placed on the audit work of another auditor. (ISA 600.42-43)
SUBSEQUENT EVENTS	
EXAMPLES	<ul style="list-style-type: none"> Subsequent event working papers were dated three months before the issue of the audit report. (ISA 560.6) There is no documented evidence of the partner's consideration, review and sign-off of the subsequent events work paper. A material event occurred between the audit report date and the entity's year-end, and was not disclosed in the financial statement as a subsequent event. (ISA 220.16)

SUBSTANTIVE ANALYTICAL PROCEDURES	
EXAMPLES	<ul style="list-style-type: none"> Management fees: An analytical review was performed to obtain audit evidence on this material balance. This analytical review was not substantive or predictive in nature. The engagement team did not corroborate management's explanations to external supporting documentation. Sufficient appropriate audit evidence was therefore not obtained over income from services rendered. (ISA 520) Revenue: There was inadequate documented work performed on the completeness of revenue. Planning analytical procedures were performed to address the assertion, which is not sufficient appropriate audit evidence to address a significant risk. (ISA 330.4, 18; ISA 520) Sale of goods: The control testing over material sale of goods did not satisfy all assertions. The substantive testing performed on sale of goods relates purely to an analytical review of the gross profit (GP). There were no substantive procedures performed on the analytical review. An audit expectation of what the auditors expected the revenue to be was not documented on file. In the absence of any alternative procedures, sufficient appropriate audit evidence was therefore not obtained over "sale of goods". (ISA 330.4, 18; ISA 520)
OPENING BALANCES	
EXAMPLES	<ul style="list-style-type: none"> There is no documented verification of the opening balances (i.e. prior year audited closing balances versus the current year's opening balances). Considering the risk assessment and control environment of the client, this is a potential high risk area.
REVIEW AND SUPERVISION/EQCR	
EXAMPLES	<ul style="list-style-type: none"> There is no documented evidence that the engagement partner reviewed all significant working papers in terms of the firm's policy, i.e. significant risk areas. For example, export sales and commissions are both material, and this should have been included for review by the engagement partner. Significant findings have been raised on these working papers. (ISA 220.20) Not all significant working papers and audit programmes were signed and dated by the engagement partner as evidence of review. (ISA 220.16)
BIOLOGICAL ASSETS	
EXAMPLES	<ul style="list-style-type: none"> Biological assets (cost and carrying value material): <ul style="list-style-type: none"> There is no documented evidence that completeness of biological assets was considered. There is no documented consideration regarding the classification of animals as biological assets, PPE or inventory. According to the IFRS for SME, paragraph 34.4, an entity shall measure a biological asset on initial recognition and at each reporting date at its fair value less costs to sell. Changes in fair value less costs to sell shall be recognised in profit or loss.

EXAMPLES	<p>The accounting policy of the company indicates that the fair value method will be used.</p> <p>It was noted that there was no revaluation during the current financial year. There is no documented audit evidence that the impact of the non-compliance with the standard was considered on the audit opinion.</p> <ul style="list-style-type: none"> o There is no documented consideration with regards to harvested produce and the correct treatment thereof in terms of the accounting framework (e.g. measured at fair value and transferred to inventory). There is no documented evidence that the engagement team verified a sample of additions to biological assets. Biological assets include cattle and sheep. • Disclosure: The financial statements did not disclose the aggregate gain or loss arising from the change in fair value less costs to sell of biological assets. The movement on the agricultural assets was not disclosed in the financial statements, as required by the framework. • Fair value was determined using the mass of the livestock and the price per kilogram. The engagement team verified the price per kilogram. There is, however, no documented consideration with regards to the mass of the livestock used to calculate the value of the biological assets. • The nature of the business is citrus, sugar cane and vegetable farming as well as game. The financial statements (Statement of Financial Position) have no recognition of biological assets as would have been expected for a farming entity. There is no documented justification on the audit file.
STATUTORY	
EXAMPLES	<ul style="list-style-type: none"> • The annual financial statements do not indicate the details of the person responsible for preparing the financial statements in terms of Section 29 of the Companies Act. • The auditor has failed to perform and document his/her verification of material reserves. (ISA 330.18) <p><i>(Refer to Auditors' Own Compliance with Laws and Regulations above for more examples.)</i></p>

