INTEGRITY I PUBLIC INTEREST I AUDIT QUALITY

STAFF AUDIT PRACTICE ALERT 10

July 2024

KEY CONSIDERATIONS – ACCEPTANCE AND CONTINUATION OF CLIENT RELATIONSHIPS OF AUDIT ENGAGEMENTS

CONTENTS **PAGE**

INTRODUCTION

1. This Staff Audit Practice Alert provides non-authoritative guidance relating to the procedures/factors that audit firms may consider in relation to the acceptance and continuation of client relationships of audit engagements.
2. The scope of the guidance is limited to audit engagements of financial statements and does not extend to review, other assurance and related services engagements, although it may be relevant to other circumstances also.
3. The International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (ISQM 1), requires audit firms to establish policies and procedures for the acceptance and continuance of client relationships and specific engagements.

> Paragraph 30 of ISQM 1 requires that the firm shall establish the quality objectives noted below that address the acceptance and continuance of client relationships or specific engagements.
>
> a) Judgements by the firm about whether to accept or continue a client relationship or specific engagement are appropriate based on:
>   - Information obtained about the nature and circumstances of the engagement and the integrity and ethical values of the client (including management and, when appropriate, those charged with governance) that is sufficient to support such judgements; and
>   - The firm's ability to perform the engagement in accordance with professional standards and applicable legal and regulatory requirements.
>
> b) The financial and operational priorities of the firm do not lead to inappropriate judgements about whether to accept or continue a client relationship or specific engagement.

4. Additionally, the International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements* (ISA 220 (Revised)), details the specific responsibilities of the engagement partner regarding quality management at the engagement level in an audit of financial statements, which includes the acceptance and continuance of client relationships and audit engagements.

> Paragraph 22 of ISA 220 (Revised) states that the engagement partner shall determine that the firm's policies or procedures for the acceptance and continuance of client relationships of audit engagements have been followed, and that conclusions reached in that regard are appropriate.

5. Information that is obtained during the audit firm's acceptance and continuance process may often also be relevant to the engagement team when planning and performing the engagement. The standards specifically require the engagement team to obtain or consider such information. For example, paragraph 23 of ISA 220 (Revised) requires the engagement partner to take into account information obtained in the acceptance and continuance process in planning and performing the audit engagement.
6. The environment in which clients operate has become more complex, with increased regulatory requirements and other factors – such as new and revised legislation in many industries – impacting the relevant acceptance and continuance assessment.

7. The identification of what constitutes an "acceptable client" will vary for each audit firm. Selecting an "acceptable" client at the outset is essential to the audit firm's success and sustainability, management of audit risk, reputation, as well as for its staff satisfaction and retention. Client selection may also be motivated by other factors including strategic reasons. Also, independence is critical in the acceptance of the engagement. Audit firms will need to approach instances of potential conflict of interest in serving a particular client or industry with perceived risk and determine how those risks can be eliminated or reduced to an acceptable level.

8. A distinguishing mark of the auditing profession is its acceptance of the responsibility to act in the public interest. While client acceptance and continuance is a critical step in an audit, it may not always get the appropriate level of attention. The negative actions of clients can sometimes rebound on audit firms, damaging their reputations. Preventing this means carefully vetting clients and their activities at every stage of the audit engagement.

9. Before accepting a new client or engagement, it is important to determine whether the acceptance may create any threats to compliance with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour, as described in the IRBA Code of Professional Conduct for Registered Auditors (Revised April 2023) (the Code).

CLIENT ACCEPTANCE AND CONTINUANCE

10. The audit firm obtains the information it considers necessary before accepting an audit engagement with a new client, and when deciding whether to continue an existing audit engagement. Where risk factors are identified and the audit firm decides to accept or continue the client relationship, it has to document how the risk factors were resolved or mitigated.[1]

11. Matters to consider during the process of evaluating whether to accept an audit engagement from a new client can be more extensive than evaluating whether to continue a relationship with an existing client. The results of the consideration may be documented in a variety of ways, including a checklist, in the format of a questionnaire or documented in a memorandum.

