

**Proposed Revised Guide
August 2020
Comments requested by 15 October 2020**



Proposed Guide for Registered Auditors

**GUIDANCE ON PERFORMING AUDITS WHERE THE
AGSA HAS OPTED NOT TO PERFORM THE AUDIT
(REVISED AUGUST 2020)**

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 where the AGSA has Opted not to Perform the Audit (Revised August 2020) (this proposed Revised Guide)* in August 2020 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, comprising 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 **15 October 2020**.

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 mission 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.

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 where the AGSA has Opted not to Perform the Audit (Revised August 2020) (this proposed Revised Guide)*.

The Committee for Auditing Standards (CFAS) approved this proposed Revised Guide for exposure in August 2020 for a period of 45 days.

Background

This proposed Revised Guide has been updated jointly by 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 audits are conducted.

This proposed Revised Guide will help improve the understanding, and enhance the performance, of quality public sector audits by auditors in public practice. These are auditors who are appointed as auditors of public institutions where the AGSA has opted not to perform the audit, in accordance with Section 4(3) of the Public Audit Act, No. 25 of 2004 (the PAA).

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;
- Removal of information that is already contained in the Directive; and
- The inclusion of practical application guidance to implement the requirements of the PAA, *Regulations on audits by auditors in private practice* and the Directive, and whichever is not already contained elsewhere.

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, 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 this proposed Revised Guide in the first quarter of 2021. 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 audits where the AGSA has opted not to perform the audit? 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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PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE
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This *Proposed Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit (Revised August 2020)* (this proposed Revised Guide) provides guidance to auditors who are appointed to audit public entities or institutions that the Auditor-General South Africa has opted not to audit. This includes the audit of the financial statements in accordance with International Standards on Auditing; the audit of predetermined objectives and compliance with legislation; and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act (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 apply the requirements of the particular International or South African Standard/s to which the Guide relates properly.

In terms of Section 1 of the Auditing Profession Act, No. 26 of 2005 (the 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.

1. INTRODUCTION

- 1.1 This proposed Revised Guide provides guidance for auditors who audit public sector auditees that the Auditor-General of South Africa (AGSA) has opted not to audit. This includes the audit of the financial statements in accordance with International Standards on Auditing (ISAs); the audit of reported performance information and compliance with key legislation; and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act, No. 25 of 2004 (PAA). The auditor has overall responsibility for these audits and signs the auditor's report.
- 1.2 Auditors are also referred to the *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)*.
- 1.3 Engagements where audits are performed on behalf of the AGSA are dealt with in the *Revised Guide for Registered Auditors: Guidance on Performing Audits on behalf of the AGSA*.
- 1.4 The AGSA, the auditor and the auditee have different roles and responsibilities where the AGSA has opted not to perform an audit, in terms of Section 4(3) of the PAA. Appendix 1 provides a diagrammatic explanation of this relationship.

2. DEFINITIONS

For the purposes of this proposed Revised Guide, the following terms have the meanings attributed below.

Auditor/Audit 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 and appointed by an auditee that the AGSA opted not to audit, referred to as the "auditor".
Audit partner:	The partner in the audit firm who is responsible for the engagement and its performance, and the one who signs the auditor's report.
Auditee:	The public entity or other institution that the AGSA has opted not to audit, in terms of Section 4(3) of the PAA.
Controlling department:	The department that the auditee reports to or is controlled by.
Days:	"Days" are interpreted as all days that the action referred to can be expected to be undertaken, and are AGSA working/business days from Monday to Friday.
Engagement manager:	The contact person in each AGSA audit business unit responsible for the controlling department to which the auditee reports.
Executive Authority:	The Executive Authority as defined by the Public Finance Management 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).
- Product champion:** The person in each audit business unit within the AGSA who is responsible for dealing with technical matters within that business unit.

3. ROLE AND RESPONSIBILITIES OF THE AUDITOR

- 3.1 The appointed audit firm performs its functions as auditor in terms of the APA, and any other applicable legislation.
- 3.2 Public sector audits that the AGSA has opted not to perform are governed by Sections 24 to 28 of the PAA; therefore, the auditor has to adhere to these sections in the performance of the audit.
- 3.3 In terms of the PAA, Section 52(1), the Auditor-General may make Regulations pertaining to any matter to facilitate the application of the PAA.
- 3.4 The requirements for the procedural matters and administrative processes relating to the audits that the AGSA has opted not to perform, in terms of Section 4(3) of the PAA, are contained in the *Regulations on audits by auditors in private practice* (hereafter referred to as the Regulations)¹.
- 3.5 In terms of the PAA, Section 13(3)(b), the Auditor-General may issue a Directive (hereafter referred to as the Directive)². In addition to matters provided for in Section 13, read with Section 11, the Directive may also include matters to facilitate optimal levels of accountability and transparency in the management of public resources.
- 3.6 The Directive is updated from time to time, as needed, and remains effective until a revised or an updated Directive is issued. Auditors need to ensure that they refer to the Directive that is effective for the financial year or period that is subject to the audit.
- 3.7 Therefore, auditors exercise their functions and powers as auditors, with regard to public sector audits, in terms of Sections 24 to 28 of the PAA and in line with the provisions of the Regulations and the Directive issued by the Auditor-General.
- 3.8 Where the AGSA decides to opt to perform an audit in future, it will determine the approach to be followed for the transitioning of auditors and the relevant handovers in consultation with the auditor. This may include a secondment of resources to the audit and requiring the auditor to grant access to all audit activities and information pertaining to the audit.

