

South Africa **Audit Qualification Experience Requirement (AQEF)** guidance notes

AQEF guidance notes

Unit AQ1 – Prepare for and plan the audit process

This unit is about planning and controlling the engagement process. It involves initial investigation as well as the planning and monitoring of the audit programmes in line with ethical and legal requirements. There is also a need to understand clients' businesses.

Element reference	Demonstrated behaviour and examples
Element AU1 Identify ethical, legal and engagement requirements on an audit	<ul style="list-style-type: none">• Consider and identify any ethical issues or threats to independence and objectivity upon acceptance of an audit and highlight these to team members• Prepare an engagement letter that details scope and services to be provided• Discuss the scope of the audit with the client and agree timetable• Apply applicable auditing standards (eg ISAs) and relevant laws and regulations• Ensure all staff involved in the engagement are aware of relevant standards and frameworks for the assignment• Understand the business to be audited and analyse relevant industry, regulatory, and other external factors including market, competition, product technology and environmental requirements
Element AU2 Determine the level of audit risk	<ul style="list-style-type: none">• Obtain, evaluate and analyse all relevant external and internal information about the business and its environment including the market, competition, product technology and environmental requirements and their impact on the audit strategy• Identify and assess the risks of material misstatement• Evaluate the risks and document the audit approach• Design analytical procedures, substantive tests and tests of internal controls• Plan the combination of audit procedures and design audit programmes• Carry out initial analytical procedures
Element AU3 Evaluate the risk within an organisation's internal control structure	<ul style="list-style-type: none">• Test and evaluate the adequacy of the accounting system as the basis for the preparation of financial statements including evaluating the IT environment• Evaluate corporate governance structures and risk assessment processes• Design and carry out tests of internal controls• Design appropriate substantive procedures depending on the assessment of the internal controls environment• Investigate areas of concern• Make any necessary changes to the audit approach and the audit programme

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Unit AQ2 – Collect and evaluate evidence for an audit

This unit is about the process of carrying out an audit from collecting evidence through to reviewing performance. You should ensure that judgements about the truth and fairness of financial statements are based on sufficient valid evidence. An up-to-date knowledge of the auditing regulatory framework and auditing and accounting standards is essential. You are expected to manage staff resources and liaise effectively with the client over issues and areas of concern. A high level of communication skills is also required.

Element reference	Demonstrated behaviour and examples
<p>Element AU4 Coordinate the delivery of audit evidence</p>	<ul style="list-style-type: none"> Plan and manage resources such as people and time to enable the audit to be completed in a timely and cost effective basis Set time and cost budgets and review these regularly Complete and monitor audit work against audit programmes to ensure that the audit objectives are met Considering if changes to the audit programme are required to gain sufficient evidence Resolve any problems by communicating and discussing issues with clients and other senior colleagues where necessary Reviewing audit work produced and ensuring that it adequately supports the audit objective Evaluate whether the engagement team collectively has the appropriate competence and objectivity to perform the work required
<p>Element AU5 Evaluate evidence collected for an audit</p>	<ul style="list-style-type: none"> Collect and accurately record audit evidence Carry out audit tests and record and evaluate the results Consider the evidence from analytical procedures, substantive tests and tests of internal control and whether the evidence obtained meets the audit objectives Investigate inconsistencies or areas of concern arising from the audit work and consider whether any additional procedures are required Evaluate accounting judgements and estimates made by management and corroborate evidence based on management representations with evidence from another source Ensure the audit papers are complete and that all significant matters relating to the audit
<p>Element AU6 Make judgements about the truth and fairness of an organisation's financial statements</p>	<ul style="list-style-type: none"> Review the financial statements to ensure compliance with applicable financial reporting frameworks and regulatory requirements Evaluate the recognition, measurement, presentation and disclosure of transactions and events within the financial statements Complete an analytical review of the financial statements at the final review stage Summarise and evaluate errors and misstatements identified during the audit Evaluate the fair presentation of financial statements relative to the nature of the business, the operating environment and the entity's ability to continue as a going concern Form and document an opinion on the truth and fairness of the financial statements

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AQEF guidance notes

Unit AQ3 – Review and report on the findings of an audit

This unit is about the final stage of the audit process, in particular the functions of informing clients of the outcomes of the audit and preparing the formal audit report. An up-to-date knowledge of the auditing regulatory framework and auditing and accounting standards is essential.

Element reference	Demonstrated behaviour and examples
Element AU7 Review the performance of an audit	<ul style="list-style-type: none">• Ensure that all work undertaken by staff is complete and accurate• Review audit work prepared by other staff and provide them with constructive feedback about their performance• Ensure that auditing standards and current legislation are adhered to• Complete a statutory disclosure checklist• Ensure that sufficient evidence has been collected and that there are no outstanding queries
Element AU8 Advise of the findings and implications of an audit	<ul style="list-style-type: none">• Prepare a management letter and discuss this with the client• Prepare and retain records of clients' responses• Record instances where further information is provided on matters where there was insufficient evidence• Inform clients of the audit results and opinion and discuss matters of concern with them• Attend a closing meeting with the audit partner and the client• Draft a letter of representation
Element AU9 Prepare a formal audit report	<ul style="list-style-type: none">• Draft the audit report in accordance with current auditing standards, relevant legislation and regulations including a description of key audit matters as applicable• Arrange for this to be reviewed and confirmed by the audit principal• Explain the consequences of any qualification of the audit report to relevant stakeholders• Ensure that audit files adequately document the reasons for any qualification, together with relevant discussions, before the audit report is signed

Click [here](#) to view examples



Unit AQ1 – Prepare for and plan the audit process

ELEMENTS	
AU1	Identify ethical, legal and engagement requirements on an audit
AU2	Determine the level of audit risk
AU3	Evaluate the risk within an organisation’s internal control structure

HIGH RISK AUDIT AND ASSURANCE WORK – CORPORATE EXAMPLES

Example 1

AU1

One of my clients is a media company that owns the local regional radio stations. On this assignment, I acted as the audit manager responsible for the whole of the audit which was undertaken in Nov 2022.

Prior to beginning the audit, I prepared a new engagement letter for the year to cover our services provided. Due to new data protection legislation, I had to ensure that the client was provided with the most up to date engagement letter to cover the changes on our handling of their data.

Once the engagement letter was signed, I selected my team for this assignment, in agreement with other managers at the firm. I then met with the client to discuss the scope of the audit and arrange a timetable to attend the premises to gather and obtain the evidence with my team.

I reviewed the previous year’s audit file as I had not completed that audit. This allowed me to gather information on the key risk areas. In addition, I carried out further research around the company, any recent news stories and specialist industry insights to ensure I had suitable knowledge prior to commencement of the audit.

One of the key areas of focus for me during the audit was the valuation of properties. Due to seeking an additional funding package, the firm had looked to revalue its properties during the year. However, during the audit I discovered that the firm had reflected this in the accounts by recording new assets, and the other side of the entry had gone to administration expenses. I had to discuss with management that this was not the correct treatment, and that the firm had to follow the revaluation model to comply with accounting standards. I explained this to them and provided guidance on the correct treatment to amend their accounts, including the required disclosure in accordance with IAS 40.