2.4 OVERALL CONSIDERATION

Experience has shown that firms with a strong ethical and quality focused leadership that is enthusiastically involved in driving high audit quality within their firms had fewer inspection findings. Leadership's attitude towards a culture of high quality plays a critically important role in setting the right example within the firm. Leadership must constantly pursue a balance between commercialism and professionalism, remembering that professionalism forms the basis of the firm's service offering; and commercial considerations should never reach a point where they override the quality of work performed. (ISQC 1.A5)

Key areas that require urgent improvement are engagement performance, engagement monitoring and ethical requirements, including independence. Leadership is responsible for ensuring that the engagements are consistently performed at the required level of quality and that the internal quality monitoring processes of the firm provide them with a sufficient high level of reasonable assurance.

Leadership and those responsible within audit firms where improvement is required are encouraged to develop and implement appropriate remedial plans that will enhance the firms' audit quality both at firm and engagement levels. *(Refer to section 3 below on Root Cause Analysis.)*

Independence

Ethical requirements and independence are cornerstones of high audit quality – and maintaining strong independence in mind and appearance from clients is of critical importance. A number of inspection findings in this report, albeit not raised from an independence perspective, are indicative of possible underlying independence issues. The IRBA observed numerous examples of possible independence issues in appearance, for example, where auditors failed to demonstrate the expected level of professional scepticism or professional judgement in certain situations.

Professional Scepticism

Professional scepticism means an attitude that includes a questioning mind, being alert to conditions that may indicate possible misstatement due to error or fraud, and a critical assessment of evidence. A number of significant findings in this report relate to a possible lack of professional scepticism demonstrated in the following areas: professional judgement; materiality levels; fair value assessments, e.g. discounting and residual values; fraud risk assessment and identification of significant risks and response thereto; reliance on client-prepared information and assumptions without sufficient critical assessment; disclosures and complex accounting; reliance on controls; and controls testing, sampling and linkage to risks.

New methodologies and changes thereto seem to become an issue in that some firms refer to their methodologies when considering inspection findings, while those methodologies might not be appropriately aligned with the latest standards. Firms are encouraged to ensure that their methodologies do not skew the underlying principles and spirit of the standards. The IRBA will not consider an interpretation or methodology that is not in line with the standards, especially if it fails to demonstrate sufficient application of professional scepticism and pushes the boundaries of obtaining lesser and lesser audit evidence than what is required to support the auditor's conclusions and opinion.

System of Quality Control

There is a real risk to the firms' leadership, regulators and those charged with governance that the firm may appear to obtain reasonable assurance from its monitoring

processes, but the risk-based selection and external regulatory inspection of selected assurance engagements identify a high number of engagements with significant inspection findings. These audits were either not selected for internal review and/or identified as high-risk through the firm's own internal quality control processes. This should prompt leadership to strengthen the firm's quality control policies and procedures to avoid or reduce the risk of possible undetected audit deficiencies to an acceptable level. (ISQC 1.18; 32, A4)

Effectiveness of Internal Reviews of Audit Quality

There is an observed tendency in that engagements that were not selected as part of the firm's quality control processes were not at the required level, evidenced by the high number of significant findings that were raised. Those engagements selected for internal review (EQCR/Monitoring) that were subsequently selected for re-performance by the IRBA indicated significant deficiencies, pointing to a possible lack of risk factors considered by the firms in selecting engagements or engagement partners; or the areas (scope) of the reviewers were not sufficient or appropriate; or that there was a lack of unpredictability applied when selecting auditors for review.