¹ <http://www.agsa.co.za>.

² <http://www.agsa.co.za>.

- 3.9 The auditor remains fully accountable, responsible and in control of the audit, despite the presence and access of AGSA resources or any other person designated by the AGSA on the audit.
- 3.10 In line with this accountability, the auditor should assess whether any AGSA resources form part of the engagement team or are engaged as the auditor's external experts on the audit. The auditor should also ensure compliance with the relevant ISA requirements, based on the assessment of the AGSA's involvement.

4. APPOINTMENT, WITHDRAWAL OF CONSENT, DISCHARGE AND RESIGNATION OF AUDITORS

- 4.1 Auditors are required to adhere to the provisions and conditions included in the Regulations; and the process set out in the Regulations must be followed for the administrative matters highlighted below.

Appointment of Auditors

- 4.2 In terms of Section 25(1) of the PAA, the Auditor-General may opt not to perform the audit of an auditee, in accordance with Section 4(3). The AGSA, however, must notify the auditee before the start of the auditee's financial year of its decision not to perform the audit.
- 4.3 In terms of Section 4(3A) of the PAA, the discretion of the Auditor-General as contemplated in Section 4(3) applies to any public entity contemplated in subsection 4(3)(a), and any other auditee contemplated in subsection 4(3)(b) of the PAA that meets the prescribed criteria included in the Regulations.
- 4.4 If in terms of Section 4(3) of the PAA the AGSA has opted not to perform the audit of an auditee, the auditee appoints an auditor to perform the audit.
- 4.5 Before appointing an auditor, the auditee notifies the AGSA of the suggested appointment. The notification includes information on the expected extent of any other services, in addition to the audit, that will be provided during the period of the appointment, as well as any previous involvement with the auditee for the AGSA to consider whether there is any threat to the independence, objectivity or perceived independence of the auditor. This is done by completing the relevant documents, as prescribed in the Directive. The notification to the AGSA must be sent to the engagement manager and the e-mail address in the Directive must be copied. The AGSA gives consent, in writing, to the auditee's appointment of the auditor within 14 days of receiving the notice, or a longer period as agreed.
- 4.6 The AGSA may give consent to the appointment of an auditor with conditions. The auditor, together with the auditee, must accept the AGSA conditions in writing before continuing with the appointment. The auditor shall not accept the appointment if no formal consent has been granted by the AGSA, as this will contravene the Regulations. Non-compliance with the provisions of the Regulations on the appointment of an auditor renders the said appointment null and void. Where applicable, the appointment of the auditor may also be subject to the approval of another regulatory authority before the appointment may take effect.

- 4.7 If the suggested appointment is rejected by the AGSA, the auditee has to repeat the process required by the PAA and the Regulations, and the auditor must not accept the appointment.
- 4.8 In terms of the PAA and the Regulations, appointments may not be made for periods exceeding one financial year of the auditee; and they are annually renewable for a period not exceeding five years, subject to the AGSA's consent to the renewal. This does not mean that a new procurement process has to be conducted by the auditee every year for the selection of an auditor. However, where contracts in excess of one financial year are awarded to auditors through the auditee's procurement process, auditees are required to obtain consent from the AGSA on a yearly basis to continue using the contracted audit firm as the appointed auditor.
- 4.9 Where the appointment of an auditor is proposed, the proposed successor auditor may make arrangements, as guided by the ISAs and the *IRBA Code of Professional Conduct for Registered Auditors (Revised November 2018), as amended (IRBA Code)*, to obtain information from the predecessor auditor.
- 4.10 Refer to Appendix 2 for a schematic illustration of the appointment process.

Withdrawal of Consent by the AGSA

- 4.11 In terms of Section 25(1)(b) of the PAA, the Auditor-General may, before the expiry of the term of appointment³ of an auditor, withdraw its consent to that appointment.
- 4.12 Before withdrawing its consent to the appointment of an auditor, the AGSA will:
- Furnish, simultaneously, a written notice to the auditor and the auditee, indicating its intention and reason to withdraw consent; and
 - Provide an opportunity to the auditor and the auditee, within 20 days of receipt of the notification, to submit written representations.
- 4.13 The AGSA communicates its decision to the auditor and the auditee, together with the reason for the decision, after written representations have been considered. The AGSA may consult with the auditor and the auditee on the nature and process of the withdrawal, prior to withdrawing its consent. Any information requested by the AGSA from the auditor must be provided in writing.
- 4.14 If consent to the appointment of an auditor is withdrawn during the period when the audit is being performed, the auditor must complete that audit, unless the AGSA determines otherwise. Completion of an audit would consist of all duties, including communication with those charged with governance, as detailed in section 8 of this proposed Revised Guide.
- 4.15 The AGSA must report the withdrawal of consent of an appointment of an auditor to the relevant legislature and the IRBA.
- 4.16 Refer to Appendix 3 for a schematic illustration of the withdrawal of consent process.