Following this, I discussed this with the team to make them aware of the issue and understand the applicable accounting standards. Due to the values and number of properties, I had to ensure they remained vigilant to identify any other property transactions, as they could have a material effect on the financial statements and so may have an effect on the audit opinion.

In order to ensure the valuations were accurate, I reviewed the reports from the appointed surveyor and discussed the valuation reports with the team.

AU2

I acted as the audit senior for an assignment for a care home company whose y/e was 31/3. The company had five care homes in South Africa. The company had both private and state funded individuals in their care.

At the planning meeting held in May 2020, it became apparent that some of the key risk areas included the handling of petty cash and ensuring government funding was used appropriately. As a result, I was responsible for the audit of these areas. Due to this identification, I had a discussion with the audit manager and agreed to adjust our levels of performance materiality due to the increased risk of these transactions becoming pervasive to the financial statements. I also agreed to carry out a further walkthrough of the petty cash procedures with staff to determine if the procedures in place were suitable.

For the petty cash, I carried out spot checks for all petty cash boxes. Each box had a float of ZAR 20,000 per home, and I had to ensure that this was in place, or where this was not in place, there were receipts to account for the money that was to be replenished. In one situation, I discovered a shortfall with no receipts to explain the amount. Upon further investigation, it was discovered that a dishonest staff member was using the funds for personal expenses, and I had to report this to management.

AU3

At a planning meeting held in December 2023, the manager assigned me to prepare and plan for the audit of trade receivables. This was a key risk area as most of the major trade receivables were owed by other government entities and the figure was material to the financial statements. I started by identifying all the sub-populations which made up the total receivables balance (Receivables from exchange, receivables from non-exchange, consumer debtors, consumer deposit and debt impairment).

I set up a meeting with all the personnel responsible for each of the sections mentioned above to confirm if the process flow was still the same. Where there were changes, the amendments were made accordingly. At the same time, I also started a walkthrough procedure, where I selected one transaction for each of the subpopulations and traced the logical flow of events and information from initiation to the final recording in the accounting records. The evidence obtained through inquiry from the process owners, observation and inspection of all the supporting documents was documented accordingly on the relevant working paper.

For each of sampled transaction, I ensured compliance with all the applicable regulations was considered and documented accordingly. Furthermore, all the risks at assertions level that I identified were transferred to the risk register. Key controls like segregation of duties, approval levels for granting credit and monitoring of aging analysis which were in place to mitigate these risks were also taken into consideration. In documenting the controls, I had to clarify if the control was automated and whether the IT auditors were required to assist during the testing of the overall population.

The above test of internal control was performed and was found to be effective. There was a credit control system in place it was automated. Receivable reports were discussed with the sales team weekly and major receivables were discussed at EXCO meetings also reported quarterly to the board on receivables to the finance and audit committee.

After completion of the process flow, the skills and the understanding I gathered in the planning of an audit assisted me to complete the testing of the populations with ease. The planning process enabled me to gain knowledge of the process flow, relevant regulations and all the risks identified assisted in the development of audit procedures.

Example 2

AU1

I was involved in the preparation of an audit proposal for a new client that we were engaging who operated in the beauty sector, where the firm supplied products to salons and wholesalers of beauty products.

As a new client, I had to draft a new engagement letter, ensuring that the letter contained the engagement terms and took account of new data legislations. In addition, I had to obtain information for money laundering purposes. I followed the 'Know your client' policy of the firm and contacted the individuals to arrange for them to bring copies of passports and proof of identity.

Once the engagement was confirmed, I met with the clients in January 2022 as the lead audit manager to discuss a timetable for the audit which was scheduled for June 2022, and discussed logistics such as attending stocktakes at the various warehouses at the 31/3 year end.

Prior to the audit starting, I had to spend time researching the client. As this was a new industry to me, I reviewed the prior year financial statements and management accounts provided through professional clearance. In addition, I spent time reading the company website and industry magazines and insights to increase my knowledge and understanding of the industry.

AU2

My client in the retail sector operated a number of mini-markets and newsagent units, with 78 retail units across the country.

Prior to commencing the audit which was due to take place in April 2021, I reviewed the permanent file and the prior year accounts files to review the evidence obtained and note any areas that I may need to consider as part of my audit. I was made aware from my review that due to the large number of cash based transactions there was a high risk of theft from individual stores and so I considered this in planning the audit testing with the team. In addition, as this was a high risk area as noted by the management, they had been investing in a number of self-service tills taking contactless card payments only. As such, I had to plan time to understand this new system and increase sampling in the area.

During the planning meeting, I discussed these risk areas with the team. We agreed that we would carry out random sampling of the stores, although with a focus on the stores with higher cash sales and turnover. In addition, we would carry out an increased number of walkthrough tests, both with the cash sales and the new card payment tills. Prior to visiting the stores and determining our store samples, I also provided a questionnaire to stores where I asked them to note the processes for cash handling and card payments. This allowed me to consider any stores who were deviating from normal procedures of the company.

AU3

For one of my other retail clients, I arranged as part of our audit evidence to carry out random walkthroughs of processes at a range of stores throughout Jan 2023. I attended eight stores myself, where I met with staff members who talked me through the process for dealing with individual transactions, as well as cash handling and procedures at the end of the day.

At two stores, the end of day figures did not tally up with the amount received. I was able to walk through the process for reporting shortages or differences between each store and the revenue protection officer. As one transaction was a large amount, I took my test further and followed through to discuss with the company revenue protection team at head office. I was able to see the procedures the firm took, including reviewing CCTV for any potential theft, and using the computer till system to follow through each transaction and cashing up closure. I was able to see how the team could determine that the amount was a transposition error which was identified by the amounts of money counted and the wrong amount being keyed. Along with following through of a number of other transactions, I was satisfied that the internal control procedures for loss were adequate.

Example 3

AU1

I acted as audit senior on the audit of a group of companies in the hospitality sector, who were contracted to provide catering services to a number of stadium venues nationwide.

Initially, I was responsible for arranging updated engagement letters, ensuring they covered the full engagement with the client and revised data protection requirements. Once these were signed, I arranged for a copy to be placed on the permanent file.

Prior to the start of the audit which was planned for Sept 2022, I carried out background analysis, reading up on the market my client operated in to take into account any considerations that were required as part of the audit. I then attended the audit planning meeting with the audit team selected, to discuss the previous year's findings and changes to the company's operating environment. At the meeting we agreed the timetable for the audit following the audit manager's discussion with the client and taking account of our firm's commitments. We also discussed changes to the auditing standards since the last visit and considered the scope of the audit, assigning each area to a specific member of the team.

Led by the audit manager, one of the areas of the audit I was to work on was identified, which focused on intercompany loans. In addition, I was in charge of three audit juniors to supervise through the audit assignment and ensure their work on the selected audit areas was satisfactory and within budget. As they were tasked with the payroll and cash areas of the financial statements, I took time to discuss these areas, ensuring they were clear on the expectations and regulatory requirements, advising them to discuss any queries with me.