12. Client acceptance and continuance procedures may vary, depending on the audit firm and the type and size of the client. The nature and extent of the areas covered, and the procedures/factors performed, will also depend on whether the audit firm is establishing an audit relationship with a new client or evaluating whether to continue an existing audit relationship. The audit firm's consideration of whether the procedures/factors performed are sufficient and appropriate for the type of assessment being completed would generally cover the following:

    a) Understanding the client and its business;

    b) Assessing the client's integrity and reputation;

    c) Assessing the client's financial stability;

    d) Assessing the nature of the client's operations;

    e) Assessing the financial reporting standards and the internal control environment;

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[1] ISQM 1, paragraphs 57-58.

f) Whether the audit firm has sufficient and appropriate resources to undertake the engagement;

g) Assessing the audit firm's independence and conflicts of interest;

h) The client's relationship with the existing/predecessor auditor;

i) Assessing the skill, competence and capability to perform the audit engagement;

j) Legal and regulatory compliance;

k) Assessing the client's information technology (IT) environment; and

l) Assessing related party transactions.

13. The abovementioned procedures/factors that the audit firm may need to consider are further detailed below. At the time of acceptance, the audit firm may not be aware of the information noted or some of these procedures/factors may be irrelevant, resulting in the audit firm only considering them during the audit engagement or at the continuance stage.

Understanding the Client and Its Business
• Identify management, those charged with governance and other key personnel associated with the client through, for example, reading the annual reports and financial statements, as well as by requesting the Companies and Intellectual Property Commission documents from the client or the Commission directly.
• Ascertain management's experience and financial knowledge credentials.
• Be aware of changes (including expected ones) in ownership, management and those charged with governance, including any management and ownership disputes.
• Consider management's attitude towards internal controls, financial performance and business management.
• Ensure management accepts and understands its responsibilities.[2]
• Confirm the client's understanding of the engagement to be provided by the audit firm, including the limitations of such an engagement.

[2] ISA 210, *Agreeing the Terms of Audit Engagements* (ISA 210), paragraph 6(b).

Assessing the Client's Integrity and Reputation
• Conduct background checks on client owners/key members of management or those charged with governance (e.g. on criminal history, any sanctioned lists and political exposure). • Perform information-gathering searches on the internet and social media, focusing on the client owners/key management or those charged with governance *(key search words might include the client's business name, the names of key personnel and the industry or products/services)*. Specifically inspect public records for pending or past lawsuits, suspicion of fraud, memberships in professional organisations that are not in good standing, negative publicity and close association with people/companies with questionable ethics. • Inquire on the client's other professional service providers and the referral sources, where applicable. • Find out if the client has a history of changing audit firms frequently or unexpectedly and complaining about the services it received from the predecessor audit firms. • Determine whether the client appears on any available sanctioned list. • Understand the client's litigation history against its advisors. • Evaluate the client's reputation in the community.
Assessing the Client's Financial Stability

• Read the client's annual reports and financial statements.
• Research the client's credit history.
• Assess whether the client is showing any going concern issues, for example:
    ○ A major drop in the share price in respect of a publicly traded entity;
    ○ Significant impairments;
    ○ Operating in a jurisdiction where there are restrictions regarding the repatriation of cash;
    ○ Losses being incurred, coupled with generating negative operating cash flow, carrying liabilities exceed carrying assets, defaulting on payments, etc.;
    ○ Breaches of covenant criteria; and/or
    ○ Regular right issues or refinancing of loans.

Assessing the Nature of the Client's Operations
• Consider the complexity of the client's structure. • Determine if the client's operations involve tax complexities. • Establish whether the client operates in a high-risk industry (e.g. crypto and online gambling). • Determine if the client is a public interest entity.[3] • Confirm whether the client is a subsidiary of a public interest entity, a significant subsidiary of a public interest entity or a multinational subsidiary. • Ascertain if the client operates in a specialised legal or regulatory environment (e.g. public company or insurance provider). • Find out whether the client is part of a group of companies[4] that extends across multiple jurisdictions and/or a network[5] firm.[6]
Assessing the Financial Reporting Standards and the Internal Control Environment
• Determine if there is a history of unreliable accounting estimates by management. • Establish whether management turnover has had a negative impact on the internal control environment. • Ascertain that the financial reporting framework to be applied in the preparation of the financial statements is acceptable.[7] • Search for information concerning the attitude of the client's owners/key members of management or those charged with governance towards matters such as the aggressive interpretation of tax regulations, financial reporting standards and the internal control environment. • Establish if there are any indications of an inappropriate limitation in the scope of work or access to records/people.[8/9] • Note whether there are any indications that the client may be involved in money laundering or other criminal activities. Very specific requirements may be relevant under anti-money laundering or counter-terrorism financing laws.
Whether the Audit Firm has Sufficient and Appropriate Resources to Undertake the Audit Engagement
• Determine whether the audit firm has access to sufficient and appropriate tools, methodology, guidance and the enablement needed to deliver the audit engagement at the required standard for the particular client. • Evaluate whether the audit firm has access to sufficient subject matter competency, expertise and capacity to accept or continue with the audit engagement.