³ The term of appointment is the term stipulated in the engagement letter to the auditee.

Discharge of Auditors

- 4.17 In terms of Section 26(1) of the PAA, and in accordance with the provisions and conditions contained in the Regulations, an auditee may discharge an auditor it had appointed in terms of Section 25(1)(b) before the term of appointment expires, with the consent of the Auditor-General and, where applicable, the relevant Executive Authority.
- 4.18 Before discharging the auditor, the auditee provides the auditor with:
- A written notice setting out the reasons for the discharge; and
 - An opportunity to make written representations to the AGSA within 20 days of receipt of the notice.
- 4.19 At the same time, the auditee notifies the AGSA of its intention to discharge the appointed auditor by completing the relevant documents as prescribed in the Directive, submitting them to the engagement manager and the e-mail address in the Directive must be copied.
- 4.20 The AGSA considers the notice and communicates its consent or otherwise to the auditee after any written representations from the auditor have been considered. The AGSA may consult with the relevant Executive Authority on this matter.
- 4.21 If the auditee intends to discharge an auditor during the period when the audit is being performed, the auditor must complete that audit, unless the AGSA determines otherwise. Completion of an audit would consist of all duties, including communication with those charged with governance, as detailed in section 8 of this proposed Revised Guide.
- 4.22 The AGSA must report any discharge of an auditor to the relevant legislature and the IRBA.
- 4.23 Refer to Appendix 4 for a schematic illustration of the process to discharge an auditor.

Resignation of Auditors

- 4.24 As per the Regulations, an auditor appointed in terms of Section 25(1) of the PAA may resign from that audit, only if the auditor has informed the auditee as well as the Auditor-General and, if applicable, the relevant Executive Authority in writing of the intention to resign from the audit, and has provided reasons for that decision.
- 4.25 In this regard, the auditor notifies the AGSA of the intention to resign by completing the relevant documents, as prescribed in the Directive, and submitting them to the engagement manager. The notification must be sent in writing to the engagement manager, together with the reason for the resignation. A copy of the notification must be sent to the e-mail address provided in the Directive.
- 4.26 The AGSA may consult with the auditee, the auditor and, if applicable, the relevant Executive Authority of the auditee on the nature and process of the resignation. Any information required by the AGSA must be provided by the auditee and the auditor.
- 4.27 Once the auditor resigns, the auditee must commence with the process of appointing another auditor, as required by the PAA and the Regulations.

- 4.28 The AGSA may report any resignation of an auditor to the relevant legislature and the IRBA.
- 4.29 Refer to Appendix 5 for a schematic illustration of the process for the resignation of an auditor.

5. REQUEST FOR ADDITIONAL INFORMATION

- 5.1 In terms of Section 27(5) of the PAA, the Auditor-General may request the auditor to submit any information regarding the audit. Such information will be communicated by the engagement manager. It is recommended that auditors include this matter in their engagement letter with the auditee.
- 5.2 In addition, in terms of Section 28(3)(c) of the PAA and to facilitate further interactions by the AGSA with the Executive Authority and oversight bodies such as the Parliamentary portfolio and accounts committees, and other reporting and analysis by the AGSA, the auditor furnishes the engagement manager with a copy of the auditor's report as soon as it is signed.
- 5.3 To facilitate further reporting by the AGSA, it may also request the following information in terms of Section 27(5) of the PAA:
- A copy of the audited financial statements;
 - Copies of the annual report;
 - A copy of the management report, which includes the audit outcome of audit procedures performed on specific focus areas; and
 - The completed monitoring checklist, as prescribed in the Directive.

6. NATURE AND SCOPE OF THE AUDITS

- 6.1 Auditors perform audits in accordance with the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* issued by the International Auditing and Assurance Standards Board (IAASB) and relevant auditing pronouncements developed and issued by the IRBA.
- 6.2 In addition, auditors may apply relevant principles contained in the International Standards of Supreme Audit Institutions (ISSAIs)⁴ published by the International Organization of Supreme Audit Institutions (INTOSAI), which provide additional considerations relevant to the public sector.
- 6.3 Auditors performing audits in the public sector are subject to the IRBA Code, which is consistent with the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA)⁵. Auditors should consider the additional ethical

⁴ ISSAIs can be located at <http://www.issai.org>.