As I had not worked on this client in a few years, I reviewed the prior year's file to determine the issues from the previous year. Further, I had to review the company's website to familiarise myself with the various contracts and offerings that the company had, to ensure I was aware of the key risk areas when obtaining sufficient appropriate evidence.

As the company was a group consisting of a number of subsidiaries and associate companies, I had to trace the intercompany loans between each company and agree the balances. Further, for the financial statements, I had to ensure correct disclosure of all balances.

I traced each balance through the ledgers, ensuring appropriate explanations were made within the accounting system, and checked that the accounts had the appropriate disclosure to explain the balances between each of the companies.

During this check I noted an error with a balance going to the suspense account. After further investigation, I concluded that this was a transposition error, which was duly fixed by management upon highlighting the transaction.

AU2

I acted as audit manager on the audit of a national bar and restaurant chain.

I reviewed the information provided by the previous auditors through professional clearance, as this was a new client to my firm. This allowed me to identify the key audit risk areas.

To ensure I was aware of the client and the potential risk areas of the audit, I carried out research through looking at the company websites, social media, relevant news stories and reading industry specific statistics and information from trade magazines. This allowed me to gain knowledge of the various brands and complex group structure.

During the initial analytical review undertaken in Mar 2022, I had identified that while there was a large increase in turnover, the cost of sales had increased while profits decreased. There was also an increase in trade creditors and so I had to consider that the firm may be overtrading in the competitive environment they were operating in.

After investigating the changes and through discussion with management, I became aware that the directors had chosen not to pass on the cost onto the customer in order to retain a competitive edge. This then led me to further discuss and look into potential going concern issues. As part of this, I sought clarification from the bank on continuation of existing loans and overdrafts to the company.

AU3

I was the audit manager for a multinational manufacturing company in the petroleum refining industry. The company is a ltd with a presence in around 25 African countries.

Although I was involved in the audit in the previous year, I decided that since 12 months had passed it would be beneficial as part of my planning to review the prior year file. This enabled me to consider any prior year points that I wanted to incorporate into my audit, in particular prior year weakness areas. I noted there were no major weaknesses, except for the inherent risk of the firm operating in a multicurrency environment with trade tariffs.

Prior to attending the audit I compiled questions for the finance director to answer. This enabled me to design my testing and focus on key walkthrough areas. One major change this year was that in the 2021 financial year the firm had changed its payment policies and aimed to process payments upon invoice receipt within ten working days. This had meant quite a change from the old procedures, and so I ensured I built in adequate time to carry out various walkthroughs of the process, in addition to following back a sample of transactions.

Another area I chose to focus on was currency. As a multinational company the firm operated a number of currency accounts. I had to ensure that all currency transactions were converted at the correct date. The firm relied on their accounting software converting at the correct date, and so I designed walk through tests of the system, and checked the system rates against published foreign currency rates. Unfortunately, I found around five occasions where the rates had not been converted correctly. As a result I increased my sample size and arranged for the team to gather further information. However, we were able to tie the issues to two particular dates. After discussion with the finance director and IT director, I was made aware that there were some issues with systems on these days, which adequately addressed my concern.

I was able to conclude that this was not material to the financial statements after my increased sample returned no further issues. However, I took this matter to the closing meeting to discuss with the firm, and they confirmed they would take this point on board to investigate how they could mitigate the issue in future.

Another area of focus was transfer pricing across the entities. Due to recent media and political pressures on large companies around this area, I viewed this as an area of high reliance on others. As such I ensured that a substantive review of these transactions was carried out to ensure compliance with legal and regulatory requirements. Due to the complex nature of these transactions and the specialist knowledge of complex tax requirements, I enlisted the expertise of a tax consultant to assist me in reviewing and providing conclusion on these areas. Further, I questioned the in-house tax expert within my client. This enabled me to see a walkthrough of the company's detailed transfer pricing procedures. She was also able to provide me with the company's detailed policies and recording packs showing the transactions.

HIGH RISK AUDIT AND ASSURANCE WORK – PUBLIC SECTOR EXAMPLES

Unit AQ 1: Prepare and plan for the audit process

Element AU1

I was an audit senior in a mid-sized audit firm and was assigned to Public Sector Audits under the Public Financial Management Act (Act 1 of 1999) in South Africa. The client was a State-Owned Enterprise (SOE) whose y/e was 31/3.

The client was a major SOE under The Public Financial Management Act 1 of 1999 classified as a Schedule 2 entities. These entities are listed as Major Public Entities and have greater autonomy, a board of executive and independent directors, nature of their business is commercial and statutory corporations that provide goods and services of a strategic nature.

Prior to beginning the audit, I prepared a new engagement letter for the year to cover our services provided under the Public Audit Act 25 of 2004, as amended. Due to new data protection legislation, the Protection of Personal Information Act, 2013(POPI Act), I had to ensure that the client was provided with the most up to date Audit General of South Africa (AGSA) engagement letter to cover the changes on our handling of their data.

Since I was new on the audit, I looked over the file from that audit. I was able to learn more about the most risky areas as a result. Additionally, I conducted additional investigation of the business and any current press reports and expert business knowledge to make sure I had the knowledge existing before the audit started.

Element AU2

I familiarised myself with all the applicable policies, standards and legislations that govern the trade receivables sub-populations as mentioned above in relation to the legal frameworks applicable to the audit. The whole exercise was done to gather a high-level understanding of all the applicable frameworks in place that were governing my section. The applicable frameworks were Companies Act (Act No. 71 of 2008), Public Financial Management Act, (Act 1 of 1999) and National Treasury Regulations, Preferential Procurement Policy Framework Act 5 of 2000, King IV Code of Corporate Governance and the Preferential Procurement Regulations of 2022) and Generally Recognized Accounting Practice (GRAP).

Following this, I did a presentation to the team to highlight all the ethical issues or threats to independence and the applicable frameworks and relevant industry and regulatory frameworks.

At the planning meeting held in January 2023, it became apparent that one of the key risk areas was ensuring that government grants were used appropriately. During the analytical review done in December in 2022 I had identified a 30% increase in government grants received, apart from that they were significant and had to be correctly identified and treated. As we had identified this area as high risk due to significant amounts of government grants received and the strict conditionalities attached to them, I had a discussion with the engagement partner that we maintain our materiality threshold. This was due in part that the SOE had internal controls in place in regard to government grants, which was included in the audit programme.

The above test of control was performed and was found to be effective. Each government grant that came with specific instruction had to have these noted on the system. The IT system did not allow a government grant with restriction to be spent unless the code used for the expenditure matched its purpose. These government grants also needed a separate managerial approval.

Element AU3

At a planning meeting held in December 2023, the manager assigned me to prepare and plan for the audit of trade receivables. This was a key risk area as most of the major trade receivables were owed by other government entities and the figure was material to the financial statements. I started by identifying all the sub-populations which made up the total receivables balance (Receivables from exchange, receivables from non-exchange, consumer debtors, consumer deposit and debt impairment).

