

Proposed Guide

September 2013

Comments due: 31 October 2013



Proposed Guide for Registered Auditors

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

REQUEST FOR COMMENTS

The Committee for Auditing Standards (CFAS) of the Independent Regulatory Board for Auditors (IRBA) approved this *proposed Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted not to Perform the Audit* (the proposed Guide) on 30 August 2013 for exposure for comment by 31 October 2013. This proposed Guide may be modified in light of comments received before being issued in final form.

This proposed Guide has been prepared by the CFAS Public Sector Standing Committee comprising representatives of large, medium and small audit practices and the AGSA.

The IRBA's legislative mandate

The objects of the Auditing Profession Act, 2005 (Act No 26 of 2005) (the "Act") are set out in section 2 and include, inter alia:

- (c) *"to approve the development and maintenance of internationally comparable ethical standards and auditing standards for auditors that promote investment and as a consequence employment in the Republic; and*
- (d) *to set out measures to advance the implementation of appropriate standards of competence and good ethics in the auditing profession;"*

To give effect to the objects of the Act, section 4 of the Act sets out the general functions of the Regulatory Board (the "IRBA"), including that *"the Regulatory Board must, in addition to its other functions provided for in this Act"* take steps to meet certain specific requirements. These include section 4(1) which specifies that the IRBA must:

- (c) *"prescribe standards of professional competence, ethics and conduct of registered auditors;" and*
- (e) *"prescribe auditing standards".*

To enable the IRBA to meet these requirements, section 4(2)(a) states that *"the IRBA may participate in the activities of international bodies whose main purpose it is to develop and set auditing standards and to promote the auditing profession;"*.

Statutory responsibility of the CFAS

The statutory responsibility of the CFAS is set out in section 22(2) which requires that *"the CFAS must assist the IRBA to:*

- (a) *develop, maintain, adopt, issue or prescribe auditing pronouncements;*
- (b) *consider relevant international changes by monitoring developments by other auditing standard-setting bodies and sharing information where requested; and*
- (c) *promote and ensure the relevance of auditing pronouncements.*

The proposed Guide may be downloaded free-of-charge in PDF format from the IRBA website: www.irba.co.za.

Comments should be submitted by **31 October 2013**

Respondents are requested to submit their comments in a Word and .pdf format electronically to the Director: Standards, Sandy van Esch svanesch@irba.co.za, or to standards@irba.co.za. All comments will be considered a matter of public record and will be posted on the IRBA website, www.irba.co.za.

REQUEST FOR COMMENTS

Comments may also be faxed for the attention of the Director: Standards at +27 086 575 6535 or mailed to:

The Director: Standards
The Independent Regulatory Board for Auditors
PO Box 8237
Greenstone1616
South Africa

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 or contact:

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EXPLANATORY MEMORANDUM

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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* (the proposed Guide). This proposed Guide has been prepared by CFAS Public Sector Standing Committee comprising representatives of large, medium and small audit practices and the AGSA. The CFAS approved the proposed Guide on 30 August 2013 for exposure for comment by 31 October 2013.

Background

This proposed Guide provides information that will assist registered auditors to perform regularity audit engagements, including the audit of the financial statements, predetermined objectives and compliance with laws and regulations, of public sector entities which the AGSA has opted not to audit, in accordance with the specific requirements of the Public Audit Act (PAA). It addresses the following matters:

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

Project Timetable

Subject to comments received on exposure of this proposed Guide, the CFAS intends to finalise the proposed Guide in the fourth quarter of 2013.

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 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

Comments on any aspects of the proposed Guide are welcome. Respondents are requested in particular to comment on the following:

1. Are there additional aspects that should be addressed in the proposed Guide? If so, list the aspects and the guidance that is required?
2. Are there aspects in the guide that require further guidance? If so, list the aspects and the guidance that is required?

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

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1. INTRODUCTION

- 1.1 This Guide provides information that will assist registered auditors to perform audit engagements in the public sector, including the audit of the financial statements, predetermined objectives and compliance with laws and regulations, of public sector entities that the Auditor General of South Africa (AGSA) has opted not to audit, in accordance with the specific requirements of the Public Audit Act, Act No. 25 of 2004 (PAA). The registered auditor has overall responsibility for these audits and signs the auditor's report.
- 1.2 Auditors are also referred to the *Guidance for auditing in the public sector Volume 1: Auditing in the public sector and Audit of predetermined objectives*¹ in this regard.
- 1.3 Engagements where audits are performed on behalf of the AGSA are dealt with in the *Guide for Registered Auditors: Performing audits on behalf of the AGSA*.
- 1.4 In compliance with the PAA, the AGSA, the audit firm and the auditee have different roles and responsibilities where the AGSA has opted not to perform an audit in terms of section 4(3) of the PAA. Appendix 1 provides a diagrammatic explanation of this relationship.

