

Proposed Revised Guide
May 2021
Comments requested by 8 July 2021



Proposed Guide for Registered Auditors

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

WARNING TO READERS

The content of this proposed Revised Guide should, under no circumstances, be used or relied upon, until it is issued as a pronouncement by the IRBA.

REQUEST FOR COMMENTS

The Independent Regulatory Board for Auditors' (IRBA) Committee for Auditing Standards (CFAS) approved this *proposed Guide for Registered Auditors: Guidance on Performing Audits on behalf of the AGSA (Revised May 2021)* (this proposed Revised Guide) in May 2021 for exposure and comment, for a period of 45 days. Before being issued in its final form, this proposed Revised Guide may be modified in light of comments received.

This proposed Revised Guide has been prepared by the CFAS Public Sector Standing Committee that comprises representatives of large, medium and small audit practices, the South African Institute of Chartered Accountants and the Auditor-General of South Africa.

This proposed Revised Guide may be downloaded free of charge from the IRBA website at: <https://www.irba.co.za/guidance-to-ras/technical-guidance-for-auditors/exposure-drafts-and-comment-letters>.

Respondents are requested to submit their comments electronically in Word and PDF formats to standards@irba.co.za. All comments will be considered as a matter of public record and will be posted on the IRBA website (www.irba.co.za).

Comments should be submitted by **8 July 2021**.

Should you have any queries, or experience any technical difficulties in downloading the documents, please e-mail the Standards Department at standards@irba.co.za.

The IRBA's mission 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.

In line with its legislative mandate, the IRBA's objectives are to create the framework and principles to contribute to the protection of the public who rely on the services of registered auditors; and to support registered auditors who carry out their duties competently, fearlessly and in good faith. The goal is to help create an ethical, value-driven financial sector that encourages investment and confidence, and also promotes sound practices by *developing and maintaining auditing standards, which are internationally comparable*. The statutory responsibility of the CFAS is to assist the IRBA to:

- Develop, maintain, adopt, issue or prescribe auditing pronouncements;
- Consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and
- Promote and ensure the relevance of auditing pronouncements.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to and an explanation of this *proposed Guide for Registered Auditors: Guidance on Performing Audits on behalf of the AGSA (Revised May 2021)* (this proposed Revised Guide).

The Committee for Auditing Standards (CFAS) approved this proposed Revised Guide for exposure in May 2021, for a period of 45 days.

Background

This proposed Revised Guide has been updated jointly by the Public Sector Standing Committee of the CFAS and the Auditor-General of South Africa (AGSA). It provides information that will assist registered auditors from audit firms (auditors) in understanding the public sector environment within which public sector audit engagements are conducted.

In addition, this proposed Revised Guide will help improve the understanding and enhance the performance of quality public sector audit engagements by auditors in public practice. These are auditors who perform audit engagements on behalf of the AGSA, including the audit of financial statements, reported performance information and compliance with key legislation, and the additional audit procedures relating to focus areas, in accordance with the requirements of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) (as amended by the Public Audit Amendment Act No. 5 of 2018).

This proposed Revised Guide has been updated for the following:

- Consequential changes made to the *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)*;
- Other relevant amendments arising from the revision of the PAA; and
- Alignment of content to the updated AGSA tender process, AGSA contract work policies and procedures as well as the relevant Memorandum of Agreement between the AGSA and the audit firm.

The Extant Guide

The extant Guide remains effective until it is formally withdrawn and replaced by this proposed Revised Guide. Auditors are reminded that since it was issued in August 2015, the extant Guide has not been amended to include recent/new legislation.

Project Timetable and Effective Date

Subject to comments received on exposure of this proposed Revised Guide, the CFAS intends to finalise it in the third quarter of 2021. Consequently, this proposed Revised Guide will be effective from the date of its publication.

Guide for Respondents

The CFAS welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments and, where appropriate, make specific suggestions for any proposed changes to the wording.

When a respondent agrees with the proposals in this exposure draft, it will be helpful for the CFAS to be made aware of this view.

