

# IRBA Information Session

**“How a lack of documented evidence can trip you up”**

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# Outline

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- When does the Inspections Committee (INSCOM) refer to Investigation?
- 2017 Public Inspections Report
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- Complying with ISAs Relevant to the Audit
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# Background



# Definition of a “reportable finding”\*

- A “reportable finding” at a firm level includes any significant or systemic deficiency related to the firm’s conduct or system of quality control that may have an impact on audit quality by creating a risk of inappropriate auditors’ reports being issued by the firm, including failure to implement remedial/corrective action on all assurance engagements performed by the firm, resulting in recurring inspection findings.
- A “reportable finding” at an engagement level includes any significant deficiency whereby the firm has failed to obtain sufficient and appropriate audit evidence to support its auditor’s report, including a failure to identify or address a material or potential material financial reporting/accounting related deficiency; or any non-compliance with applicable standards, codes of conduct and legislation, including a departure from the firm’s adopted policies, procedures or methodology.

\* IRBA Inspection’s definition of a “reportable finding”

# When does INSCOM\* refer to Investigation?

The following are examples of recent referrals to the IRBA's Investigations Department:


- An incorrect opinion has been issued, i.e. material misstatement not identified or addressed by the auditor;
- Fundamental non-compliance with laws and regulations which was not appropriately considered before issuing the audit opinion, e.g. Independence breaches (Section 90(2) of the Companies Act, 2008, and the IRBA Code of Professional Conduct);
- A fundamental and pervasive lack of documented audit evidence to support the opinion; 
- Continued non-compliance with the ISAs (repeat findings or failed remediation process);
- Working papers created after the audit opinion date/archiving period 

\* INSCOM - The Inspections Committee of the IRBA

# 2017 Public Inspections Report



## Evolution of our report:

- Aimed at a wider audience - transparency
- Thematic style report – principles focussed
- Key messages highlighted
- Recurring themes 
- No split between larger and smaller firms
- Must read ENTIRE report for context
- Careful about the statistics
- Important sections:
  - Firm level
  - File level
  - Remediation

Document can be accessed at:

<https://www.irba.co.za/guidance-to-ras/inspections/reports>

# 2017 Public Inspections Report (2)

## Themes at FIRM level:

- Leadership responsibilities for culture, tone-at-the-top, sound governance, risk management, consistent sustainable high engagement quality, prompt improvement, maintain reputation, protect the profession
- Ethics and Independence fundamental
- Acceptance and Continuance practices
- Engagement performance, EQCR, File tampering/lockdown/archiving issues
- Monitoring of completed files issues
- Reportable Irregularities – process, timing of second report



# 2017 Public Inspections Report (3)

## Themes at FILE level:

- Revenue auditing in general not great
- Significant Estimates and Judgements ⚠️ →
- Professional Scepticism – audit evidence ⚠️
- Auditor's/Management expert
- Documented evidence issues ⚠️
- Risk assessment – significant risks – fraud risks
- Materiality and extent of samples
- Disclosures
- Consolidations
- Journals
- Audit report (New report format)
- Proof of approval (signatures)
- Attorneys' Trust audits

**(Key examples in report)**

This is also the  
top finding by  
IFIAR





# 7<sup>th</sup> Cycle Strategy and Process




THE IRBA INSPECTIONS STRATEGY AND PROCESS  
SEVENTH INSPECTIONS CYCLE  
2018/2019

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Version 1.1

## Enhanced inspections:

- International alignment (IFIAR)
- Risk-based selections (BI), incl. random selection
- Public interest focus – deeper, longer inspections
- SMPs - dedicated resource focus
- Strong focus on firm leadership and firm system of quality control (system that ensures consistent sustainable high audit quality) 
- Multiple inspections at any given time possible
- Leadership focussed reports (one pack)
- No more ratings, only “reportable findings” requiring improvement
- Definition of a “reportable finding”
- Outcomes/Decisions focussed on remedial action
- Transparency of inspection reports, outcomes and plans (Audit Committees)



Document can be accessed at:  
<https://www.irba.co.za/guidance-to-ras/inspections/the-act-and-manual-of-information>

# Key standards

# Leadership's responsibilities

*Engagement performance (own emphasis)*

**ISQC 1 paragraph 32 states:** "The firm shall establish policies and procedures designed to provide it with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partner issue reports that are appropriate in the circumstances. Such policies and procedures shall include:

- (a) Matters relevant to promoting consistency in the quality of engagement performance; (Ref: Para. A32–A33)
- (b) Supervision responsibilities; and (Ref: Para. A34)
- (c) Review responsibilities. (Ref: Para. A35)".