Audit Evidence and Documentation

The majority of findings reported in this report relate to a lack of documented evidence on file to support the auditor's conclusions and opinion. ISA 200 states that to obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion. These findings included, among others, insufficient testing at assertion level; inappropriate source documentation and direction of testing; insufficient extent of testing in relation to assessed risk; unidentified or unaddressed material misstatements and departures from the standards; an absent sampling methodology; and a lack of demonstrated professional scepticism.

Most findings relate to the fact that the audit work is not documented in sufficient detail on file to be re-performable by another experienced auditor, as required by ISA 230. Auditors normally respond to inspection findings by verbally explaining the procedures and thought processes they followed. However, in most instances this was not

sufficiently documented on file, resulting in a finding. The IRBA applies the rule of *“If it’s not documented, it is deemed not done”*. In the absence of documented audit evidence, inspectors are not able to conclude that sufficient appropriate evidence existed and had been considered at the time of the audit opinion. ISA 500 in paragraph 6 states that the auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. Only in rare instances can “new” evidence presented to inspectors be accepted, and only when it can be proven beyond any doubt that the evidence or working paper existed and was considered at the time of the opinion.

Many auditors continue to refer to other working papers in the audit file in response to specific inspection findings. Although we inspect these other working papers, in most instances these working papers are referred to in mitigation for not having documented sufficient appropriate audit evidence on specific test objectives. The work referred to is normally performed in another section, with no documented reference, link or conclusion on the specific test objective or assertion in question, as required by ISA 230, paragraph 8; and the work referred to is in most instances not sufficient or appropriate. (ISA 500.6).

In further instances, evidence was found that working papers were modified after the 60-day file assembly period and shortly before the inspection date, which casts significant doubt on the integrity of the audit file and the conduct of the engagement team and the firm. The IRBA regards any tampering with an audit file after archiving, especially in connection with an inspection, in a very serious light.

A number of findings were raised as a result of contradictory working papers on file. Some of these working papers contradicted the conclusions reached by the auditor and impacted on the opinion.

Significant Risks including Fraud Risk and Revenue

Some auditors failed to identify the deemed significant risks such as revenue recognition, related party transactions outside the normal course of business and management override of controls (journals), resulting in under-testing and insufficient audit evidence to support the auditor’s conclusions and opinion.

The rebuttal of the presumed fraud risk in revenue recognition appears to become a default practice at some firms. This is an indication of a lack of demonstrated professional scepticism in ensuring sufficient evidence is obtained on a significant risk. Rebuttal is indeed allowed where there is a single type of simple revenue transaction, but in many instances the auditor’s documented justification for rebutting the significant risk was deemed inappropriate. Revenue rebuttal should be justified and documented at assertion level to enable an experienced auditor to understand and arrive at the same conclusion. (ISA 200.5, 7, 17; ISA 230.8; ISA 240.26, 47, A30; ISA 315R.27; ISA 500.6)

Where the auditor is testing the completeness assertion of revenue, the sample cannot be drawn from a population of recorded transactions. In order to detect such understatements, the auditor selects the items from a source that is independent of the population being tested, one that includes all the items that are expected to be recorded, and then determines whether they are included in the recorded amount. Thus, the completeness assertion will be appropriately verified.

3. ROOT CAUSE ANALYSIS

The IRBA endeavours to engage more regularly and directly with the firms' leadership and engagement partners on audit quality and remedial action to reduce or eliminate recurring findings during re-inspection, while maintaining its own independence. One of the objectives of the IRBA's Remedial Action Process is to promote the firms' internal processes of continuous improvement by also prompting corrective action on external inspection deficiencies. ISQC 1 requires firms to evaluate, communicate and remediate deficiencies identified through its monitoring processes, which do not always incorporate external inspection results.

Through this process, firms or practitioners that receive unsatisfactory inspection results are requested to analyse the inspection findings and submit a root cause analysis and an action plan within 30 calendar days from the date of the Inspections Committee result letter, with a written undertaking that all deficiencies that were reported to them will be addressed.

The IRBA has actively engaged with 136 (72%) of those registered auditors that received an unsatisfactory result from the Inspections Committee this year. The following two diagrams summarise the most common root causes identified by auditors.