3 Refer to footnote 12.

4 ISA 600 (Revised), *Special Considerations Audits of Group Financial Statements (including the Work of Component Auditors).*

5 A network is defined in the Code as a larger structure:

(a) That is aimed at co-operation; and

(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

6 A network firm is defined in the Code as a firm or entity that belongs to a network. For further information, see paragraphs 400.50 A1 to 400.54 A1 of the Code.

7 ISA 210, paragraphs 6(a), 8, 18-20.

8 ISA 210, paragraph 7.

9 ISA 600 (Revised), paragraphs 18, 20 and 21.

Assessing the Audit Firm's Independence and Conflicts of Interest
• Establish if the client is not involved in any activities that may compromise the independence[10] of the audit firm. • Determine the independence requirements pertaining to the client, with regard to whether it is a public interest entity[11/12], regulated entity, an entity in a different jurisdiction, etc. • Identify all services recently delivered by the audit firm or its network to the client and relevant affiliates and evaluate whether these services pose any threat to independence under the Code.[13] As part of this process, consideration is also to be given to any other independence requirements or protections relevant to the client that may prohibit the audit firm from accepting or continuing with the audit engagement (e.g. Part C of the Companies Act 71 of 2008 (the Companies Act)). • Determine whether there are possible conflicts of interest[14] that may compromise professional or business judgement that would preclude the audit firm from performing the audit engagement. • Ascertain if the audit firm and/or network firm has any financial interests or business relationships[15] with the client. • Enquire from the partners of the firm on whether there is any reason not to accept the client and any threat to the audit firm's ethical values. • Does the client have unpaid fees[16] due to the firm for services delivered or the predecessor audit firm regarding the prior-year audit, or other engagements. • Ascertain whether the audit fee quoted[17] is sufficient, given the nature and circumstances of the audit engagement; and if that will not diminish the audit firm's ability to perform the audit engagement in accordance with the auditing

10 Independence is defined in the Code as comprising independence of mind and independence of appearance. Part 4 of the Code details various independence consideration for the registered auditor and audit firm, as applicable.

11 Public interest entity is defined in the Code as:
- (a) A listed entity; or
- (b) An entity:
  - (i) Defined by regulation or legislation as a public interest entity; or
  - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator; or
- (c) *Other entities as set out in paragraphs R400.8a SA and R400.8b SA.*

12 The revised definition of public interest entity is defined in the Code as:
- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

Paragraph R400.23 SA more explicitly defines the categories of public interest entities in (b) and (c) above, and specifies those additional entities that are deemed to be public interest entities to meet the purpose described in paragraph 400.15, as contemplated in paragraph (d) above.

The revisions to the public interest entity definition in the Code will be effective for audits of financial statements for periods beginning on or after 15 December 2024. Early adoption is permitted.