*Evaluating, Communicating and Remediating Identified Deficiencies (own emphasis)*

**ISQC 1 paragraph 49 states:** "The firm shall evaluate the effect of deficiencies noted as a result of the monitoring process and determine whether they are either:

- (a) Instances that do not necessarily indicate that the firm's system of quality control is insufficient to provide it with reasonable assurance that it complies with professional standards and applicable legal and regulatory requirements, and that the reports issued by the firm or engagement partners are appropriate in the circumstances; or
- (b) Systemic, repetitive or other significant deficiencies that require prompt corrective action".



**It is the responsibility of leadership of the firm to obtain reasonable assurance that each audit is performed at a high quality and that this high level is consistently and sustainably achieved.**

# Complying with ISAs Relevant to the Audit

**ISA 200 paragraph 20 states (own emphasis):**

“The auditor shall not represent compliance with ISAs in the auditor’s report unless the auditor has complied with the requirements of this ISA and all other ISAs relevant to the audit”.



No opinion should thus be issued unless all of the relevant ISAs have been complied with. This includes the auditor obtaining sufficient and appropriate audit evidence to support the opinion in terms of ISA 200 paragraph 17, as well as appropriately documenting the procedures performed in terms of ISA 230 paragraphs 8 and 9.

# Audit documentation / Evidence

**Definition of audit documentation (own emphasis)\*:** “The record of audit procedures performed, relevant audit evidence obtained, and conclusions the auditor reached (terms such as “working papers” or “workpapers” are also sometimes used).

**Definition of audit evidence (Own emphasis)\*:** “Information used by the auditor in arriving at the conclusions on which the auditor’s opinion is based. Audit evidence includes both information contained in the accounting records underlying the financial statements and other information”.

**ISA 230 paragraph 8 states (own emphasis):**

8. “The auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand:  
(Ref: Para. A2–A5, A16–A17)

- (a) The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements; (Ref: Para. A6–A7)
- (b) The results of the audit procedures performed, and the audit evidence obtained; and
- (c) Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.  
(Ref: Para. A8–A11)”.

\* - *Glossary of Terms*

# Audit documentation / Evidence (2)

**ISA 230 paragraph 9 states (own emphasis):**

9. “In documenting the nature, timing and extent of audit procedures performed, the auditor shall record:

- (a) The identifying characteristics of the specific items or matters tested; (Ref: Para. A12)
- (b) Who performed the audit work and the date such work was completed; and
- (c) Who reviewed the audit work performed and the date and extent of such review. (Ref: Para. A13)”.



**Inspectors do not have access to the client or client information - Verbal representations which are not corroborated by documented evidence by the engagement team on the audit file do not constitute audit evidence.**

# Sufficient appropriate audit evidence

**ISA 500 paragraph 6 states:** “The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. (Ref: Para. A1–A25)”.

**ISA 500 paragraph 5(b) defines:** “Appropriateness (of audit evidence) - The measure of the quality of audit evidence; that is, its relevance and its reliability in providing support for the conclusions on which the auditor’s opinion is based”.

**ISA 500 paragraph 5(e) defines:** “Sufficiency (of audit evidence) – The measure of the quantity of audit evidence. The quantity of the audit evidence needed is affected by the auditor’s assessment of the risks of material misstatement and also by the quality of such audit evidence”.



What is not documented on file, cannot be considered



# Key themes

# Golden rule

The audit file is made up of many puzzle pieces put together to create a full picture. This full picture is assessed by the engagement partner before issuing an appropriate audit opinion. Any missing pieces will result in the inspector not being in a position to see the full picture as the engagement partner does. These missing puzzle pieces result in the majority of findings raised by IRBA inspectors.