⁵ <https://www.ifac.org/ethics>.

standards that are relevant in the public sector and contained in ISSAI 130, *Code of Ethics*,⁶ published by the INTOSAI.

- 6.4 It is recommended that auditors include this in their engagement letter with the auditee.
- 6.5 Auditors may apply the AGSA audit methodology, as contained in the Public Audit Manual (PAM).

Procedural Matters

- 6.6 The AGSA regularly publishes technical guidance that may have an effect on the audit of auditees, together with the PAM, on its website. The responsible auditor considers these when performing an audit, and may consult the engagement manager on the content of the technical guidance. The auditor can obtain access to the PAM and the AGSA's technical guidance by registering on the AGSA website.
- 6.7 In terms of Section 27(3) of the PAA, an auditor may consult the AGSA regarding any matters relating to the audit.
- 6.8 Technical consultation first takes place within the audit firm; if necessary, a decision is then made to consult with the AGSA. This is done in the following manner:
- A written technical consultation form is prepared using the AGSA's template.
 - The consultation form is submitted to the engagement manager, who, in turn, submits it to the AGSA's technical division via the Product Champion.
 - The consultation form is accompanied by the technical opinion of the audit firm.
 - The auditor may not provide the AGSA's consultation response document to the auditee.
- 6.9 In instances where the auditor deems it necessary, the auditor may also request support from the AGSA in engagements where clarification on public sector specific requirements is sought from an AGSA stakeholder.
- 6.10 It is recommended that auditors include in their engagement letter with the auditee that they may consult the AGSA on matters relating to the audit.

Auditing of Reported Performance Information

- 6.11 The objective of the audit is to obtain assurance on whether the reported performance information for the selected programmes or objectives presented in the annual performance report is free from material misstatement, i.e. the reported performance information is useful and reliable in all material respects, in accordance with the applicable criteria as developed from the performance management and reporting framework set out in the Directive.
- 6.12 Relevant audit procedures are performed to determine whether the reported performance information was presented properly; the reported performance was consistent with the approved performance planning documents; and the indicators and related targets were measurable and relevant. These procedures are also performed

⁶ <http://www.issai.org>.

to assess the reliability of the reported performance information to determine whether it was valid, accurate and complete.

- 6.13 To facilitate consistency in reporting on public sector audits, the audit of reported performance information is performed in accordance with the standards determined in the Directive. The auditor has to report on the auditee's reported performance information in terms of Section 28(1)(c) of the PAA, in the manner described in the Directive.

Auditing of Compliance with Key Legislation

- 6.14 The objective of an audit of compliance with key legislation is to obtain assurance about 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 engagement. This will enable the auditor to express an opinion or conclusion on whether, based on the procedures performed and the evidence obtained, anything has come to the auditor's attention to cause the auditor to believe that the auditee has not complied, in all material respects, with the identified compliance requirements/criteria.
- 6.15 To facilitate consistency in reporting on public sector audits, the audit of compliance with key legislation is performed in accordance with the standards determined in the Directive. The auditor has to report on the auditee's compliance with any applicable legislation relating to financial matters, financial management and other related matters in terms of Section 28(1)(b) of the PAA, in the manner described in the Directive. For further guidance on the auditing of compliance with key legislation, refer to the *Guide for Registered Auditors: Auditing in the Public Sector (Revised August 2019)*.

Identification of Internal Control Deficiencies

- 6.16 In terms of Sections 4(1) and (3) of the PAA, financial management must be audited and reported on. As part of the annual audit, the auditor evaluates 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.
- 6.17 The auditor's report includes 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 accordance with the guidance made available by the AGSA.

Focus Areas

- 6.18 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 auditors on its website. The auditor informs the auditee of the additional audit

procedures to be performed, and they are an extension of those that form part of the audit process.

- 6.19 It is recommended that auditors include this matter in their engagement letter with the auditee; and that the outcome of the audit procedures on these specific focus areas be included in the report to management.

Reportable Irregularities

- 6.20 In terms of Section 45 of the APA, auditors have a responsibility to report reportable irregularities. Further guidance in this regard is provided in the *Revised Guide for Registered Auditors: Reportable Irregularities in terms of the Auditing Profession Act*⁷.
- 6.21 The auditor must complete the reporting of a reportable irregularity, if applicable, before resigning from an audit. The reporting process is completed once the auditor has submitted the second report to the IRBA, as required by Section 45(3) of the APA.
- 6.22 If an auditor suspects that a reportable irregularity exists and the auditor is replaced (following a resignation or termination of services), such auditor should communicate the circumstances and details to the successor auditor, in terms of the IRBA Code.

Non-compliance with Laws and Regulations

- 6.23 In December 2016, the IRBA adopted ethics requirements and guidance to assist auditors in dealing with non-compliance with laws and regulations (NOCLAR). NOCLAR comprises acts of omission or commission, intentional or unintentional, committed by a client, 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.
- 6.24 Section 360 of the IRBA Code sets out the auditor's responsibilities in responding to NOCLAR or suspected NOCLAR. NOCLAR is effective as of 15 July 2017.