Request for Specific Comments

Respondents are requested to comment on the following:

1. Is the content of this proposed Revised Guide useful to auditors who are performing audit engagements on behalf of the AGSA? Please provide details and suggestions for correction and/or improvements.
2. Are there further significant aspects that should be included in this proposed Revised Guide? If so, please list those aspects and the guidance required.

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

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

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

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

**PROPOSED GUIDE FOR REGISTERED AUDITORS:
GUIDANCE ON PERFORMING AUDITS ON BEHALF OF THE AGSA (REVISED MAY 2021)**

1. INTRODUCTION

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

2. DEFINITIONS

Auditor-General of South Africa	The institution contemplated in Section 181(1)(e) of the Constitution.
Auditee	An institution or accounting entity referred to in Section 4 of the PAA that is, or is to be, audited in terms of the said Act, and includes any group of such institutions or accounting entities whose financial statements are, or are to be, consolidated in terms of legislation referred to in Section 4(2) of the PAA.
Engagement team¹	All partners and staff performing the audit engagement, and any other individuals who perform audit procedures on the engagement, excluding an auditor's external expert and internal auditors who provide direct assistance on an engagement.

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

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

3. CONTRACTING WITH AUDIT FIRMS

- 3.1 Section 12 of the PAA authorises the Auditor-General to appoint one or more persons who are suitably qualified to perform or assist in the performance of audits on its behalf.
- 3.2 The contracting of audit firms provides additional capacity to execute the AGSA's mandate, and also serves as a mechanism to support transformation and capacity building in the auditing profession.

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- 3.3 The AGSA follows a tender process to compile an approved list of audit firms to perform audits on its behalf. Work is allocated to audit firms that appear on the approved list. Information relating to the tender process is made available by the AGSA on its website.
- 3.4 Audit firms' engagement teams contracted to perform audits on behalf of the AGSA are regarded as an extension of the AGSA's audit engagement team. In this context, the requirements of part 1 of Chapter 3 of the PAA (relating to audits by the Auditor-General) are applicable to an audit firm's engagement team performing audits on behalf of the AGSA.
- 3.5 The terms and conditions of the contract are agreed with audit firms and included in the Memorandum of Agreement (MoA) entered into between the audit firm and the AGSA for each audit engagement separately.

4. GENERAL ROLES AND RESPONSIBILITIES

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

AGSA

- 4.4 Each audit is assigned to an AGSA engagement manager who is responsible for the overall quality of the audit and the appropriateness of the final auditor's report, as required by the standards and detailed in Section 6 of this proposed Revised Guide. While the AGSA engagement manager assigns certain tasks or responsibilities to the engagement partner, in terms of the MoA, the AGSA engagement manager remains responsible overall for the assigned tasks under the standards as mentioned above.
- 4.5 The AGSA engagement manager is responsible for establishing the terms of the engagement with the auditee and for the engagement letter. The engagement letter is shared with the engagement partner, to confirm the terms of the audit engagement.
- 4.6 The final auditor's report is signed by the person with the delegated authority to sign and issue the auditor's report on behalf of the Auditor-General. The person with the delegated authority to sign may not always be the AGSA engagement manager and is appointed in terms of the AGSA's internal process. Where this is the case, it does not reduce or remove any of the responsibilities of the AGSA engagement manager.
- 4.7 The AGSA engagement manager provides direction on the audit by advising the engagement partner of matters such as:
 - The objectives of the work to be performed;
 - The respective responsibilities of the engagement partner and the AGSA engagement manager;

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

Audit Firm

- 4.12 Audit firms must perform work on behalf of the AGSA in terms of the MoA, which sets out the following:
- The scope of the audit engagement.
 - The audit standards, as detailed in paragraph 6.1 of this proposed Revised Guide, as well as legal and regulatory requirements for the audit engagement, which are the same as those that apply to the AGSA.
 - All duties and responsibilities in terms of the agreement and all work needs to be carried out in an ethical manner with the required level of skill, care and diligence, as reasonably expected in terms of the requirements of the IRBA *Code of Professional Conduct for Registered Auditors (Revised November 2018)*, as amended (IRBA Code).
- 4.13 When contracting an audit firm, the AGSA expects that the audit firm would have established and maintains a system of quality control, as required by the quality control standard² and the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB), to provide reasonable assurance that:
- The audit firm and its personnel comply with the applicable ethical requirements, audit standards and methodology, as detailed in Sections 5 and 6 of this proposed Revised Guide; and

² Refer to footnotes 5 and 6.