**GOLDEN RULE: IF NOT  
DOCUMENTED ON THE AUDIT FILE  
= NOT DONE!**

# Partner review

**ISA 220 paragraph 17 states (own emphasis):** “On or before the date of the auditor’s report, the engagement partner shall, through a review of the audit documentation and discussion with the engagement team, be satisfied that sufficient appropriate audit evidence has been obtained to support the conclusions reached and for the auditor’s report to be issued. (Ref: Para. A18–A20)”.

- The IRBA has found that important working papers are not always reviewed by the engagement partner who takes responsibility for the audit opinion.
- We have also found that there are contradictory and/or superseded working papers on file which contain contradictory audit evidence. It is therefore unclear to us which audit evidence was relied upon, and whether the opinion is appropriate.



## Question for engagement partners:

Are you overly reliant on your audit managers to ensure the engagement file is reviewed?

# Professional Scepticism

**Glossary of Terms defines:** “Professional Skepticism – An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence”.



Inspectors found a number of instances where the auditor seems to have followed a “tick-box” approach (compiling an audit file), instead of demonstrating the required level of professional scepticism and questioning mind as would be expected.

# Areas of judgement

Common basis for a “reportable finding” in this area:

- the auditor only documents his/her conclusion;
- but the basis of the auditor’s conclusions are not documented in the audit file;
- It is not possible for the inspector to follow the logic and reasonableness of the considerations in arriving at a conclusion;
- Also include consultations and confirmations;
- Re-performance criteria (ISA 230 paragraph 8) not met.



**Test question:** Will another auditor understand how I arrived at this conclusion from the audit file?

# File tampering

- File tampering after the opinion/archiving date is seen in a very serious light by the IRBA. Even more so when such tampering occurs in the lead up to an IRBA inspection.
- Tampering causes the IRBA to lose trust in the engagement team's integrity as well as the remainder of the audit evidence which was documented on the audit file.
- File tampering also skews the true quality of the audit, which limits the regulator's ability to meet its mandate.
- Working papers submitted with the engagement partner's response:
  - When working papers are submitted with the response after issuing a preliminary reportable finding, all working papers are checked for tampering, for example, modification dates and creation dates after the opinion/archiving dates. If there is evidence that the working papers have been tampered with, a reportable finding will be raised.
- Modified audit files are not in compliance with ISA 230 paragraphs 13 or 16.
- File tampering is also seen as circumstances which aggravate a referral case.

# Errors/Limitations identified

- Errors identified by the engagement team and indicated on the working papers, or limitations of scope, are in some instances not transferred to the schedule of unadjusted audit differences (SUAD).
- There is a risk that the audit opinion is incorrect should all the errors/limitations not be accumulated on the SUAD.
- The Inspector will determine if these errors/limitations individually or collectively result in the SUAD exceeding materiality. This may result in a referral to the Investigations Department should this exceed the calculated materiality, as it would be indicative of an inappropriate audit opinion having been issued.
- ISA 200 paragraph 24 requires documentation in terms of ISA 230 if an objective is not achieved.
- ISA 450 – Evaluating misstatements identified during the audit.



# Practitioner's responses

- Many auditors refer to working papers in the audit file in response to specific inspections findings. These working papers are inspected but in most instances, it is found that the working papers presented in response to the inspection finding have not been prepared to address the specific test objective relating to the finding. The work referred to would normally be performed in another section in the audit file, with no documented reference, link or conclusion on the specific test objective or assertion in question, as required by ISA 230, paragraph 8; and the work referred to would in most instances not be sufficient or appropriate.



The working papers submitted with the practitioner's comments rarely contain sufficient and appropriate audit evidence necessary to remove the reportable finding from the inspections report

# Inspections Committee (INSCOM)

- The Inspections Committee (INSCOM) of the IRBA is taking a harsh stance on audits which are executed badly, where there are repeat findings and where there is insufficient or inappropriate audit evidence obtained in support of the audit opinion.
- If the INSCOM has found that sufficient appropriate audit evidence has not been obtained by the engagement team, the Committee may require the engagement partner to obtain the required audit evidence. The engagement partner will be required to provide feedback to the Committee on how such audit evidence was obtained, and whether such results have had an impact on the audit opinion. The engagement partner will be required to perform these audit procedures within a specified period of time, submit the working papers to the Inspections Department, as well as document their considerations in terms of ISA 560 and ISA 230 paragraphs 13 and 16, to determine whether the audit opinion is still appropriate in the circumstances.