7. MATERIAL IRREGULARITIES

- 7.1 As the auditors are subject to the APA and the IRBA Code, they have a responsibility to deal with irregularities and non-compliance with legislation identified during the audit, in accordance with the requirements on reportable irregularities and NOCLAR.
- 7.2 In terms of Section 5(1A) of the PAA, the Auditor-General may refer any suspected material irregularity identified during an audit performed under the PAA to a relevant public body for investigation.
- 7.3 The concept of a material irregularity is similar to a reportable irregularity and the key elements of NOCLAR. The PAA allows the Auditor-General to use his/her discretion to refer matters that meet the definition of a material irregularity identified during an audit the AGSA opted not to perform. The circumstances that will prompt a referral and the processes for a referral are communicated in the Directive.

⁷ <http://www.irba.co.za>.

8. COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Audit Committee Meetings

- 8.1 To enable effective oversight over public sector audits, it is recommended that the responsible engagement manager be alerted to the occurrence of audit committee meetings. It is also recommended that the engagement letter with the auditee makes provision for the engagement manager, at his/her discretion, to accompany the auditor to these meetings.

Interactions and Meetings with the Executive Authority and Oversight Bodies

- 8.2 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 those charged with governance is aimed at leading to commitments for corrective actions required to improve audit outcomes, improved oversight, effective accountability and, ultimately, clean administration.
- 8.3 The engagement manager facilitates meetings with the Executive Authority as well as the portfolio committee meetings to which the auditor is invited. The auditor provides the engagement manager with relevant information for such meetings.
- 8.4 It is recommended that the engagement letter with the auditee makes provision for the auditor to accompany the engagement manager to these meetings.

9. REPORTING

Audit Report

- 9.1 Auditors prepare the auditor's report using the prescribed format for public sector reports, as contained in South African Auditing Practice Statement (SAAPS) 3: *Illustrative Reports (Revised May 2019)*⁸ and any other guidance that may be published by the AGSA from time to time, as set out in the Directive, reporting guide and templates issued therewith. The prescribed format and content of the audit report may not be deviated from, except for minor editorial changes or in exceptional circumstances where changes have been agreed to by the AGSA.

Management Report

- 9.2 To facilitate further reporting by the AGSA, the management report may be requested from the auditor. Also, to facilitate the provision of a portfolio overview to the Executive Authority, it is recommended that the auditor uses the AGSA's management report template for communication with the auditee on completion of the audit, and this would include reporting on specific focus areas.
- 9.3 The prescribed format and content of the report on the audit of the reported performance information are set out in the AGSA reporting guidance and templates issued therewith; and to facilitate consistency in reporting on public sector audits, it is

⁸ <http://www.irba.co.za>.

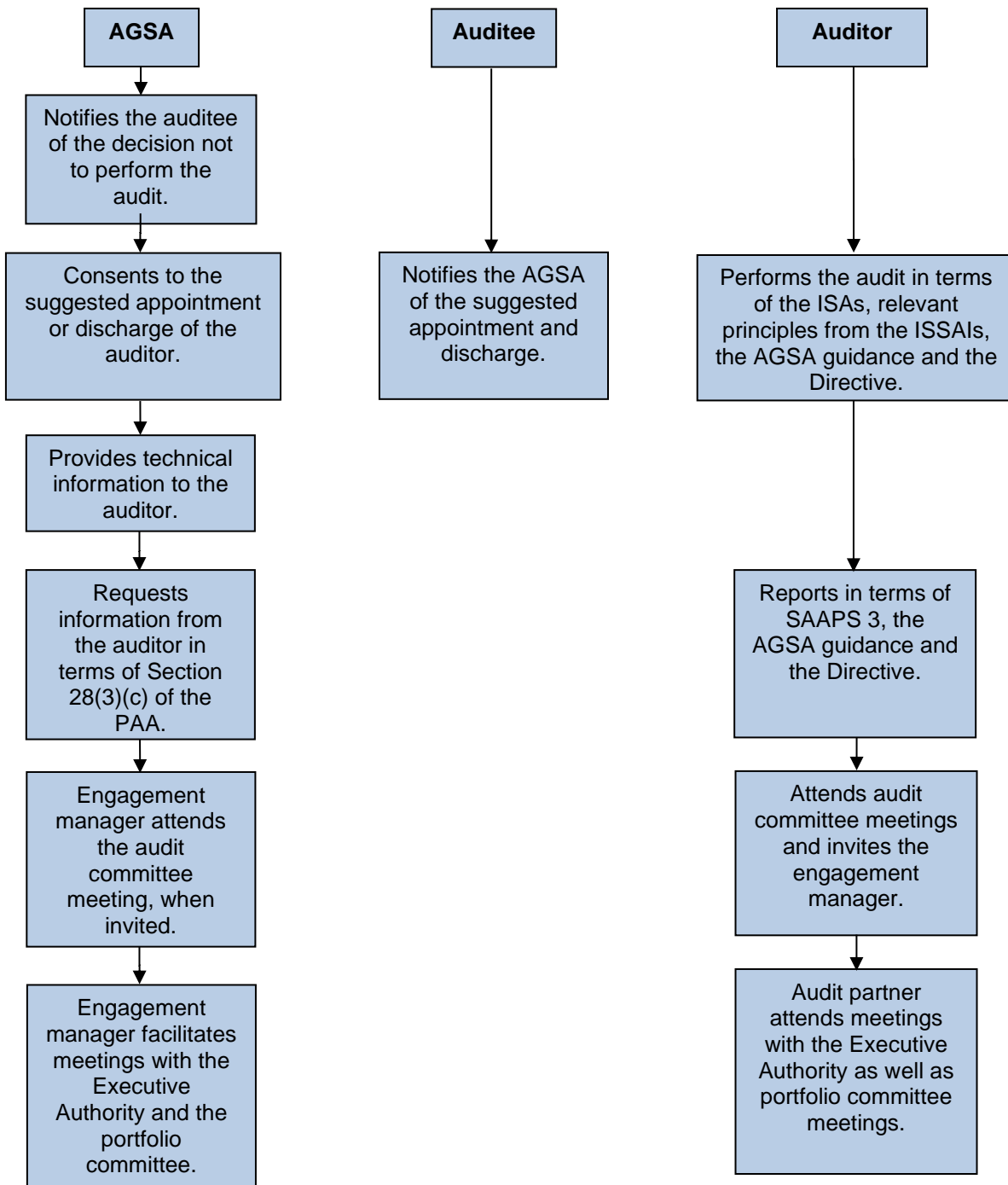
recommended that this should not be deviated from, except for minor editorial changes or in exceptional circumstances where the changes have been agreed to by the AGSA.