I set up a meeting with all the personnel responsible for each of the sections mentioned above to confirm if the process flow was still the same. Where there were changes, the amendments were made accordingly. At the same time, I also started a walkthrough procedure, where I selected one transaction for each of the subpopulations and traced the logical flow of events and information from initiation to the final recording in the accounting records. The evidence obtained through inquiry from the process owners, observation and inspection of all the supporting documents was documented accordingly on the relevant working paper.

For each of sampled transaction, I ensured compliance with all the applicable regulations was considered and documented accordingly. Furthermore, all the risks at assertions level that I identified were transferred to the risk register. Key controls like segregation of duties, approval levels for granting credit and monitoring of aging analysis which were in place to mitigate these risks were also taken into consideration. In documenting the controls, I had to clarify if the control was automated and whether the IT auditors were required to assist during the testing of the overall population.

The above test of internal control was performed and was found to be effective. There was a credit control system in place it was automated. Receivable reports were discussed with the sales team weekly and major receivables were discussed at EXCO meetings also reported quarterly to the board on receivables to the finance and audit committee.

After completion of the process flow, the skills and the understanding I gathered in the planning of an audit assisted me to complete the testing of the populations with ease. The planning process enabled me to gain knowledge of the process flow, relevant regulations and all the risks identified assisted in the development of audit procedures.

LOW RISK ASSURANCE WORK – EXAMPLES

Unit AQ 1: Prepare and plan for the audit process

Element AU 1 (Independent review)

One of the audits clients in the retail business I was assigned as an audit manager was the first year of audit by our firm. Although relatively straightforward, I had to ensure I was up to date with the latest guidance as Regulation 29 of the Companies Act 2008 stipulates that certain entities are required to have Independent Reviews of their financials in accordance with ISRE 2400. Having not undertaken independent reviews for a number of years before commencing this one in January 22, I had to ensure that that the planning was performed thoroughly, despite the relatively small operation.

An Independent Review engagement is an alternative assurance engagement where the independent reviewer provides limited assurance on a set of financial statements when compared to that of the reasonable assurance provided by the external auditor. Regulation 29(4)(a) of the Companies Act Regulations, 2011 states that for companies with a public interest score of 100–349, an independent review must be carried out either by registered auditors or by members in good standing with a professional body accredited in terms of section 33 of the Auditing Profession Act 2005. Regulation 29(4)(a) of the Companies Act Regulations, 2011 states that for companies with a public interest score of 100–349, an independent review must be carried out either by registered auditors or by members in good standing with a professional body accredited in terms of section 33 of the Auditing Profession Act 2005.

To determine if the audit client had a public interest score of you 100 – 349 I carried some calculations as per legislation. Firstly, I calculated the number of points equal to the number of employees of the company during the financial year, Secondly, I added one point for every R1 million (or portion thereof) in third party liability of the company at the end of the financial year. Thirdly, I tallied one point for every R1 million (or portion thereof) in turnover during the financial year as well as other income and lastly, I added one point for every individual who is related to the entity. I was able to determine that the client public interest score was 251 and required an independent review by registered auditors or by members in good standing with a professional body accredited in terms of section 33 of the Auditing Profession Act 2005.

Element AU2 (Independent review)

The planning of the independent review engagement involved understanding the business environment and operations of the company, identifying areas with higher risk of material misstatement and setting the scope and objectives of the review. When planning for the client I identified cash as one of the main risks. The audit client operated retail outlets in the townships, most of the sales were cash in these outlets. The client therefore sold on a cash-only basis and was looked after by one individual at each site due to the small size of the operation and each transaction was below R100. Therefore, I agreed with the engagement partner that a fully substantive approach was required, and we would not rely on controls testing in this case. I tailored the audit approach steps to reflect this and set materiality at a relatively low level, given the risks involved.

Element AU3 (Voluntary audit by decision)

At planning stage, we noted that the parent company owned the buildings that the retail sites operated out of in the township, so fixed assets were identified as a low risk. We also noted that the sites were in specialised shipping containers converted into shops that were in a public space designated by the city council for purposes of retailing in the townships. There were no additional sites that has been opened or expanded during the year under audit.

It was also identified during site visits that the takings for the day were stored in the shop overnight and banked the following morning. The takings were put in a locked cupboard; however, all staff had a key for the cupboard and the shop did not have a working alarm system in place. I also discussed the possibility of improving security within each shop to limit the amount of cash that was held on site overnight and who was able to access the monies held in the shop.

My client advised that they had recently introduced a secure store in 80% of their shops which only they and the shop managers could access. In addition, they advised that the money on site would be restricted to R1,000 per unit, with any balance being collected by their secure cash in transit contractor to be taken to the bank. It was agreed that this model should be adopted across all locations.

The audit tested the internal controls in 80% of the shops and the internal controls systems were working as designed. The audit did substantive testing for the 20% of the shops to check that takings were locked in a safe and banked next day and alarms were installed in all sites. The internal controls systems in 80% of the shops meant that we didn't do a lot of substantive tests but internal control testing which saved time and resources for the firm as the sites are located across South Africa. I checked all the work done by the audit team and agreed with the conclusions from the internal control tests and substantive testing.



Unit AQ2 – Collect and evaluate evidence for an audit

ELEMENTS	
AU4	Co-ordinate the delivery of audit evidence
AU5	Evaluate evidence collected for an audit
AU6	Make judgements about the truth and fairness of an organisation’s financial statements

HIGH RISK AUDIT AND ASSURANCE WORK – CORPORATE EXAMPLES

Example 1

AU4

As an audit manager, I ensure that staff members with appropriate knowledge and expertise are booked on each audit in July 2021. For a client in the retail sector, I held a preaudit team meeting to advise the approach and discuss any salient points. We also discussed the nature of the client, the main changes in the organisation in the last financial year, the relevant risks and any issues from the previous year’s audit.

The client confirmed that there had been no changes to their systems, group and organisation structure. I monitored the progress of the fieldwork by liaising with the audit team daily, undertook a site visit towards the end of the fieldwork and reviewed the audit file for work done to date. Post year end actual performance was also compared against forecasts prepared previously to check how realistic and accurate the forecasts were and I reported no concerns.

The audit senior was advised to monitor time undertaken by the junior staff members and to highlight any anomalies to me as soon as they became apparent. I held regular catch ups with each team member to discuss performance and objective setting throughout the audit, to ensure we are working to agreed time and cost budgets. I identified no significant issues from the work prepared by the audit team upon reviewing the audit file and evidence collected.

For my manufacturing client, I attended the client’s premises on the first day of the audit in October 2022 to ensure the client had the required information available for the team. Unfortunately a number of items had not been prepared. A timetable was agreed with the financial controller to ensure that these items were presented in a timely fashion to avoid a negative impact on the fieldwork. The audit team were then able to concentrate on other areas to avoid any further delays.

I remained on site, actively monitoring and managing resources to ensure the appropriate people were undertaking set tasks to ensure we did not overrun on cost. I also ensured I attended the client premises to undertake my file reviews. This allowed the client to see my involvement in the process and also enable any outstanding points to be addressed by the audit team more efficiently.

AU5

During the review of the audit of a toy making company, I felt insufficient audit evidence had been obtained in relation to bad debts. I requested additional testing of this to satisfy the provision in the financial statements. I also highlighted that certain areas of the file needed to be better referenced to other sections, so this was easier for the partner to follow.