# Upcoming changes to Standards (IAASB):

The IAASB agenda includes the following projects:

- ISQC 1 (Revised) and new ISQC 2
- ISA 220 (Revised)
- ISA 315 (Revised)
- ISA 540 (Revised)
- Professional Scepticism



**The documentation requirements in the above revised standards are even more stringent than in the current standards.**

# Examples

# Example 1: Risk assessment

## Scenario:

In the risk assessment procedures, the engagement team documented that a significant risk has been identified in the completeness and occurrence assertions of revenue.

When inspecting the fieldwork section, one of the assertions was tested as a low risk and not a significant risk.

# Reportable finding:

There is no documented evidence how the engagement team determined how the significant risk which was identified in the planning section, resulted in a low risk being tested in the fieldwork section.

Insufficient audit evidence has been obtained to verify the assertion tested as low.

# Example 2:

## Documented evidence on the audit file, however not appropriate:

### Scenario:

The entity is in the business of selling goods. It is documented on the revenue system notes that the revenue is recognised in the general ledger once the risks and rewards pass to the customer, which is on delivery. The engagement team documented that they will select a sample of delivery notes and trace these back to the general ledger to verify the completeness assertion.

The record of work shows that the engagement team selected a sample of invoices and traced these to the general ledger to verify the completeness assertion.



# Reportable finding:

There is no documented evidence detailing why the engagement team selected the sample from invoices rather than delivery notes. Invoices is the inappropriate source document to test the completeness assertion.

# Example 3: Going concern

## Scenario:

The engagement team documented the following conclusion on the audit file:  
“There is no going concern problem”.

The Statement of Financial Position showed the following:

- Current liabilities exceed current assets
- The entity is in a net liability position
- The entity is currently utilising their overdraft facilities.

The entity also incurred losses in the current and prior years.

# Reportable finding:

There is no documented evidence how the engagement team arrived at the conclusion that there is no going concern problem. The engagement team did not document their considerations relating to ISA 570 paragraphs 12, 13, 14, 15 and 16.

# Example 4:

## Substantive analytical reviews

### Scenario:

The engagement team documented that the revenue and cost of sales functions are closely integrated. The engagement team further documented that they will rely on a substantive analytical review in order to obtain sufficient appropriate audit evidence over the assertions relating to the revenue and cost of sales sections.

The record of work performed detailed the cost of sales and revenue per month for the current and prior year. The engagement team documented that they consider a 5% year on year variance insignificant and will not follow up on any variances below this.

# Reportable findings:

- a. There is no documented evidence how the engagement team determined that a variance of 5% would not be significant.
- b. There is no documented evidence how the engagement team determined that the above test was substantive in nature, when there is no documented considerations relating to ISA 520 paragraph 5 a – d.

# Example 5:

## Completeness of the population from which a sample is selected

### Scenario:

In order to test the completeness of revenue, the engagement team documented that they will select a sample of signed delivery notes from the filing cabinets and trace these delivery notes to the invoices and the general ledger.

# Reportable finding:

The engagement team did not document how they verified that the population from where they selected the sample from (signed delivery notes) was appropriately complete as required by ISA 500 paragraph 10, ISA 530 paragraph 6 and A5.



# Example 6: Supporting documentation:

## Scenario:

The engagement team selected a journal entry for testing from the general ledger which amounted to R2bn. The engagement team documented that the journal entry was satisfactorily traced to supporting documentation.

# Reportable finding:

The engagement team did not document the identifying characteristics of the specific item tested, as required by ISA 230 paragraph 9. The IRBA inspector is therefore unable to come to the same conclusion as the engagement team as it was not documented what supporting documentation was inspected.

# Questions?

# Thank you

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