10. OTHER REQUIREMENTS

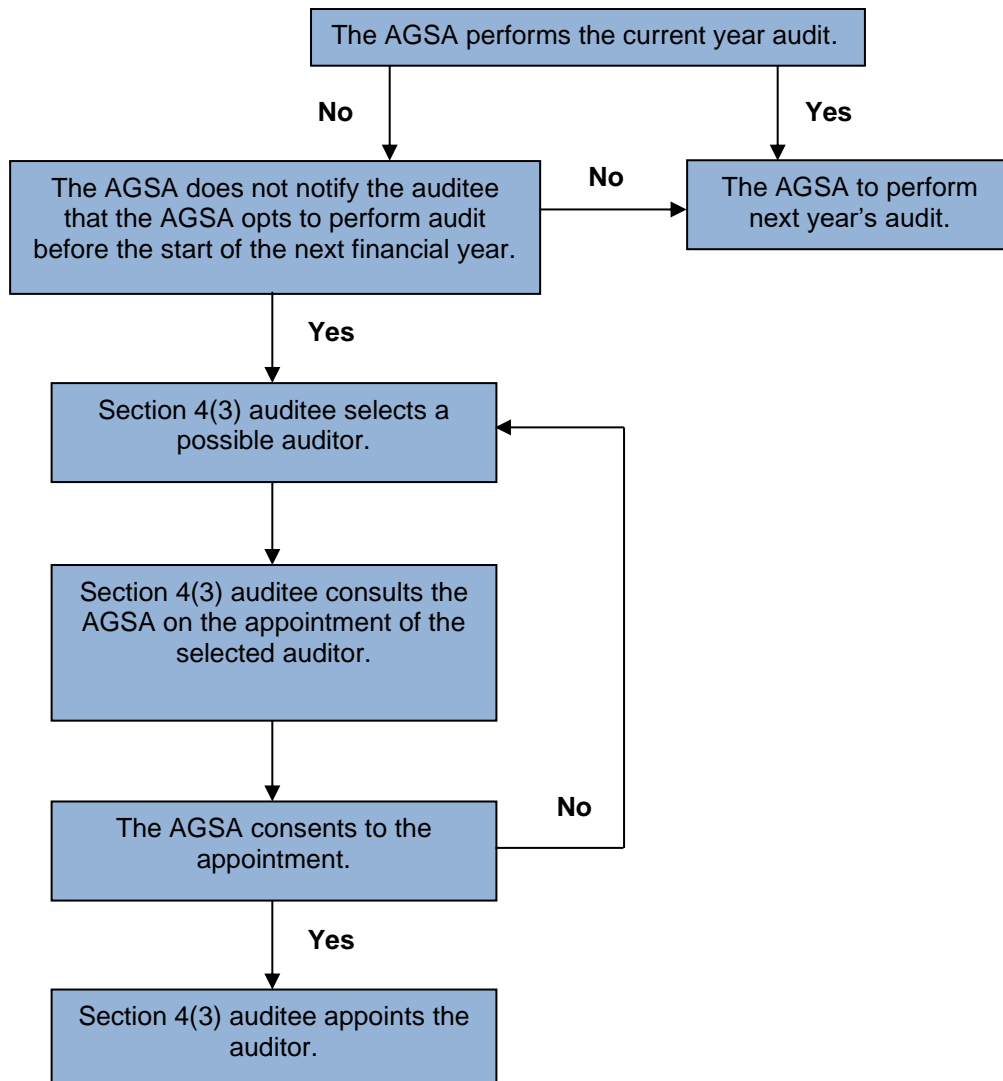
Complaints against Auditors

- 10.1. Should an auditor appointed in terms of Section 25(1)(b) of the PAA be found to be in contravention of the requirements or any provision of the PAA, the APA, any conditions imposed on the appointment as set out in the Regulations or any other act with which it is his/her duty to comply in his/her capacity as an auditor, the AGSA may lodge a complaint of improper conduct against such auditor with the IRBA after a discussion with the auditor involved.