Another one of my clients with a 31/12 year end was providing mechanical engineering services to oil rigs and ships. The majority of the contracts were spanning across a number of months, with some large jobs spanning across two or three financial years. Therefore the work in progress that was recorded and the revenue recognised were the main audit risks.

The company was allocating costs to specific projects based on the actual expenditure for materials, labour recharges, transport costs, etc. Revenue associated with each job was recognised based on the level of work that was completed at the time.

I agreed with the partner that we needed to perform detailed testing over the largest contracts they had. The tests included a combination of agreeing specific high value items back to source documentation, reviewing the model used for recharging costs and reviewing the assumptions in the specific contracts.

There was a minor error identified in the spreadsheet model used for the labour recharges, however, the aggregate amount was not material and no adjustment was required. The error was, however, flagged to the client and the model was subsequently amended.

AU6

For my client in the property sector, I performed a detailed review of the 31/3/21 financial statements to ensure that they were prepared in accordance with the relevant reporting framework.

My review included completing final analytical procedures where I ensured that any discrepancies identified were fully supported by the audit work performed and all were clearly referenced to the relevant sections of the audit file.

I confirmed all tests were completed and signed off, and that the audit file was fully complete prior to the partner's review. This approach was particularly vital for one of my retail clients, which required additional disclosures regarding the revaluation of assets that was done during the 31/12/21 financial year.

The company had performed asset revaluations for all of their fixed assets, relating to freehold buildings – shops, warehouses and factories. I had to prepare a separate working paper on the revaluations and to ensure that all of the changes in value were disclosed in line with the requirements. No issues were identified as a result of the work performed.

Example 2**AU4**

As I was promoted to senior audit manager in Jan 2020, I now have responsibility for the management of the audit, including staff planning, evidence collation and dealing with client management to discuss the audit.

One of my clients is a large multinational group operating in the Geoenvironmental sector. They have a number of offices across South Africa, often in remote locations. As audit manager, I had to take location into account when setting my time and fee budgets. I had a discussion with the client to explain that high travel costs due to location would have an impact on the fee. They understood this although suggested that we carry out the audit from their head office. Whilst logistically advantageous, it was imperative I reviewed processes and procedures at all locations in order to form the audit opinion. This was discussed at the initial meeting and a plan suiting both parties ensuring adequate audit evidence was obtained, was agreed upon. The audit fee was also discussed at this meeting and an element of the increase was negotiated and agreed upon.

During this audit in Apr 2020, I took time to visit the various sites with the team. This allowed me to see the evidence being obtained first hand, and also ensure its adequacy. Visiting the site also allowed me to recognise areas where further evidence was required, such as when a recurring IT issue meant the system was reporting incorrectly. When this was discovered, I guided the audit juniors on the further evidence and walkthrough samples that would be required.

AU5

For my retail client, I met with the team at the end of each week of the fieldwork which was undertaken in Oct 2020 to assess the audit evidence obtained. Where I had questions, I would discuss with the team and determine if I had to arrange for further evidence to be obtained. One area of concern was stock; my juniors were unable to obtain a full stock report due to a system outage. I explained the importance of this to my junior and set them a task to ensure this would be obtained the following week due to the material impact on the accounts, especially in relation to the stock valuation in accordance with IAS2.

Reviewing the audit file weekly allowed me to ensure the audit pack was fully completed and appropriate evidence was being obtained. I reviewed the audit evidence alongside the financial statements and analysed each area of the file to ensure that they gave a true and fair view.

Using this approach, I was comfortable that the evidence from my team was accurate and there were no inconsistencies in our audit approach.

AU6

For my client in the construction sector, they operated a group with a number of companies. As part of the structure, there were a large number of intercompany loans.

For each company, my team had obtained evidence around the bank transactions between each company. I took time to review each transaction and follow through to the notes in the accounts, as well as through to the lead schedules on file to ensure the accuracy of each transaction being reported. This enabled me to conclude that the notes to the financial statements were true and fair.

At the end of the audit, I collated the misstatements and inconsistencies in the transactions and compiled these in a report to discuss with management at my closing meeting held in Aug 2020. None of the items identified were material, however it did seem to suggest some weakness in staff knowledge and processing errors. I discussed this with management, who during the meeting also involved their change lead, who looked at the issues and agreed for them to be taken forward. Following the meeting, I obtained confirmation of this to put on file and follow up at next year's audit.

After my review of the statements and the response from management, I was satisfied with the evidence obtained and prepared a draft audit report, noting an unmodified opinion on the group audit.

EXAMPLE 3

AU4

One of my new clients was a large group, consisting of a group holding company and a number of subsidiaries as well as one joint venture. I acted as audit manager and booked relevant team members onto the audit work in the office job planner. I reviewed performance reviews from previous audits to ensure an appropriate level of expertise across the audit team.

As part of the planning meeting held in Feb 2021 I got the team together to discuss and agree how the audit will be coordinated, including the allocation of work, considering their experience.

I had set an ambitious time and cost budget as we were hoping to retain this client for future audits. On a weekly basis I monitored costs incurred against budget and where variances arose, I discussed these with the senior to understand whether the overruns were due to client or audit team inefficiencies. For instance, I noticed the junior had spent longer on the trade receivables section than planned. On investigation it was clear that he was not familiar with this area and so additional time was incurred which could not be recovered from the client. On this occasion, the firm wrote off this time and I passed the feedback to his career counsellor who included it as part of his on-going development plan.

For one client in the IT industry, the South Africa audit opinion feeds into the group audit which is based in Japan. There is a very tight reporting deadline and the audit has to be tightly controlled to allow for the audit to be started and finished across a four week period requiring an end of May sign off. On the first day of the 2021 audit, the finance director informed me that there had been an issue with some of the information and not all information was ready. This resulted in the team having to work significant amounts of overtime to meet group reporting deadlines and as such I agreed a further fee adjustment with the engagement partner and the client.

AU5

For a client in the clothing business, I reviewed the work undertaken by a junior member of staff on debtors. There was a material amount of general bad debt provision that had built up over time. The junior member of staff had spotted that some of the general provision could actually be moved into a specific bad debt provision in the 31/12/20 y/e accounts against specific invoices for specific customers and therefore could be allowable for tax purposes. I discussed this with our internal tax department to confirm my understanding and then was able to ask the client to adjust the bad debt provision accordingly.

For a client in the natural resources sector, I reviewed the audit evidence for the risk areas identified. For example, I reviewed the work carried out on journals posted during and at year end to ensure they were supported by appropriate explanations and corroborative evidence. I reviewed all the work performed on file and raised review points for staff to clear which I would discuss with them. I would ensure that my review points were cleared and I also addressed any review points raised by the partner. I discussed the summary of unadjusted audit differences with the client at a meeting in July 2020 and recommended that they posted these, which they agreed to.

AU6

When I carried out a final review of the financial statements of one of my audit clients in the retail sector, I identified that they had not provided sufficient disclosures in the financial statements.