2. DEFINITIONS

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

3. ROLE AND RESPONSIBILITIES OF THE AUDIT FIRM

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

¹ The guide can be downloaded from the [IRBA](http://www.irba.co.za) website www.irba.co.za.

4. APPOINTMENT AND DISCHARGE OF AUDITORS

Appointment of auditors

- 4.1 In terms of section 25(1) of the PAA, the AGSA notifies the auditee before the start of the auditee's financial year of the AGSA's decision not to perform the audit.
- 4.2 If the AGSA has opted not to perform the audit, the auditee appoints an audit firm registered with the IRBA to perform the audit.
- 4.3 Before appointing an auditor, the auditee notifies the AGSA of the suggested appointment, including information on the anticipated extent that other services will be provided during the period of the appointment, as well as previous involvement with the auditee.
- 4.4 The AGSA consents to the auditee's appointment of the registered auditor within 14 calendar days of receiving the notice, or a longer period as agreed. If no response is received, it can be assumed that the AGSA is in agreement with the appointment. The AGSA may consult with the responsible executive authority on the appointment of the audit firm.
- 4.5 If the suggested appointment is not accepted by the AGSA, the auditee has to repeat the process in 4.3.
- 4.6 In terms of the PAA, appointments may not be made for periods exceeding one financial year of the auditee. The AGSA does not consent to the reappointment of an audit firm to a specific audit engagement at an auditee if it has already performed the audit for five consecutive years.
- 4.7 The auditee may not appoint alternative auditors if the AGSA has opted to perform the audit or if auditee-specific legislation prescribes that the audit be conducted by the AGSA.
- 4.8 If the auditee is a public entity registered as a company, it considers the requirements of the Companies Act in addition to the requirements of the PFMA. The requirements of the PFMA will prevail if there are any conflicts.
- 4.9 Refer to appendix 2 for a schematic illustration of the appointment process.

Discharge of auditors

- 4.10 In terms of section 26(1) of the PAA, an auditee may discharge an auditor before the term of appointment expires with the consent of the AGSA and the relevant executive authority, where applicable.
- 4.11 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.
- 4.12 The auditee at the same time notifies the AGSA of its intention to discharge the appointed auditor by completing the checklist included in the AG Directive and submitting it to the SM.
- 4.13 The AGSA considers the notice and communicates its consent or otherwise to the auditee. The AGSA may consult with the relevant executive authority on this matter.
- 4.14 The AGSA reports any discharge of an audit firm to the relevant legislature.

5. REQUEST FOR ADDITIONAL INFORMATION

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

6. AUDITING STANDARDS

- 6.1 Registered auditors perform audits in accordance with the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements* issued by the International Auditing and Assurance Standards Board of the International Federation of Accountants and relevant auditing pronouncements developed and issued by the IRBA, and must comply with the *IRBA Code of Professional Conduct for Registered Auditors*.
- 6.2 In addition, audit firms take into consideration the principles contained in the following which have been incorporated into the AGSA guidance:
- International Standards of Supreme Audit Institutions (ISSAIs); and
 - INTOSAI Guidance for Good Governance.
- 6.3 It is recommended that audit firms include this matter in their engagement letter with the auditee.

Provision of the AGSA's technical information

- 6.4 In terms of section 27(3) of the PAA, an auditor may consult the AGSA regarding matters relating to the audit. Consultation first takes place within the audit firm, where a decision is then made to consult with the AGSA. This is done in the following manner:
- A written consultation form is prepared using the AGSA's format.
 - The consultation form is submitted to the SM who, in turn, submits it to the AGSA's technical division via the PC.
 - The consultation is accompanied by the technical opinion of the audit firm.
 - The audit firm may not provide the AGSA's consultation response to the auditee.

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

- 6.5 The responsible SM provides the audit firm with technical guidance published by the AGSA to enable the audit firm to perform the audit of predetermined objectives and compliance with laws and regulations and to report in terms of section 28 of the PAA.

Auditing of performance against predetermined objectives

- 6.6 In terms of section 28(1)(c) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's performance against predetermined objectives. Guidance on how this is achieved is contained in the AG Directive. The audit of performance against predetermined objectives is performed in accordance with the International Standard on Assurance Engagements (ISAE) 3000 against the applicable *Performance management and reporting framework*.
- 6.7 AGSA guidance on the audit of predetermined objectives is available to audit firms. The format and content of the audit report on this matter is prescribed by the AGSA and may not be deviated from.

Auditing of compliance with applicable legislation

- 6.8 In terms of section 28(1)(b) of the PAA, the auditor's report reflects an opinion or conclusion on the entity's compliance with any applicable legislation relating to financial matters, financial management and other related matters. Guidance on how this is achieved is contained in the AG Directive. The audit of compliance with legislation should be performed in accordance with the relevant principles of ISSAI 4000 and ISSAI 4200.
- 6.9 AGSA guidance on the audit of compliance with laws and regulations is available to audit firms. The format and content of the audit report on this matter is prescribed by the AGSA and may not be deviated from.