13 Section 600, Provision of Non-assurance Services to an Audit Client, of the Code.

14 Section 310, Conflict of Interest, of the Code.

15 Section 510, Financial Interest, and Section 520, Business Relationships, of the Code respectively.

16 R410.12 of the Code.

17 Paragraph 330.3 A1-330.3 A4 of the Code.

pronouncements, as well as the applicable legal and regulatory requirements. • Estimate the proportion of: (a) the fees for services other than audit to be generated from the client, in relation to the total fees of the firm;[18] and (b) the total fee from the client and the firm's dependency on that fee;[19/20] • Confirm any legal and/or regulatory requirements stipulated in legislation (e.g. Section 90 of the Companies Act).
The Client's Relationship with the Existing/Predecessor Auditor
• Section 320, P*rofessional Appointments*, of the Code deals with client acceptance, engagement acceptance, changes in the professional appointment as well as client and engagement continuance. The requirements in this section apply whether the audit firm is replacing or being replaced by another audit firm. • Request to communicate with the existing/predecessor auditor.[21/22] If the client refuses, the appointment should be declined, unless there are exceptional circumstances of which the audit firm has full knowledge, and it is satisfied regarding all relevant facts, by some other means. • If permission is obtained from the client, inquire from the existing/predecessor auditor about: o Access to the working papers relating to the client; o Any outstanding fees; o Any differences of opinion or disagreements; o The integrity of management and those charged with governance; o Reason(s) why the existing/predecessor auditor was not reappointed; o Any matters of concern in the prior year(s) auditor's report; o Whether there were any restatements of audited accounts in the past three years; o Any reportable irregularities, as per Section 45 of the Auditing Profession Act 26 of 2005, as amended (the APA)[23] and/or any non-compliance with laws and regulations[24/25] (i.e. tax filings/disputes) noted and management responses to the findings, as these could be an indication of management's attitude towards compliance and the tone being set at the top; o Whether the audit committee demonstrates a bias towards executive management or a lack of appropriate challenging on key areas of judgement; o Any concerns with the internal control environment, meeting reporting deadlines and obtaining supporting evidence, among others; and/or o Any other professional reasons why the audit firm should not accept the client.

18 R410.6 of the Code.

19 R410.15 of the Code.

20 R410.18 of the Code.

21 Section 320 of the Code.

22 ISA 300, *Planning an Audit of Financial Statement*, paragraph 12(b).

23 Revised Guide for Registered Auditors: *Reportable Irregularities in terms of the Auditing Profession Act*.

24 Non-compliance with laws and regulations is defined in the Code as comprising acts of omission or commission, intentional or unintentional, which are contrary to the prevailing laws or regulations committed by the following parties:
(a) A client;
(b) Those charged with governance of a client;
(c) Management of a client; or
(d) Other individuals working for or under the direction of a client.

25 [IRBA Frequently Asked Questions on Non-Compliance with Laws and Regulations](#).

Assessing the Skill, Competence and Capability to Perform the Audit Engagement
• Establish whether the client has operations in any specialised industries, such as banking, financial services or insurers. • Determine if the audit engagement requires the use of the work of experts.[26] • Ascertain whether an engagement quality reviewer is needed.[27] • Where an engagement quality review is required to be performed in accordance with ISQM 1, consider whether the audit firm has access to an eligible reviewer (within the audit firm or external service providers) for the completion of an objective evaluation of significant judgements, as required by ISQM 2, *Engagement Quality Reviews*, or how such capacity is expected to be secured.[28] • Assess whether the partner and staff have sufficient knowledge and experience for the audit engagement. • Evaluate whether the partner and staff have sufficient time and capacity to perform the audit engagement. • Determine the audit firm's ability to allocate sufficient resources, to effectively audit the client. • Ensure that the timeframes for the completion of the audit work are reasonable.
Legal and Regulatory Compliance
• Consider the client's compliance with applicable laws and regulations (e.g. reportable irregularities reported in the prior year(s) auditor's report). • Assess any pending litigation, regulatory investigations or legal disputes that may affect the financial statements, where applicable.
Assessing the Client's IT Environment
• Establish accessibility to the client's information technology environment and records. • Evaluate the client's IT systems and cybersecurity measures. • Assess the controls and related risk of data breaches, unauthorised access or disruptions that could impact financial reporting.
Assessing Related Party Transactions
• Identify and evaluate any related party transactions that may pose a risk of material misstatement. • Assess the adequacy of disclosure related to such transactions in the financial statements.

14. Additional considerations for client continuance will be as noted below.

    a) Perform evaluations at least annually on any changes to the procedures/factors listed above or any new factors. The nature and extent, as part of the procedures performed, will depend on the nature and size of the client or any new considerations.

    b) The scope of work that the audit firm will need to perform regarding client continuance will depend on the nature, size and complexity of the entity.

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[26] ISA 620, *Using the Work of an Auditor's Expert*.

[27] ISQM 2, *Engagement Quality Reviews*.

[28] Section 325 of the Code.

c) Develop policies and procedures for continuing with a client and undertaking the audit engagement.