I discussed the matter with the engagement partner and it was agreed that I would first discuss this with the finance director of the company to ensure our understanding of the matter was correct. The finance director explained that due to the nature of the investments, it was thought that full disclosure of the changes was not required. I discussed the issue at length and the client and I eventually agreed that further disclosure was needed and the financial statements were updated.

Another client in the delivery and distribution sector had an unusually low creditors balance in 2020 when compared to the previous year, and I undertook some additional testing on pre-year end invoicing as well as further post-balance sheet cash testing to ensure it was materially correct.

I also discussed the reasons with the client, who explained that they had reduced their orders with a supplier that year; due to poorer trading conditions the usual, large pre year end order had not been placed.

HIGH RISK AUDIT AND ASSURANCE WORK – PUBLIC SECTOR EXAMPLES

Unit AQ 2: Collect and evaluate evidence

Element AU4

One of my clients is one of the metro local government municipalities under Municipal Finance Management Act (2003) (MFMA) whose objectives are to provide democratic and accountable government for local communities; to ensure the provision of services to communities in a sustainable manner; to promote social and economic development; to promote a safe and healthy environment; and to encourage the involvement of communities and community organisations in the matters of local government. It is a relatively large client for AGSA and as such it requires several audit assistants on the audit team. I selected the staff members for the audits team based on their previous experience, but I also ensured there was a balance in terms of their charge out rates, as the budget for this engagement was very tight.

Considering my prior work experience, I revised several of the audit program's tests as they were too complicated and failed to produce substantial supplementary evidence. The new tests were created for electricity tariff collection and administration. I conducted monthly reviews of the audit team's work. This raised some issues about the readiness of the material produced by the finance team, which I was able to address with the client. The delay in submission of the information by client affected the audit as we had to add additional staff to meet the legislative deadline that was non-negotiable. Audit staff had to work extra hours which increased the costs which led to budget overruns which were billed to the client.

Element AU5

One of my clients was a provincial government department in South Africa that focus on social development. On this assignment I acted as an audit manager responsible for the whole audit which was undertaken in May 2022.

During the previous year and planning stage of the audit, the audit team has identified trade payable especially post-retirement medical benefit as a high-risk area. The main issue was that there were multiple applications with the same pension number and/or ID number included on the same register, thus creating duplicated data on the system.

I mapped the processes from when an application is done, captured and processed in the system. A walkthrough test was done take into consideration to identify the risks process as the process was mix of automation and manual intervention. The first audit test was to select a completed application form for the post-retirement medical benefit. The completed application was evaluated against the policies and the system(s) used by the auditee to process the application. Further, I went to trace the completed application form against the register applications processed during that period.

Therefore, through inquiry and observation from the process owners, I also established that the duplication came because of weaknesses in the implementation of the key control relating to the input phase. A pensioner or applicant would make multiple applications for the same benefit through different Business Centre's. The system used by the receiving clerks to capture the application was not linked to the main frame for the clerks to see if the application has already been registered on the system.

The lack of a real time system to check if an application has already been processed, led to conclusion that there were material weaknesses in the controls relating to input and process flow for receiving applications. A key control to ensure the accuracy, completeness, and timeliness of data during its conversion from its original source into computer data was not properly implemented by management. As such, a control deficiency was therefore identified and documented accordingly on the relevant working paper. This deficiency was documented in the relevant section of the audit file and included in the matters reported to senior management at the end of the audit.

Element AU6

After an assessment of risk of material misstatement relating to post-retirement medical benefits, I classified it as a significant risk and that required special audit attention. As a result, I designed and carried out substantive audit procedures as well as the means of testing on the estimation uncertainty, recognition and measurement criteria and documented accordingly on relevant working paper.

Based on the audit evidence collected by substantive audit procedures, I determined that the estimated value of the post-retirement medical benefits was misstated in accordance with the applicable accounting framework of the auditee. The communication of finding was further communicated to the relevant stakeholders. The relevant disclosures in the financial statements were also reviewed and amended as part of the audit process, so they were a true and fair reflection of the actual financial position of the audited entity.

LOW RISK ASSURANCE WORK –EXAMPLES

Unit AQ 2: Collect and evaluate evidence

Element AU4 (Voluntary audit by decision)

One of my clients had appointed the audit firm to carry out a voluntary audit which is an audit, which is not compelled or mandated by law. It is an audit that is exercised by choice, hence the very essence of it being “voluntary”. It is a relatively large client in the restaurant sector, but we had been carrying out independent reviews in the past years and this was the first year to carry out an audit. The client had multiple locations in all nine provinces in South Africa as such it required several assistants on the audit team. I selected the staff members for the audit team based on their previous experience, but I also ensured there was a balance in terms of their charge out rates, as the budget for this engagement was very tight.

Based on my previous years’ experience I amended a few of the tests in the audit programme as they proved to be tailored for independent reviews and did not provide significant additional evidence. The new tests that were designed were in relation to the revenue, inventory and non-current assets. I reviewed the work of the audit team on a regular basis. This highlighted a few concerns regarding the readiness of the information prepared by the finance staff, which I was able to raise this with the client.

Element AU5 (Voluntary audit by decision)

The client was in the restaurant sector with sites across all 9 provinces in South Africa. The audit team performed a combination of internal controls testing, analytical reviews and substantive procedures during the fieldwork which was undertaken in Nov 22. During one of my reviews, I noticed that there was a substantial increase in the commercial rental expenditure, which was not fully supported on the file. I raised this with the audit assistant and requested further evidence. It was later confirmed that the client signed a new lease contract for the warehouse premises, which was substantially higher than the previous one. A copy of this contract was reviewed during the audit and no issues were identified. The reason for the increase was due to the market conditions in the area. This was flagged for the attention of the partner as the significant rent increase may have other implications for the client in the future.

One of my clients is a non-profit organisation who runs blood donation clinics, I had to verify the income and costs either to a sample of receipts and invoices or to a central charge from the main association, to ensure that each project was reporting its income and expenditure account correctly. I used the donor guidelines each project for guidance on disclosure in the accounts. Each project fed into a central consolidated account, and I also undertook a final review of the consolidated accounts for completeness. I identified that several of the projects were running close to a deficit and asked the client about this. The client had a documented plan of action in place, which included using some reserves if needed, which was allowed under the terms of the project funding agreements. I flagged this as a risk to the engagement partner, for discussion at the closing meeting which was held Aug 2023.

Element AU6 (Voluntary audit by decision)

The client is a State Owned Entity (SOE) in the logistics sector receives a substantial Department of Trade Industry and Competition (DTIC) grant every year, based on the Broad-Based Black Economic Empowerment Act, however, the grounds for receiving the DTIC grant had been changed due to legislative changes. I needed to assess whether the client would be eligible for the DTIC grant in the current year, as this could impact on the Broad-Based Black Economic Empowerment Act rating of the client which part of the grant conditions. I reviewed the new grant application process and discussed the implications of this with the top management. I was able to gain reassurance that the client would continue to receive the DTIC grant and that the going concern basis was appropriate for their financial statements.