- 10.2. In addition, a complaint of improper conduct may be lodged with the IRBA against an auditor appointed in terms of Section 25(1)(b) of the PAA, if it comes to the attention of the AGSA that the auditor conducted him/herself in a manner that is improper, discreditable, unprofessional, dishonourable or unworthy, or which brings the auditing profession into disrepute.

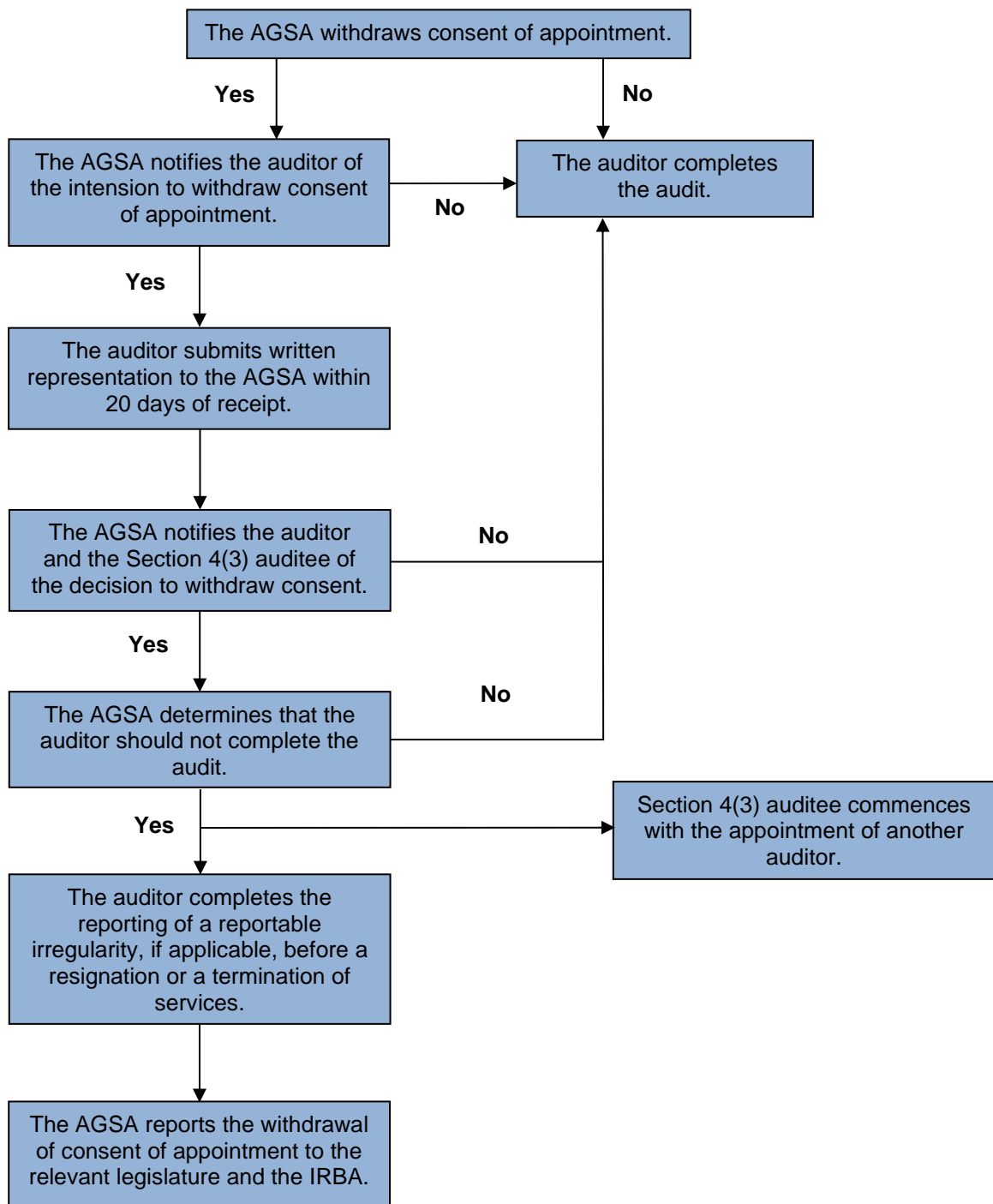
APPENDIX 1: A SCHEMATIC ILLUSTRATION OF THE AUDITEE, AUDITOR AND AGSA RELATIONSHIP