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- The proposed draft auditor's report and proposed draft management report prepared are appropriate in the circumstances.
- 4.14 In line with the terms of the MoA, the audit firm identifies the engagement partner who will be responsible for ensuring that the audit engagement is delivered to the required quality and standard agreed with the AGSA. While the audit firm and engagement partner are not considered the statutory auditor, they remain contractually responsible to the AGSA for ensuring that work delivered meets the expectations agreed with the AGSA in the MoA.
- 4.15 Prior to the start of the audit engagement, the engagement partner must be satisfied that the audit firm's engagement team has relevant public sector knowledge and competencies to perform the audit.
- 4.16 When an audit firm performs an audit on behalf of the AGSA for the first time, it may be requested to attend an induction programme presented by the AGSA prior to the audit. The audit firm may also be invited to attend relevant training sessions presented by the AGSA from time to time.
- 4.17 The engagement partner must be satisfied that the audit firm's audit engagement team (this does not include experts) has experience or appropriate training in audits in the public sector and that it has been trained on the latest AGSA audit methodology for the audits of the financial statements, reported performance information and compliance with key legislation. If the audit firm uses its own methodology for the audit of the financial statements, then it is not necessary for the audit firm's audit engagement team to attend all methodology training for the audit of financial statements.
- 4.18 The engagement partner is responsible for the following, as outlined in the MoA between the audit firm and the AGSA:
- Ensuring that all planning documentation is communicated, discussed and agreed with the AGSA engagement manager timeously.
 - Providing the AGSA engagement manager with progress reports on the status of the audit, according to the agreed timeframes.
 - Agreeing to and holding audit-reporting discussions with the AGSA engagement manager timeously.
 - Providing the AGSA engagement manager with regular feedback on key developments and issues noted during the audit engagement.
 - Any other responsibilities, as reflected in the MoA.
- 4.19 The engagement partner assigns the audit firm's engagement team and is responsible for the direction, supervision and review of the work performed by the audit firm's engagement team, as agreed with the AGSA engagement manager.
- 4.20 The engagement partner is also responsible for determining that the proposed draft auditor's report, as presented to the AGSA engagement manager, is in line with the guidance and templates issued by the AGSA and reflects the work performed under the MoA.

5. ETHICAL REQUIREMENTS

Professional Codes of Ethics

5.1 The engagement partner and the audit firm's engagement team performing audits on behalf of the AGSA are subject to the IRBA Code, which is consistent with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants³. In addition, the engagement partner and the audit firm's engagement team are required to comply with the relevant principles of the International Standard of Supreme Audit Institutions (ISSAI) 130, *Code of Ethics* (ISSAI 130)⁴, specifically relating to political neutrality and published by the International Organization of Supreme Audit Institutions.

Independence

5.2 The audit firm (including members of its network), the engagement partner and each member of the audit firm's engagement team confirm their independence, taking into consideration any applicable legislative requirements, prior to accepting the audit engagement; and they remain independent throughout the audit. In this regard, the audit firm (including the network firm) must not undertake any other engagement with the auditee, unless specific prior written authorisation has been given by the AGSA.

5.3 As agreed in the MoA, the audit firm is not permitted to accept and conduct any non-audit service engagements with the auditee for a period of 12 calendar months after the final auditor's report date of the auditee. The audit firm is, however, permitted to conduct external audit services again on behalf of the AGSA.

5.4 The engagement partner and members of the audit firm's engagement team sign a declaration for each audit engagement, thereby undertaking to adhere to the codes of professional conduct and standards described in paragraph 5.1 above, which form part of the audit documentation.