During the fieldwork, which began on November 20, the audit team conducted a mix of substantive procedures, analytical reviews, and testing of internal controls. I discovered a significant rise in the interest expense during one of my reviews, which the file did not completely justify. I brought this up with the audit supervisor and asked for more information. Later, it was verified that the SOE had restructured some long-term loans that were far more expensive to service than the old ones due to a credit downgrade by rating agencies. Upon reviewing a copy of the agreement with the banks during the audit, no anomalies were found. The local market’s circumstances were the cause of the increase. This was brought to the engagement partner’s notice as significant for the going concern of the SOE.



Unit AQ3 – Review and report on the findings of an audit

ELEMENTS	
AU7	Review the performance of an audit
AU8	Advise on the findings and implications of an audit
AU9	Prepare a formal audit report

HIGH RISK AUDIT AND ASSURANCE WORK – CORPORATE EXAMPLES

Example 1

AU7

Through my role as an audit manager in our firm, I am responsible for the oversight of all audit procedures. As part of this, I am responsible for three audit assistants and two audit seniors including reviewing all work for completeness.

One of my clients in the automotive sector operates a number of used car showrooms. As a result, the team had to split up during the audit to attend multiple sites during the fieldwork undertaken in May 2021 to ensure appropriate testing. Using our system, all staff were able to upload their work in progress to allow me to review this. For all of the audit team, I had to review the work to ensure that it was not only accurate but that the level of testing was sufficient across all sites.

Upon completion of the audit testing my role was to finalise the audit file. After reviewing each section of the audit carried out by the various staff, I had to collate the file for my director’s review. As part of this, I had to ensure that the disclosure checklist was fully completed, and that all lead schedules, working papers and the financial statements were cross-referenced.

Prior to sending for final partner review, I revised the notes to the accounts to ensure that the required disclosures were correct and corresponded with the evidence on the audit file.

AU8

I acted as the audit manager for a construction client that our firm had won in July 2019.

Once the audit file was ready for partner review I scheduled time in their diary for review to discuss our findings and her opinion on the quality of the work performed. After some questions around the liquidation of one part of the group and a discussion around intercompany transactions which I explained, the partner agreed with my assessment and was satisfied with the level of work that had been performed; she concluded there was sufficient, appropriate evidence to support the audit opinion.

We also discussed the various control improvements I had identified within the entity. After a review of my letter to the management of the company, she agreed it was to be issued to the client. I also prepared the letter of representation and collated the meeting pack to present to the client during the Oct 19 closing meeting, along with the audit opinion letter.

The client agreed with our overall assessment and was interested in taking on board our recommendations for control improvements. The minutes from the closing meeting with the client were recorded and I ensured they were included in the electronic audit file once signed off by both parties.

AU9

In each audit, I have responsibility for preparing the audit report in accordance with current audit standards. The majority of audit reports prepared have been unqualified, as the audit work undertaken has provided sufficient comfort that the financial statements provide a true and fair view.

However, for one of my medium sized manufacturing clients I had identified stock and work in progress values as risk areas as there was no formal job costing system in place. I therefore adjusted the audit approach accordingly as stock was a material area. Despite the tailored audit approach and the testing undertaken, I was not able to gain sufficient comfort that stock was valued at the lower of cost and net realisable value in accordance with IAS2 Inventories.

I presented my findings to the audit partner and recommended that the audit report be qualified on the basis of limitation of scope. I drafted the proposed wording for the audit report for the 31/12/20 y/e accounts which the audit partner reviewed and together we discussed the report with the client. The client accepted my explanation and agreed to the qualified audit report. Notes of all discussions and a copy of the signed report were kept on the file.

For a retail client, I reviewed all areas of the audit file, including the closing sections, disclosure checklist and the statutory financial statements to ensure the audit file was complete, objectives had been met and all significant matters outstanding had been disclosed to the audit partner. I drafted the closing meeting agenda which was held Mar 2021, attended the meeting with the audit partner and drafted the minutes.

Example 2

AU8

Upon conclusion of the evidence obtained and my review of the work of my audit team on my geoenvironmental client, I drafted a management letter to discuss the audit evidence at the 2020 closing meeting. Prior to the meeting, I sent this to the client to give them time to review the information and prepare questions. I then attended the meeting a week later with the client. We discussed one particular area concerning project grants from the South African Government, and one instance where the company had failed to meet the terms of the funding. The company was able to provide written evidence from the South African Government that they had noted the exceptional circumstances and would not be seeking repayment of the grant. I explained that although it was not material to the financial statements they should consider noting such matters in future.

Following the meeting, the company provided me with a written response of the matters discussed, and I included this on the file prior to finalising the report.

AU9

On each of the files I manage I am responsible for preparing the audit report. As part of this preparation I consider whether any material misstatements have arisen in the financial statements, together with any post-balance sheet events which may affect the figures. The majority of my clients have been issued with non-qualified audit reports, but there have been occasions when this has only been concluded following discussions with the client directors.

Following the meeting with my IT sector client held in Oct 2021 and obtaining a written response to the management meeting, I drafted the audit report. As discussed at the meeting, my opinion included an emphasis matter paragraph to highlight a fine the company received due to a minor data breach. It did not affect going concern although due to the serious nature of such a fine I felt it needed to be highlighted and the client was happy with this approach.

Upon drafting the audit report, I passed this to the firm's audit principal. I spent time with him following his review to discuss the audit prior to him signing off the report.

During the audit of my manufacturing client, it was highlighted that sales had considerably reduced as a result of losing one of their major clients. This gave rise to going concern issues which I needed to consider prior to signing off. We delayed signing the accounts for as long as possible to give the company time to pursue other potential sales leads to replace the lost client. Following the year end, sales had improved to such an extent that comfort was gained that the business would continue on a going concern basis and therefore there was no impact on the 31/12/20 y/e audit opinion.

Example 3

AU7

I acted as the senior audit manager on a multinational client who operated in the mining industry. This company had subsidiary undertakings registered worldwide although the group headquarters were in Johannesburg.

The firm had offices covering seven of the regions where the subsidiaries were based. Two of the component auditors were external to my firm which made the administration of the audit quite a challenge. I had to spend a lot of time on web calls to ensure sufficient and timely co-ordination of the audit evidence.

It became apparent that this could not all be done remotely and so I attended four of the seven sites overseas where I felt I had to spend more focus on reviewing key areas of evidence to ensure sufficient appropriate evidence was collated. During these visits in Apr 2021, I was able to attend the client premises and component auditor offices and fully review the files and work prepared by each component auditor to check sufficient testing had been carried out, correct conclusions were drawn and the files for each subsidiary company were fully completed.

By conducting this high level of scrutiny, I was able to take comfort that I could rely on the component auditor evidence. Also, this was an excellent opportunity for me to engage with our overseas offices and learn more about the requirements of such a large global audit.

AU8

I was the audit manager for a publishing group and its subsidiaries.

Prior to the 2019 closing meeting there was a fire in one of the printing factories and the nearby warehouse. This could have had significant implications on going concern for one of the subsidiaries therefore I ensured this issue was added to the agenda for the meeting.

During the meeting this was discussed with the client and they were able to provide us with additional information such as figures of the estimated losses, the time it would take for the factory to be operational again and updates on communications with their insurance provider to date.