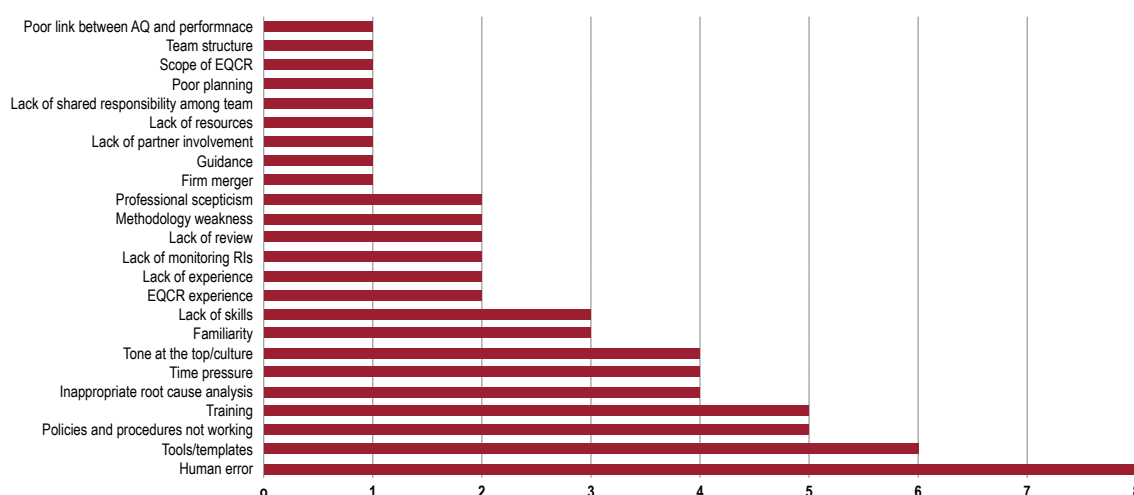


Diagram 7: Root causes identified by firms at firm level

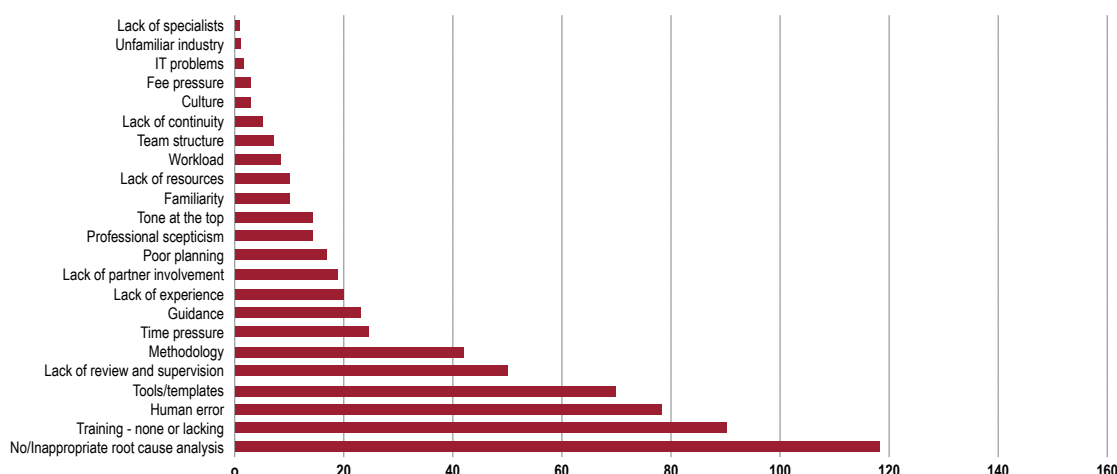


Diagram 8: Root causes identified by auditors on engagements

A root cause analysis that is not robust enough might not get to the real underlying root causes for findings. After analysing the root cause analyses and action plans submitted by engagement partners it became apparent that there is a significant misunderstanding of the root-cause analysis in that it was either not prepared at all or incorrectly prepared, identifying, for example, “lack of documentation” as the root cause without getting to the real answer as to why the documentation was deficient. Discussions attempted at resolving this misunderstanding resulted in auditors being requested to resubmit their root cause analyses.