Confidentiality

5.5 The information contained in the engagement file and the material irregularity records remains the property of the AGSA and is confidential. In accordance with Section 50 of the PAA, this information may not be disclosed without the permission of the Auditor-General or his/her delegate, except in an auditor's report or in accordance with Section 18(4) of the PAA. Section 18(4) of the PAA provides for the disclosure of information in any proceedings before a legislature or an internal committee of a legislature or before a court in a criminal matter.

5.6 Audit firms and the audit firms' engagement teams are expected to comply with the confidentiality requirements contained in the AGSA audit engagement performance policy and supplied by the AGSA engagement manager.

5.7 Any information obtained during the audit engagement that is not included in the audit file needs to be returned to the auditee or disposed of securely, following the finalisation of the audit.

³ <https://www.ifac.org/ethics>.

⁴ The ISSAI Code of Ethics may be downloaded from www.issai.org.

6. AUDITING STANDARDS AND METHODOLOGY

- 6.1 In terms of Section 13 of the PAA, the Auditor-General may clarify or prescribe the standards to be applied for audits performed through issuing a Directive. The Directive can be downloaded from the AGSA website (www.agsa.co.za).
- 6.2 The International Quality Control^{5,6}, Auditing, Review, Other Assurance and Related Services Pronouncements issued by the IAASB and relevant auditing pronouncements developed, adopted, issued or prescribed by the IRBA must be applied in performing audits on behalf of the AGSA.
- 6.3 In addition, the audit engagement team apply relevant principles contained in the ISSAIs⁷, which provide additional considerations relevant to the public sector. These principles have been incorporated into the AGSA methodology and guidance, where relevant.

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

- 6.4 The AGSA engagement manager must ensure that the AGSA's audit methodology, audit software and working paper templates are used for the audit engagement, unless the AGSA engagement manager and the engagement partner determine, in consultation with the AGSA Business Executive, that the audit firm may use its own audit software, methodology and working paper templates for the audit of the financial statements. This determination shall be at the sole discretion of the AGSA.
- 6.5 Where the audit firm uses the AGSA methodology, it must establish whether an information system and a fraud specialist are required as part of the audit engagement team. For example, a fraud specialist must be involved in the audit, if there is a complex significant risk of fraud. The audit firm may use its own auditor's expert/s for this purpose. However, if it does not have these experts, it must approach the AGSA engagement manager for assistance.
- 6.6 The AGSA engagement manager provides the Public Audit Manual (PAM), working paper templates and necessary technical guidance to the audit firm, where the audit firm uses the AGSA methodology. In addition to the above, the AGSA's technical updates, the PAA and regulations, the Directive, key application guidance and training material are also available on the AGSA website for audit firms providing services to the AGSA. Each audit firm has to obtain a username and password from the AGSA to access this information.

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

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

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

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- 6.7 The audit firm's hardware and software used for the audit engagements and their Information and Communication Technology policies and procedures must comply with the requirements of the MoA.
- 6.8 The audit firm provides the AGSA engagement manager with access to the methodology, software and working papers, to enable an effective review of the audit firm's working papers. Where the use of the audit firm's methodology and software is approved, the engagement partner and AGSA engagement manager are required to agree on the review protocols in advance. The audit firm is not required to provide the AGSA with the audit software, should restrictive rights apply in respect of the audit firm's software licence. But the audit firm must provide the AGSA engagement manager with a hard copy of the engagement file or a soft copy in a format that can be accessed without using the audit firm's proprietary software.
- 6.9 The engagement partner assembles the audit engagement file and submits it to the AGSA within 60 calendar days after the date of the final auditor's report. No changes to the audit documentation should be made after the final auditor's report date without the advance approval of the AGSA engagement manager. When the AGSA's audit software is not used, the AGSA is provided with a hard copy of the audit engagement file or a soft copy in a format that can be accessed without using the audit firm's proprietary software.
- 6.10 The pre-issuance reviewer should also be granted timely access to the engagement file in an acceptable format, as set out above and agreed between the engagement partner and the AGSA engagement manager.