Additionally, the group confirmed that they would support the subsidiary financially if needed and would provide a letter of support if required. The partner and I concluded that at this stage a disclosure in the financial statements would suffice and no further work was required as there was no immediate issue of the subsidiary not being able to discharge its debts.

I informed the client of this during the conclusion at the closing meeting, and notified them that the audit would be concluded with an unmodified opinion if this issue was adequately disclosed in the financial statements.

I updated the electronic audit file with notes of the client discussions and notes of the minutes of the closing meeting. I then carried out a final review of the financial statements to ensure the required disclosures were present. Following this, I passed the file to the partner for final review.

HIGH RISK AUDIT AND ASSURANCE WORK – PUBLIC SECTOR EXAMPLES

Unit AQ 3: Review and report on the findings of an audit

Element AU7

I was promoted from audit manager to senior audit manager in January 2023. I now have responsibility for the whole audit process including preparation, planning, execution, review and reporting. For one of my audits, a municipality in the local government, I had a weekly review of the evidence obtained to date. This allowed me to review the information obtained by my team and ensure that it was accurate and complete, and that the information on file was appropriately referenced.

I reviewed the work done by a junior member of staff on the compliance the municipality with Contract Management with Municipal Finance Management Act (2003) (MFMA). During the collection and evaluation of audit evidence by the junior member of staff, they identified instances of non-compliance with legal frameworks that are applicable to the specific legal entity legislation and standards of the audit client. They also identified that on some occasions, contracts were not signed by both the successful bidder and a delegated official. The total payments that were made under the contract exceeded the original contract price, including further non-compliant extensions to the contract.

This outcome was not unexpected, as we had been aware since the planning stage that contract management an area that was always reported in audit reports of local government entities every year. I reviewed the work and the audit findings with the junior member of staff, and we agreed that indeed they were valid findings.

Once all the substantive testing was largely completed, I reviewed the files created for each section of the audit and discussed any issues arising. I also gave the team feedback on their performance and was able to share some complimentary feedback to them from the client, who was pleased with how smoothly the audit had progressed.

Element AU8

Due to the nature of the client which was one of the biggest local government metro in South Africa, I completed the disclosure checklist myself as I have several other local government audits, rather than delegating it to the team leader. However, I explained the process to the team leader so they could learn and put their learning in to practice on the next local government audit.

The engagement partner reviewed the files and provided me with a list of questions to address. In particular, there was concern over the amount of audit testing done on the level of repairs and maintenance expenses, as these fluctuated significantly. I was able to explain why the sample size was chosen and provided evidence for the main fluctuations from the client, which the team leader had verified to supporting documents for accuracy and completeness. The partner was satisfied and asked that the evidence on file was expanded to support our findings. Once this was done, the partner was satisfied, and I was able to draft the audit report which was agreed with the clients at the closing meeting held in July 2022.

I organized a meeting with the CFO to discuss the findings identified, we agreed to include the findings in the management report and get a formal response from management in writing. In the management report I covered details on the finding, including a section of the governing legislation that was contravened, the root cause and effect, the control deficiency which gave rise to the instances of non-compliance and my recommendation for correcting the issues as identified.

Element AU9

Upon completion of the draft management report, I submitted the documents to the engagement partner for review and a formal communication was officially addressed to the accounting officer of the auditee. I also prepared the letter of representation and collated the meeting pack to present to the client during the Oct 23 closing meeting, along with the audit opinion letter. After issuing the report, the client changed their position and disagreed with the findings and submitted additional evidence to prove their disagreement. I reviewed the evidence presented and realised that some of the documents had been altered after our review and I pointed this out to the engagement partner. The finding was included in the final management report to the municipal council including the client's response and my final response.

I also worked on the audit of a SOE which is a group of companies in Mar 2020 in which the main trading subsidiary operated branches in South Africa. I prepared audit instructions for the auditors that the AGSA had subcontracted some of the work and assessed the competence in accordance with international standards on auditing. I maintained regular dialogue with the subcontractor audit team and reviewed the reporting pack which they provided. Once reviewed, I concluded that we were able to take reliance on the audit work performed by the subcontracted auditors and consolidate the results into the parent company before issuing our audit opinion. On reporting I had to prepare the draft audit opinion for the engagement partner to review. Most of the audit opinions were unqualified and supported the financial statements having a true and fair view.

LOW RISK ASSURANCE WORK – EXAMPLES

Unit AQ 3: Review and report on the findings of an audit

Element AU7 (Independent review)

For my property development client, I had a weekly review of the evidence obtained to date. This allowed me to review the information obtained by my team and ensure that it was accurate and complete, and that the information on file was appropriately referenced. I took this time to also complete the disclosure checklist for the file.

I reviewed all the audit work and ensured that previous review points were cleared by the relevant staff members. I held a short informal meeting with each one of the audit team members where I provided them with feedback about their performance and what they can do in the future to avoid some of the mistakes that they had made. I also noted their contribution to the independent review and highlighted areas where they performed particularly well.

The disclosure checklist was prepared by the audit senior. However, I reviewed all areas that were material or high risk to ensure that the financial statements were prepared in accordance with the Companies Act, 2008 (Act No. 71 of 2008) and the International Standard on Review Engagements (ISRE) 2400.

One area of testing focused on analytical procedures to identify unusual trends or inconsistencies in the financial data. I noted huge increases in office costs from the previous financial year. However, I noted that the company had implemented a full return to office for all staff in the financial year. I felt that the transactions testing did not provide sufficient comfort, and so I set my team a task to obtain confirmation from management on this and enquire as to the steps they had taken to ensure the expenditure which was above budget was being controlled. As this task was completed by a new, junior member of the team, I discussed the importance of such areas and how they could obtain more evidence in future.

Element AU8 (Voluntary audit by decision)

Following the partner's review of the file there were some concerns raised with regards to the future expenditure level of the client. They had signed a lease contract for the warehouse facilities for the next ten years, which was not very favourable for the client. Our recommendation was to identify areas where expenditure could be reduced to offset the additional rent increase. This was included in the management letter and was discussed with the client during the closing meeting held March 2022.

I also drafted the letter of representation following the most up-to-date template used by our firm, which was signed by the client the day the financial statements were signed. I also drafted the audit report, which was reviewed and signed by the partner. The client was satisfied with both the management letter and the audit opinion.

Element AU9 (Voluntary audit by decision)

In all my audits I act as audit senior and prepare the draft audit opinion for the engagement partner to review. Most of the audit opinions were unqualified and supported the financial statements having a true and fair view.

For one of my audit clients, a supplier of IT hardware to Government, there was doubt over the long-term viability of the client as Government was 60% of the receivables balance and most were due more than 120 days. Whilst the client was confident that the Government would pay the amount in due course and trading would continue, there was a fundamental uncertainty about this due to austerity measures and I drafted a qualified audit opinion for the partner to review.

This outcome was not unexpected, as we had been aware of the Government austerity measures that were causing payment delays since the start of the planning stage.

Ultimately, the client accepted a qualified opinion had to be issued on the 31/12/23 financial statements and the minutes of our discussions, along with the client's acceptance, were included in the audit file.