Those auditors that effectively identified the underlying root causes and implemented real proactive action plans demonstrated significant improvement during follow-up inspections. The ultimate responsibility for high audit quality lies with the auditors and the success of this initiative is dependent on the positive attitude and eager involvement of the firms’ leadership and engagement partners. Those auditors that were visited as part of the remedial process were generally very complimentary of the initiative taken by the IRBA.

To strengthen audit quality on all their audits, auditors are encouraged to identify the real underlying reasons that could have resulted in inspection findings and to then address the root causes more effectively rather than just focusing on the symptoms. A common approach is to keep asking “why” a finding occurred, until all possible causes are identified. Only then should appropriate action plans be developed. Firms and auditors are also encouraged to analyse the common findings in this report and ensure that similar findings are not identified on their audits. There are a number of reported findings that recur year after year despite being reported by the IRBA.

Auditors are encouraged to study the International Auditing and Assurance Standards Board’s (IAASB) *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*. The Framework aims to raise awareness at a bigger picture level of the key elements of audit quality; encourage key stakeholders to challenge themselves to do more to increase audit quality in their particular environments; and facilitate greater dialogue between key stakeholders on the topic.

4. SANCTIONS

During the year, the Inspections Committee referred three (6: 2015) firms and 33 (18: 2015) engagement partners to the IRBA's Investigating Committee for investigation.

Auditors are referred for investigation following an unsatisfactory inspection based on fundamental or ongoing non-compliance with the applicable standards, code or legislation. Registered auditors will be subject to a re-inspection after approximately 12-18 months once the case has been finalised. An unsatisfactory re-inspection may be referred back to the Investigating Committee and might have serious consequences for the auditor. Auditors were mostly referred for investigation on the following bases:

- Incorrect audit opinion;
- Insufficient improvement on re-inspection;
- Independence breaches (Section 90(2) of the Companies Act, 2008, and the IRBA Code);

- Material misstatement not identified or addressed by the auditor;
- Working papers modified after the audit opinion date/archiving period; and
- Audit report not supported by sufficient appropriate evidence.

Even though an auditor has been referred for investigation, the IRBA still requires that a root cause analysis and an action plan be submitted. This is an independent process that runs separately and should not be conflated with the investigation process in any way. The IRBA requires remedial action to be taken by the auditor even while under investigation because the auditor continues to perform assurance work that might continue to not be at the required level.

5. OTHER LOCAL AND INTERNATIONAL STAKEHOLDERS

INTERNATIONAL

Every year representatives from the Inspections Department attend the annual International Forum of Independent Audit Regulators (IFIAR) Inspections Workshop. The workshop is central to the IFIAR's aim to enhance investor protection by improving audit quality globally. With 52 member countries from all continents, the IFIAR, through its inspections workshops, provides a unique opportunity for independent audit regulators to meet and discuss inspection processes, learn from each other, leverage off each other's experience as well as consider similarities and differences in their practices and methodologies.

This information sharing leads to a better understanding of the members' respective oversight regimes and the identification of better practices in inspecting audit firms. It also promotes greater consistency across all regulators.

The IRBA CEO, Mr Bernard Agulhas, is a member of the IFIAR Investor and Other Stakeholders Working Group (IOSWG), while Mr Imre Nagy, Director Inspections, is a member of the Inspection Workshop Working Group (IWWG). The IRBA also holds membership of the Enforcement Working Group (EWG) and the Standards Coordination Working Group (SCWG) of IFIAR.

The IRBA continues to be involved in international inspections performed in South Africa and in enhancing the sharing of research and risk-based information between international regulators.