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

Overall

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

Auditing of financial statements

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

Auditing of reported performance information

- 6.16 The objective of the audit is to reflect an opinion, conclusion or findings on whether the reported performance information for the selected programmes or objectives presented in the annual performance report is free from material misstatement, i.e. the reported performance

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information is useful and reliable in all material respects, in accordance with the applicable criteria, as developed from the performance management and reporting framework set out in the Directive.

- 6.17 The audit of reported performance information is performed in accordance with the standards determined in the Directive. The report on the auditee's reported performance information in the proposed draft auditor's report, in terms of Section 20(2)(c) of the PAA, must be prepared in the manner described in the Directive.
- 6.18 The engagement partner follows the AGSA's methodology in the audit of reported performance information.

Auditing of compliance with key legislation

- 6.19 The objective of an audit of compliance with key legislation is to reflect an opinion, conclusion or findings on whether the auditee, with respect to the individual compliance subject matters scoped into the audit, has complied with specific provisions of key legislation that have been selected as the compliance requirements/criteria for the audit engagement.
- 6.20 The audit of compliance with key legislation is performed in accordance with the standards determined in the Directive. The report on the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters in the proposed draft auditor's report, in terms of Section 20(2)(b) of the PAA, must be prepared in the manner described in the Directive.
- 6.21 The engagement partner follows the AGSA's methodology in the audit of compliance with key legislation.

Identification of internal control deficiencies

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

Focus areas

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

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6.25 The outcome of the audit procedures on these specific focus areas is included in the management report.

Reportable irregularities

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

Material irregularities

6.27 In addition to the AGSA mandate to audit and report, the AGSA can also take specific action in response to material irregularities identified during the audit. This mandate is included in Section 5 of the PAA.

6.28 The identification, consideration, reporting and subsequent processes relating to material irregularities, in accordance with the PAA, are defined in the relevant Material Irregularity Regulations issued in terms of the PAA, the Directive, PAM and policies and procedures of the AGSA.

6.29 In terms of the MoA, when auditors performing audits on behalf of the AGSA encounter material irregularities in terms of the amended PAA, the engagement partner and the audit firm's engagement team are expected to adhere to the AGSA process of identifying and reporting any material irregularities as part of the audit to the AGSA engagement manager. The AGSA engagement manager is responsible for coordinating any required consultations and notifications within the AGSA arising from the material irregularity process.

6.30 The engagement partner must inform the AGSA engagement manager of any potential material irregularities as soon as these are noted by the audit firm's engagement team.

6.31 Where appropriate, Section 20(4) of the PAA determines that the auditor's report may include recommendations for addressing the identified material irregularity by a stipulated date, if the actions of the accounting officer or authority are not appropriate. The AGSA engagement manager determines when it would be appropriate to include such recommendations after completing the prescribed process.

Non-compliance with Laws and Regulations

6.32 The IRBA Code prescribes ethics requirements and guidance to assist the audit engagement team in dealing with non-compliance with laws and regulations (NOCLAR). NOCLAR comprises acts of omission or commission, intentional or unintentional, committed by an auditee, or by those charged with governance, management or other individuals working for or under the direction of a client, that are contrary to the prevailing laws or regulations.

6.33 Section 360 of the IRBA Code sets out the audit engagement team's responsibilities in responding to NOCLAR or suspected NOCLAR.

6.34 Audit firms and the audit firm's engagement team must apply the AGSA NOCLAR guidance. The engagement partner should obtain the latest guidance in this regard from the AGSA engagement manager.

7. COMMUNICATION

- 7.1 The audit engagement team, made up of persons from the AGSA and the audit firm, communicates with the auditee in such a manner that the audit firm and the AGSA are regarded as one team. All formal correspondence to the auditee is issued on behalf of the AGSA, on the AGSA letterhead and not on the audit firm's letterhead.

Interactions and Meetings with Those Charged with Governance

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

Interactions and Meetings with the Executive Authority and Oversight Bodies

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

8. SUPERVISION AND REVIEW

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

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

- The knowledge, experience and proven abilities of the engagement partner and the individual team members performing the audit work.