Internal control

- 6.10 In terms of sections 4(1) and (3) of the PAA, the AGSA reports on internal control (financial management). The matters reported on are limited to significant internal control deficiencies that resulted in a modified opinion on the financial statements, findings on the annual performance report and findings on compliance with laws and regulations. The AGSA provides audit firms with guidance in this regard. The format and content of the audit report on this matter are prescribed by the AGSA and may not be deviated from.

Focus areas

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

7. COMMUNICATION

Audit committee meetings

- 7.1 The audit firm attends audit committee meetings and invites the responsible SM to such meetings.

Interactions and meetings with the executive authority and oversight bodies

- 7.2 The AGSA interacts proactively with the executive authority and oversight bodies such as the parliamentary portfolio and accounts committees. The aim of these engagements is to promote and encourage clean audit outcomes and enhance effective public governance.
- 7.3 The SM facilitates meetings with the executive authority as well as portfolio committees meetings to which the audit firm is invited. The audit firm provides the SM with relevant information for such meetings.

8. REPORTING

- 8.1 Audit firms prepare the auditor's report in the format for public sector reports as contained in SAAPS 3 Illustrative reports, R3: Reporting guide and any other guidance that may be published by the AGSA from time to time.
- 8.2 The results of the audit of predetermined objectives and compliance with laws and regulations in terms of section 28(1) of the PAA are included under the other legal and regulatory requirements and consist of the following:
- Performance against predetermined objectives
 - Compliance with laws and regulations
 - Internal control
- 8.3 In order to facilitate the provision of a portfolio overview to the executive authority, it is recommended that the audit firm use the AGSA's management report template for communication with the auditee on completion of the audit.