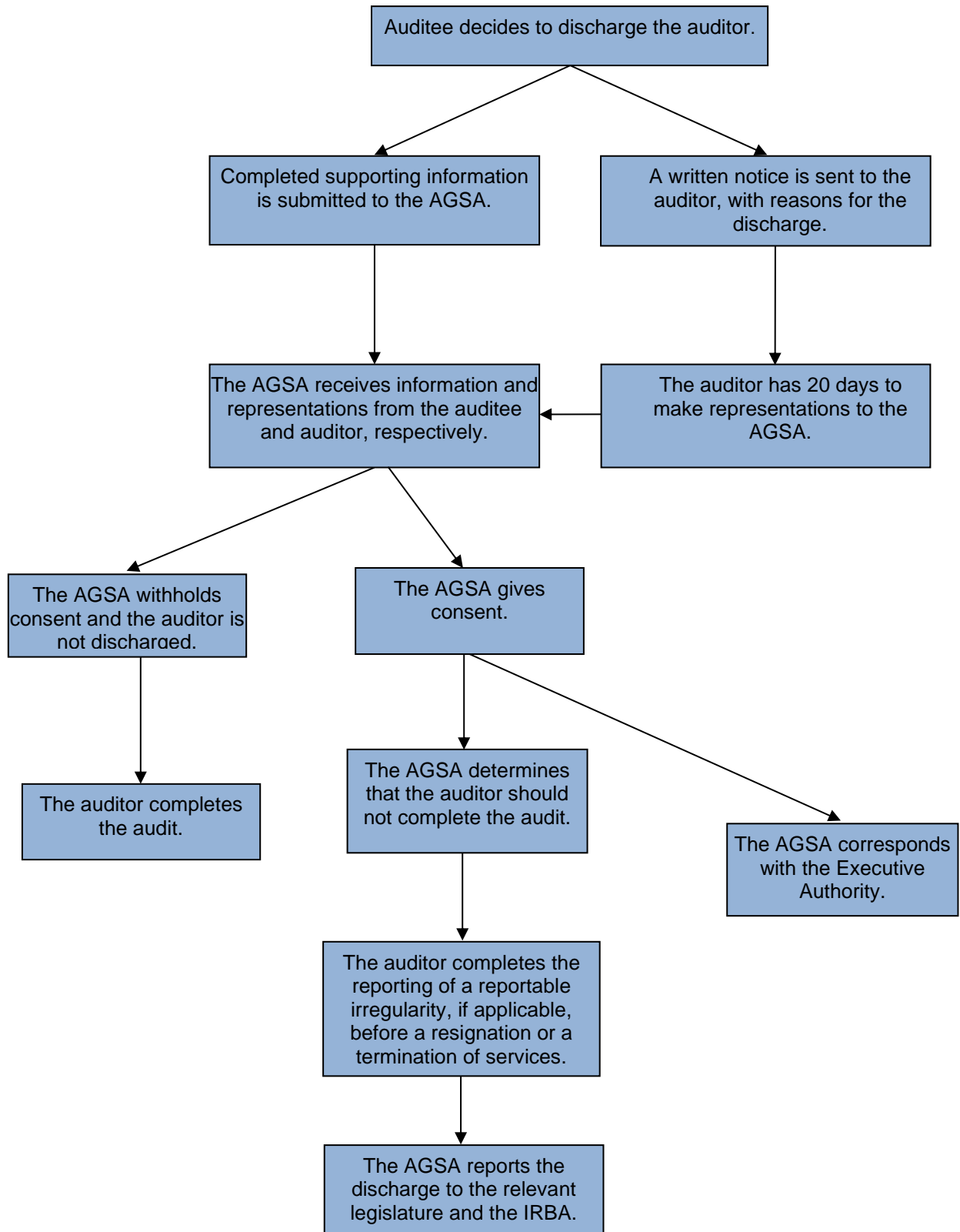
APPENDIX 2: A SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS



APPENDIX 3: A SCHEMATIC ILLUSTRATION OF THE WITHDRAWAL OF CONSENT BY THE AGSA PROCESS



APPENDIX 4: A SCHEMATIC ILLUSTRATION OF THE DISCHARGE OF AN AUDITOR



APPENDIX 5: A SCHEMATIC ILLUSTRATION OF THE AUDITOR RESIGNATION PROCESS