8.3 Before the date on which the proposed draft auditor's report is finalised, the AGSA engagement manager determines, through a review of audit documentation and discussions with the engagement partner and the audit engagement team, that sufficient appropriate audit evidence has been obtained to support the material findings reported and the opinion expressed.

8.4 The AGSA engagement manager's review may be less detailed than that of the engagement partner, as reliance is placed on the review already performed. The knowledge, experience, capability and results of previous quality control reviews of the audit firm will influence the reliance placed on the reviews conducted.

8.5 The AGSA engagement manager's review focuses on whether appropriate judgements were made in the planning of the audit and whether appropriate conclusions were reached, based on the information recorded per the audit documentation and knowledge of the auditee.

8.6 Supervision by the AGSA engagement manager entails, at a minimum:

- Determining compliance with independence and the ethical requirements set out in Section 5 of this proposed Revised Guide;
- A review of communication with TCWG, as set out in Section 7 of this proposed Revised Guide;
- Considering the experience of the audit engagement team, including whether the team members have sufficient time to carry out their work;
- Tracking the progress of the audit engagement;
- Approval of the audit strategy prior to discussions as well as changes after discussions with the auditee;
- Addressing significant matters arising during the audit engagement, considering their significance and ensuring that the planned approach is appropriately modified;
- Ensuring that all pre-issuance review findings, as detailed in Section 9 of this proposed Revised Guide, are resolved;
- Identifying matters for consultation;
- Assisting, where necessary, in resolving differences of opinion; and
- Appropriateness of the final auditor's report, as set out in paragraph 12.7 of this proposed Revised Guide.

8.7 The AGSA retains the responsibility for the audit engagement acceptance and continuance process, which includes the audit engagement risk assessment process. The audit firm must promptly report to the AGSA engagement manager any information obtained during the audit engagement that may impact the original assessment of audit engagement acceptance and continuance, and audit engagement risk.

Assessment of Quality on the Specific Audit Engagement

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

Annual Audit Engagement Quality Control Reviews

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

Penalties for Non-Performance and Liability

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

9. PRE-ISSUANCE REVIEWS

- 9.1 A pre-issuance review is an audit engagement quality control review, as per the quality control standard set out in Section 6 of this proposed Revised Guide. It is designed to provide an objective evaluation of the significant judgements the audit engagement team made and the conclusions reached in formulating the proposed draft auditor's report before it is issued.
- 9.2 A pre-issuance reviewer is assigned to audit engagements in line with the AGSA's policies and procedures, including those that are performed on behalf of the AGSA.
- 9.3 The reviews must be undertaken by AGSA staff or an external reviewer. Where external reviewers are selected, they are appointed in accordance with the AGSA's procurement policies and procedures and must not be appointed by the audit firm. The reviewer must not be an

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individual from the audit firm that performed the work on behalf of the AGSA and must not make any decisions on behalf of the audit engagement team.

- 9.4 The engagement partner resolves all findings with the pre-issuance reviewer before finalising the proposed draft auditor's report. The AGSA engagement manager is responsible for ensuring that all findings are resolved before signing off the final auditor's report.
- 9.5 The engagement partner must afford the pre-issuance reviewer sufficient time to conduct his/her reviews during planning, execution and reporting.

10. TECHNICAL CONSULTATIONS

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

11. DIFFERENCES OF OPINION

Technical Consultations

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

Pre-Issuance Review

- 11.3 Disagreements between the engagement partner or the AGSA engagement manager and the pre-issuance reviewer are resolved by following the AGSA's difference-of-opinion process.
- 11.4 All differences of opinion are resolved prior to signing the final auditor's report.
- 11.5 The AGSA's difference-of-opinion resolution process is illustrated in Appendix 3 of this proposed Revised Guide.