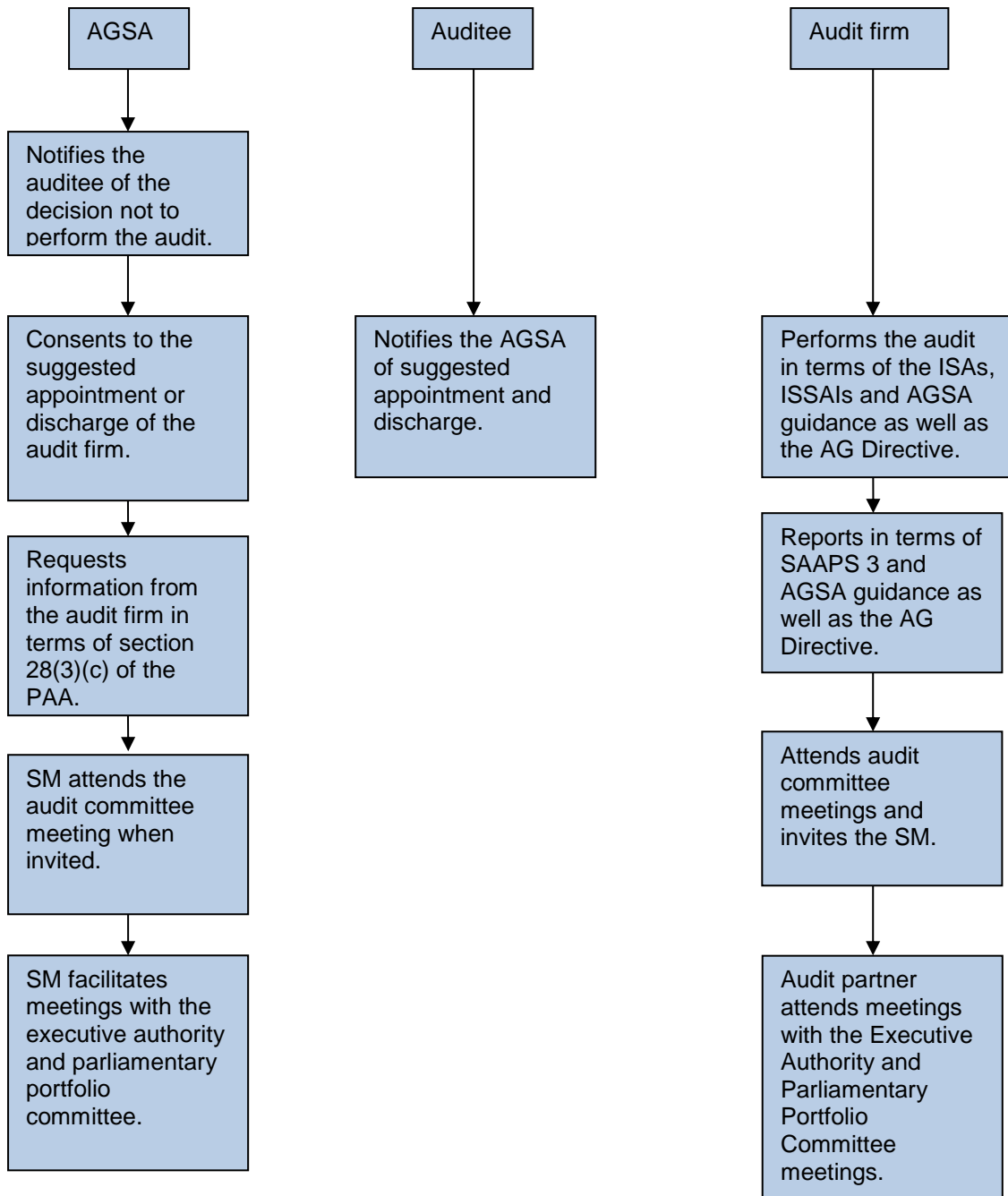
9. OTHER REQUIREMENTS

Complaints against audit firms

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

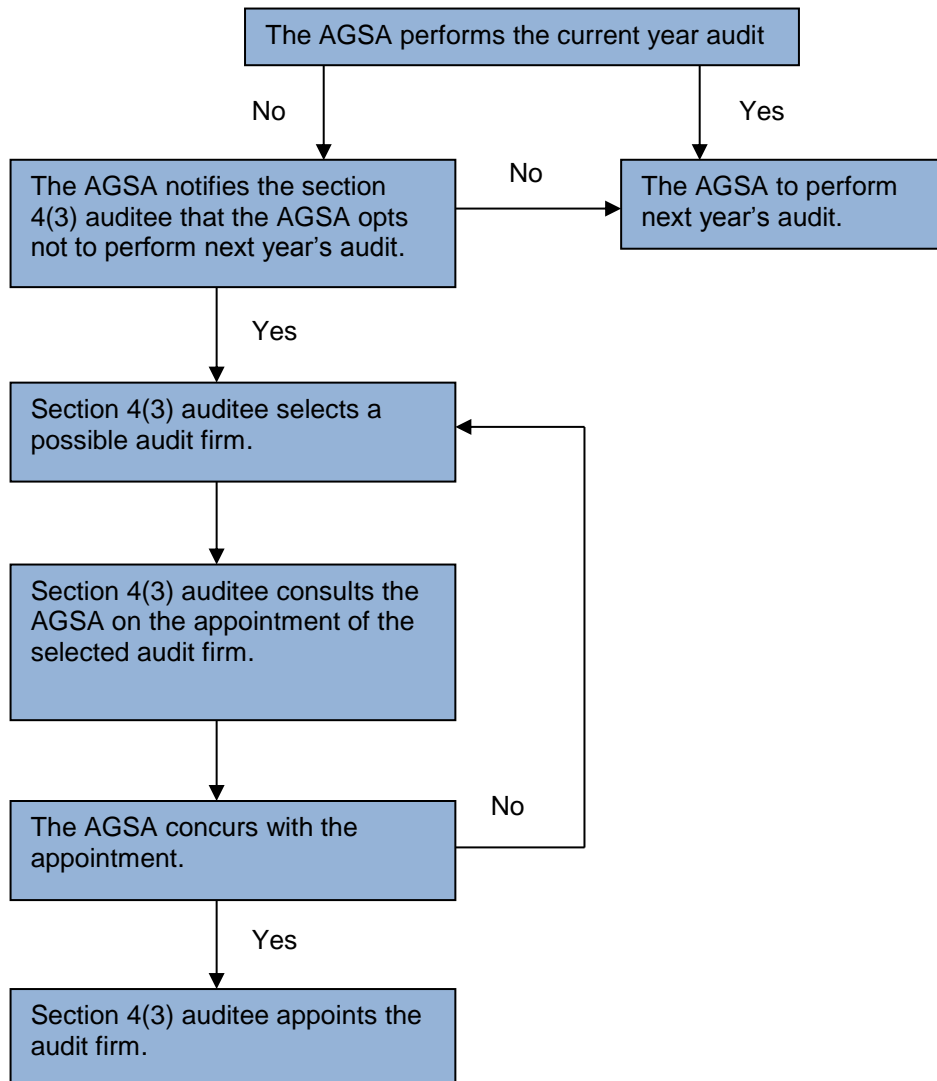
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APPENDIX 1: SCHEMATIC ILLUSTRATION OF THE AUDITEE, AUDIT FIRM AND AGSA RELATIONSHIP



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APPENDIX 2: SCHEMATIC ILLUSTRATION OF THE AUDITOR APPOINTMENT PROCESS



APPENDIX 3: SCHEMATIC ILLUSTRATION OF THE DISCHARGE OF AN AUDITOR