PROPOSALS FOR NEW CLIENTS

15. It is preferable that client acceptance procedures be performed before responding to an audit proposal.

16. However, there are instances where this may not be feasible, due to various reasons that include, but are not limited to:

    a) Tight deadlines for proposal submissions, which do not allow sufficient time to complete all acceptance processes within the audit firm.

    b) Limited availability of information from the client, mostly concerning the director and shareholder details, especially for entities where such information is not publicly accessible. Clients often withhold certain information during the proposal stage, only disclosing it to the successful audit firm at a later stage.

    c) Complexity of group structures (in terms of size and multi-jurisdictional presence), making independence assessments more intricate and time-consuming.

    d) Engagements requiring global consultations with other member firm offices within the network.

    e) The previous year's audit by the current auditors not being finalised at the time of the proposal submission, thereby hindering the audit firm's ability to assess the outcome of the audit before confirming the appointment.

17. In such cases, the audit firm may need to state in its proposal that its acceptance procedures are ongoing. Furthermore, it is encouraged to clarify that if its proposal is successful, acceptance of the audit engagement would be contingent upon the successful completion of these acceptance processes. Additionally, acceptance would be subject to there being no information uncovered during these processes that could necessitate a change in the audit firm's decision.

18. Prior to accepting an appointment, it is important that the audit firm completes all outstanding acceptance processes satisfactorily before formally accepting the audit engagement.

RESPONDING TO IDENTIFIED RISKS

19. In response to risks identified during the client acceptance evaluation, the audit firm would implement risk management practices, to help reduce the risk to an acceptable level. Risk management practices to consider, among others, are as follows:

    a) Where permissible, include risk provisions, such as dispute resolution and indemnification requirements in engagement letters.

    b) Assign a more experienced engagement team to the audit engagement.

    c) Perform further procedures relating to knowing the client.

    d) Assign an engagement quality reviewer or other appropriate reviewer.

e) Review the contents of the engagement letter with the client, specifically discussing their responsibilities and the audit firm's expectations of their role in the audit engagement.

f) Perform continuance evaluations more frequently, to monitor client risk and ensure that it does not exceed the level of risk initially accepted.

g) Obtain the client's tax clearance certificate, where applicable.

20. Accepting an audit engagement where the predecessor audit firm resigned or withdrew for reasons such as the level of association or reputational risks could pose unique challenges to the successor audit firm. In developing a response to these risks, the audit firm may consider the following, among others:

a) Whether the driver of the risk factors is continuing or being addressed by the client.

b) Steps taken by the predecessor audit firm during the prior year audit.

c) Impact of other risk management practices implemented by the audit firm.

TERMINATING A CLIENT RELATIONSHIP

21. There may be conditions where an audit firm may determine that a client presents too much risk to continue the audit relationship.

22. Conditions that may lead an audit firm to reject a new client or end an existing client relationship may include:

a) Independence issues;

b) Reputational concerns;

c) Cultural differences that cannot be overcome;

d) Difficulty with obtaining the required documentation from an existing client, to support the audit engagement procedures[29/30];

e) Mergers by the client that impact independence or the scope;

f) Lack of resources or capacity at the audit firm;

g) Changes in the scope of the services covered;

h) The client's industry being deemed as a high risk for the audit firm's risk tolerance;

i) The audit firm becomes uncomfortable with management and there are unreconcilable differences of opinion;

j) The nature of the client's business changes, and the audit firm no longer it has the expertise to perform the services needed;

k) The client experiences recurring financial problems and is unable to pay the audit fee;

l) The client has difficult interactions with the audit firm staff; and/or

[29] ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*, paragraph A24.

[30] ISA 705, *Modifications to the Opinion in the Independent Auditor's Report*, paragraphs A13-A14.

m) The audit firm suspects the client is dishonest or withholding information that is relevant to the audit engagement.

23. The audit firm considers whether there are any legal and regulatory requirements that have to be complied with before terminating the audit relationship. Such obligations include the reporting responsibilities in terms of Section 45 of the APA; Rules 2.11 and/or 2.13 of the IRBA Rules regarding Improper Conduct; Section 360 of the Code, with regard to responding to non-compliance with laws and regulations; and any relevant Companies Act requirements.

24. Once issues have been identified, discussions with the client and others within the audit firm pertaining to continuing or terminating the audit relationship are to be actioned sooner rather than later.

OTHER RESOURCES

25. Guidance that may be useful to audit firms includes the following:

a) International Federation of Accountants (IFAC*): The Importance of Client Selection and Relationship Management*.

b) IFAC: *Quality-Management-Series-detailed-implementation-plan*.

c) IFAC: *Guide to Practice Management for Small- and Medium-Sized Practices*.

d) IRBA: *Frequently Asked Questions on Non-Compliance with Laws and Regulations*.

e) *Revised Guide for Registered Auditors: Access to Working Papers*.

f) *Guide for Registered Auditors: Joint Audit Engagements (Revised May 2024)*.