The IRBA's regulatory oversight regime is also recognised by the European Commission as equivalent to EU standards. Switzerland has also regarded the IRBA as an equivalent regulator. This enables a mutual sharing of information and presents the opportunity for the IRBA to annually benchmark its inspection regime against other reputable international audit regulators.

LOCAL AND REGIONAL

The Inspections Department works closely with the Standards Department by providing regular feedback on observations made during inspections that may be of interest to Standards when considering amendments to the standards or identifying the need for specific guidance.

The IRBA is also committed to strengthening regional ties and collaboration between African regulators that are already members of, or wish to join, the IFIAR. The IRBA hosted a number of other African countries, such as Botswana, Ethiopia, Mozambique and Zimbabwe, to

6. FUTURE OUTLOOK

Recently, there have been significant developments in the audit profession, including auditor reforms such as mandatory audit firm rotation and tendering; communication of inspection findings to audit committees; significant changes to the auditor reporting model; and Audit Quality Indicators (AQI). As a world-class regulator, the IRBA continues to engage with relevant stakeholders and implement appropriate reforms in our jurisdiction, where deemed necessary. The following are some of the areas on our radar:

BROADER RESPONSIBILITY FOR AUDIT QUALITY

There is an even greater emphasis on audit quality from investors, with broader expectations from those who are involved in financial reporting and audit oversight. Other regulators, audit firms, boards, audit committees, internal auditors, specialists, consultants and management should recognise their respective roles in promoting enhanced financial reporting and audit quality.

FOCUS ON RISK

The IRBA will continue to analyse and respond to the relevant risk factors impacting the quality of audits in terms of its risk-based approach. It will continue to enhance its focus on material areas of risk in the financial statements. These are areas that require the auditor to exercise judgement and they include complex accounting issues, significant estimates and the implementation of new standards and legislation.

NEW AND REVISED AUDITOR REPORTING STANDARDS

A key focus area for inspections will be on the *New and Revised Auditor Reporting Standards*. In January 2015, the IAASB released its new and revised Auditor Reporting Standards, which are designed to significantly enhance auditors' reports for investors and other users of financial statements. The issue of the new and revised standards was, among other objectives, a response to calls from investors and others that it is in the public interest for an auditor to provide greater transparency about the audit that was performed [International Federation of Accountants (IFAC)].

The new and revised Auditor Reporting Standards are:

- ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*;
- ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*;
- ISA 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*;
- ISA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*;
- ISA 570 (Revised), *Going Concern*;
- ISA 260 (Revised), *Communication with Those Charged with Governance*; and
- *Related Conforming Amendments to other ISAs*.

In addition, the following related standards have also been revised:

- ISA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*;
- ISA 800 (Revised), *Special Considerations - Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*;
- ISA 805 (Revised), *Special Considerations - Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*; and
- ISA 810 (Revised), *Engagements to Report on Summary Financial Statements*.

The new and revised Auditor Reporting standards are effective for audits of financial statements for periods ending on or after 15 December 2016. The most notable enhancement to the auditor's report is the new requirement for auditors of listed entities' financial statements to communicate "Key Audit Matters" (KAM) – those matters that the auditor views as most significant – with an explanation of how they were addressed in the audit.

During 2016, the IRBA had the opportunity to collaborate

with firms to conduct *pro forma* inspections of the new auditor's report. The *pro forma* inspections focused on the form and content of the new auditor's report prepared in terms of the new and revised Auditor Reporting Standards. To assist firms that will be preparing their auditor's reports in compliance with the new and revised standards, below is a summary of the findings from the *pro forma* inspections:

- The descriptions of KAM communicated in the auditor's report were:
 - o Misaligned to the disclosure in the financial statements.
 - o Not comprehensive and clear enough for users to easily understand the KAM and make informed decisions.
 - o Found to omit reference to the relevant disclosure in the financial statements.
 - o Contained "boilerplate" language.
 - o Misaligned to the information disclosed in the Audit Committee Report.
- There was insufficient evidence or there were poor linkages in working papers of the process followed in determining KAM.
- Working papers did not yet fully reflect all the changes arising from the full suite of new and revised Auditor Reporting Standards.
- Several elements of the format of the illustrative reports contained in the South African Auditing Practice Statement (SAAPS) 3, *Illustrative Reports*, were found not to be followed, or were completely omitted.