12. REPORTING

Timelines

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

Management Report

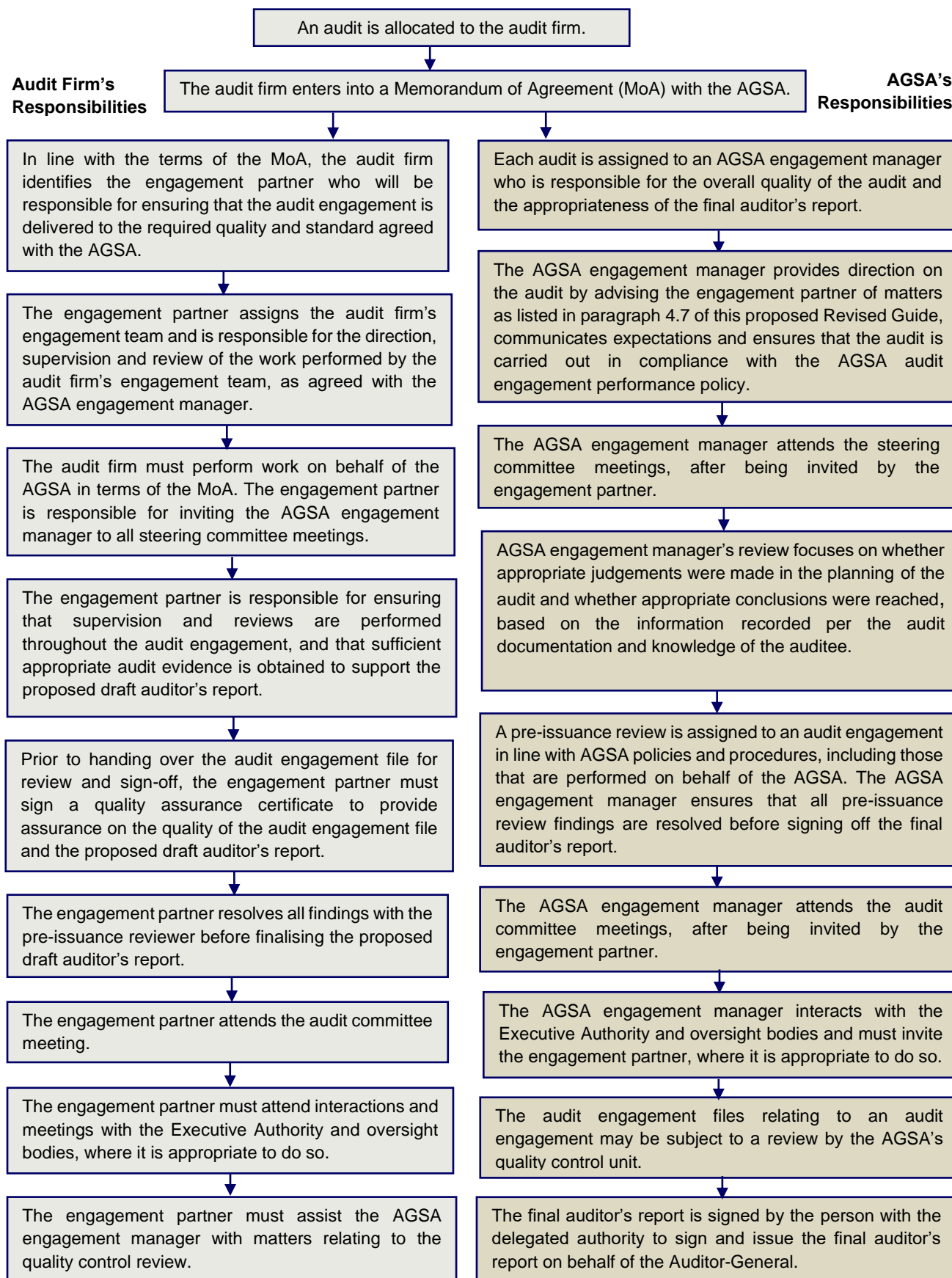
- 12.3 To facilitate further reporting by the AGSA, the engagement partner must provide the proposed draft management report to the AGSA engagement manager. In addition, to facilitate the provision of a portfolio overview to the Executive Authority, the engagement partner must use the AGSA's management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