26. The audit firm may consider using other tools or resources to obtain information about the client, which includes obtaining background information about individuals and companies, financial information of companies, etc. Such resources could be:

a) General research, using the internet and publicly available databases for adverse media;

b) A database of politically exposed persons, heightened risk individuals and organisations, to identify and manage financial, regulatory and reputational risks;

c) Research, data and analysis on private and public companies;

d) Company financials, private equity and venture capital, analyst reports, business news and data on financial markets, among others;

e) The audit firm's internally maintained databases, including shared drives or repositories; and/or

f) Where appropriate, business insights, environmental scanning as well as other tools and resources put in place by the audit firm to proactively monitor its environment and clients.

27. Additionally, audit firms could utilise the services provided by external providers to obtain the information noted above.

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ANNEXURE A: ILLUSTRATIVE EXAMPLE LETTER FOR COMMUNICATING WITH THE EXISTING OR PREDECESSOR AUDITOR

Note: *This illustrative example letter has been developed with the assumption that approval has been obtained from the client to initiate this request.*

The illustrative example letter is not exhaustive or prescriptive and might need to be amended or modified, to ensure that it is appropriate for the particular circumstances.

If the existing or predecessor auditor refuses to respond to any of the below considerations, the audit firm would need to take other reasonable steps to obtain information about any possible threats.

[To be placed on the audit firm's letterhead]

[Predecessor Audit Partner/Director, if known]

[Predecessor Auditor's Firm Name]

[Address of Predecessor Auditor's Firm]

[Date]

Dear [XXX]

ENQUIRY OF THE [PREDECESSOR AUDITOR/EXISTING AUDITOR] TO ESTABLISH WHETHER THERE ARE ANY PROFESSIONAL OR OTHER REASONS NOT TO ACCEPT THE PROPOSED APPOINTMENT IN ACCORDANCE WITH THE REQUIREMENTS OF THE PROFESSIONAL STANDARDS AND THE IRBA CODE

We understand that the directors of [Client name] have recently informed you that they have invited us to accept appointment as auditors of the company. We also understand that the directors have given you written authorisation to discuss the company's affairs with us.

In accordance with professional standards and the IRBA Code, before we accept appointment as auditors, please confirm whether there are any matters we should be aware of, including, in particular, any matters that could influence our decision as to whether or not to accept appointment as auditors of [Client name].

In this regard, we hereby formally request you to answer the following questions relating to your former client [Client name] and provide us with your written response by [Date]:

1. What is your understanding of the reasons for the change in auditors?
2. Were there any disagreements between yourselves and the management of [Client name] over any accounting principles, audit procedures or other significant matters during the two most recent financial years and any subsequent interim period? If so, please describe these disagreements.

3. Were there any restatements of audited accounts in the past three years? If so, please provide us with the details of those restatements.
4. Were there any reportable irregularities — as per Section 45 of the Auditing Profession Act 26 of 2005, as amended — and/or non-compliance with laws and regulations of any other regulatory body in the past two years? If yes, please provide us with the relevant details of those matters reported and copies of all correspondence.
5. Are you aware of any reportable conditions/material weaknesses in the internal control structure?
6. Have all your fees that are due been paid in full?
7. Are you aware of any negative factors affecting management's integrity? If so, please provide us with the relevant details.
8. Does the audit committee demonstrate a bias towards executive management or a lack of appropriate challenging on key areas of judgement?
9. Have there been media allegations of wrongdoing related to the entity in the prior two years? If so, were these previously disclosed by management?
10. Was there a high turnover of key positions in the finance function and other professional functions governed by ethical codes in the past three years? If so, please provide details.
11. Was there a continuous/repeated delay in the supply of supporting information throughout the audit?
12. Are there any other professional reasons why we should not accept the client? If so, please provide us with the necessary information.

In addition to the above, we kindly request that you agree to grant us access to your audit working papers, to enable us to comply with ISA 510, *Initial Audit Engagements – Opening Balances*, to obtain evidence regarding the account balances that existed at the beginning of the period and that we will be required to audit, if appointed as the auditors.

Yours faithfully,

[Audit firm name]

Director/Partner: [Name]

Registered Auditor