SOUTH AFRICAN AUDITING PRACTICE STATEMENT (SAAPS) 3 (REVISED NOVEMBER 2015)

Also effective for periods ending on or after 15 December 2016 is the *South African Auditing Practice Statement (SAAPS) 3 (Revised November 2015)*. This SAAPS contains conforming amendments arising from the new and revised auditor reporting and related auditing standards issued by the International Auditing and Assurance Standards Board that have been approved for

adoption, issue and prescription by registered auditors in South Africa as well as guidance issued by the IRBA regarding the mandatory disclosure of audit tenure, issued by the IRBA on 4 December 2015.

Compliance with the revised SAAPS 3 as well as the disclosure of audit tenure will be focused on in 2017.

MANDATORY DISCLOSURE OF AUDIT TENURE

The IRBA, in terms of sections 9 and 10 read with sections 1, 2 and 3 of the Auditing Profession Act, Act 26 of 2005, published a Rule in the Government Gazette Nr.39475 of 04 December 2015. The rule makes it mandatory that all auditors' reports on annual financial statements shall disclose the number of years that the audit firm/sole practitioner has been the auditor of the entity (audit tenure). This rule applies to audit reports issued on the annual financial statements of all public interest entities, as defined in the Companies Act of 2008 and prescribed by the IRBA from time to time, for periods ending on or after 31 December 2015.

Inspections conducted in 2016 focused on monitoring compliance with this rule and this will be a continued focus area in 2017.

REVISED ILLUSTRATIVE ENGAGEMENT LETTER, REPRESENTATION LETTER AND AUDITOR'S REPORTS FOR ENGAGEMENTS ON ATTORNEYS' TRUST ACCOUNTS

In June 2016, the IRBA issued revised illustrations for use by registered auditors when reporting on attorneys' trust accounts. The revised illustrations were updated for amendments arising from International Standard on Assurance Engagements 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information (ISAE 3000 (Revised)). The revised illustrations are effective for reports issued on or after 15 June 2016 when reporting on attorneys' trust accounts for the 2016 financial period end.

Our inspections of attorney trust accounts in 2017 will focus on these new requirements.

RESPONDING TO NON-COMPLIANCE WITH LAWS AND REGULATIONS (NOCLAR)

The IRBA adopted the amendments made to the International Ethics Standards Board for Accountants

(IESBA) Code of Ethics for Professional Accountants (IESBA Code), issued during 2016 relating to NOCLAR. This resulted in the following main changes:

- An introduction of a framework for registered auditors to act in the public interest against non-compliance with laws and regulations;
- An introduction of a proportional approach that recognises the different capacities and spheres of influence, the different levels of public expectations for the different types of professional services offered, and that scales the responsibilities accordingly;
- A renewed emphasis on the tone at the top; and
- A provision for an expanded auditors' "toolkit" for the disclosure of serious, identified or suspected NOCLAR to an appropriate authority under the

appropriate circumstances, without being limited by the ethical duty of confidentiality.

The changes will be effective as of 15 July 2017, and once that take place, they will be included in the monitoring activities of the Inspections Department.

The above areas are not exhaustive and registered auditors are encouraged to study all publications and information on the IRBA website at www.irba.co.za in order to remain up to date with all the new and existing regulatory requirements.

7. APPRECIATION

The IRBA appreciates the cooperation of the firms' leadership, practitioners and personnel during the course of its inspections. We hope that by enhancing our processes and communication with relevant stakeholders

we will collectively achieve high and sustainable audit quality. In doing so, we also hope to enhance public trust in professional assurance services in South Africa.

8. THE IRBA INSPECTIONS PROCESS



Diagram 9: Overview of the IRBA Inspections Process

NOTES

NOTES

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