Auditor's Report

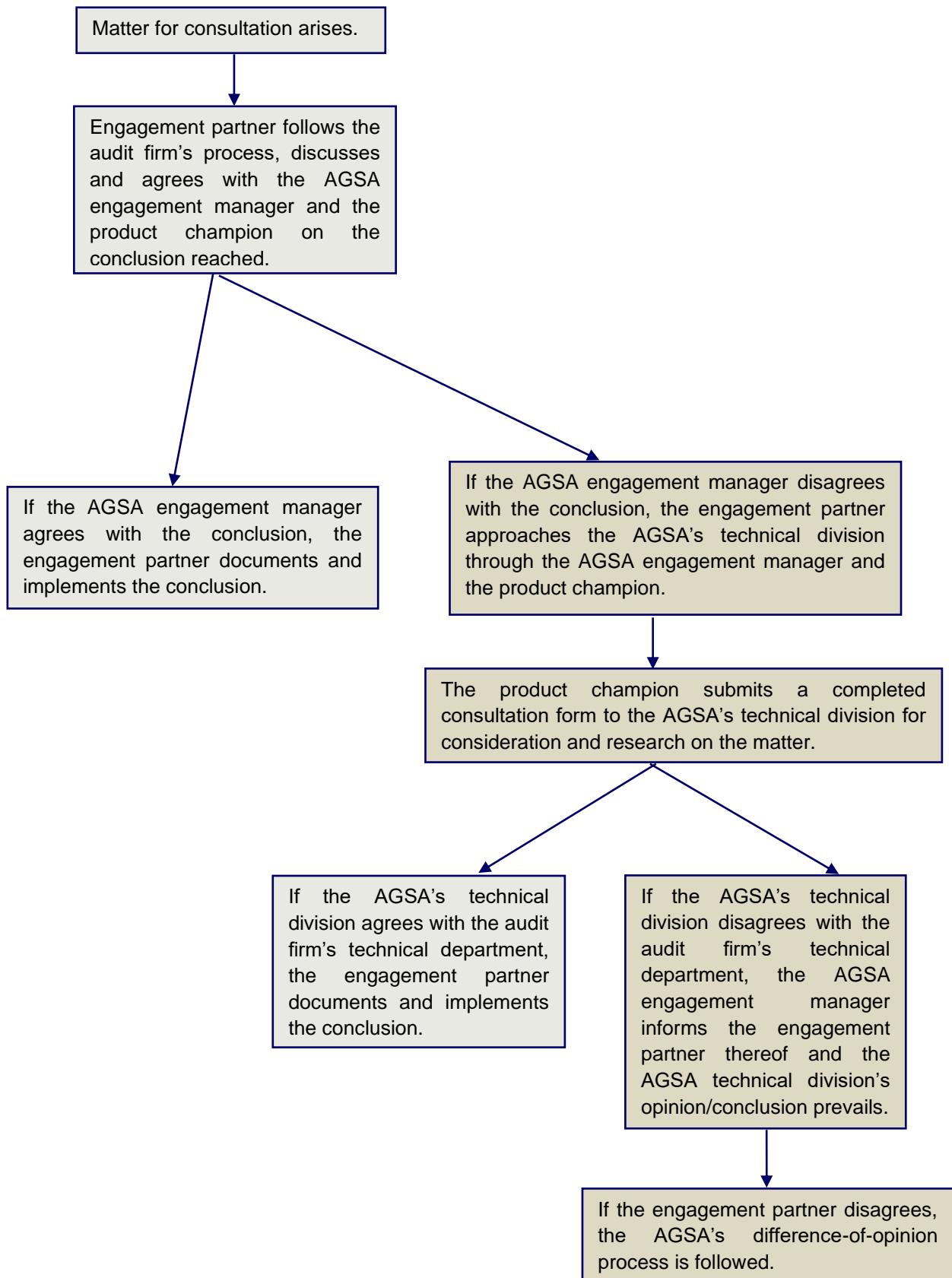
- 12.5 The engagement partner must prepare the auditor's report in the format prescribed by the AGSA in its Reporting Guide and templates issued therewith. The prescribed format and content of the auditor's report must not be deviated from, except for minor editorial changes or in exceptional circumstances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

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



APPENDIX 2: CONSULTATION PROCESS WITHIN AND OUTSIDE THE AGSA



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

