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Dear Imran

**SAICA COMMENT LETTER ON THE PROPOSED GUIDE FOR REGISTERED AUDITORS:  
GUIDANCE ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE  
AUDIT (REVISED AUGUST 2020)**

In response to the Exposure Draft: *Proposed Guide for Registered Auditors: Guidance on Performing Audits where the AGSA has Opted to not Perform the Audit (Revised August 2020)* (the Proposed Guide), please find included the comments prepared by the South African Institute of Chartered Accountants (SAICA).

We thank you for the opportunity to provide comments on the Proposed Guide.

Our approach to obtain comments was as follows:

- i. The SAICA Assurance Team studied the Proposed Guide in preparing initial thoughts pertaining to the construct, usefulness and clarity of the guidance as presented in the Proposed Guide.
- ii. A Working Group of SAICA's Assurance Guidance Committee (the Working Group) met to provide their views and comments in finalising the SAICA comment letter.
- iii. Included in this comment letter are the details of the discussions held by the Working Group. The purpose of including such detail is not to provide a definitive conclusion on the matters noted but rather to point out areas of concern for further consideration by the IRBA's Committee for Auditing Standards (CFAS) Task Group.

Our comment letter is presented in the following sections:

- A. Introduction
- B. Response to specific questions
- C. Other general comments

Please do not hesitate to contact us should you wish to discuss any of our comments. You are welcome to Hayley Barker Hoogwerf ([hayleyb@saica.co.za](mailto:hayleyb@saica.co.za)).

Yours sincerely

*Signed electronically*

**Hayley Barker Hoogwerf**  
**Project Director: Assurance**

## A. INTRODUCTION

1. SAICA recognises the objective of the Proposed Guide in providing guidance to auditors in performing audits where the AGSA has opted not to perform the audit. Such guidance will aid in aligning the application of the International Standards on Auditing (ISAs) and the Independent Regulatory Board for Auditors (the IRBA) pronouncements in performing audits where the Auditor-General South Africa (AGSA) has opted not to in South Africa, thereby ensuring a more consistent approach to such engagements.
2. SAICA believes that the Proposed Guide provides a meaningful overview of the legislative requirements, complemented by practical guidance. The Proposed Guide will be a particularly useful reference point for auditors entering the public sector audit space.
3. SAICA members consulted with during the comment period are also supportive of the initiative of the IRBA to issue guidance for auditors when performing audits where the AGSA has opted not to.

## B. RESPONSE TO SPECIFIC QUESTIONS

### Question 1

Is the content of this Proposed Guide useful to auditors who are performing audits where the AGSA has opted not to perform the audit? Please provide details and suggestions for correction and/or improvements.

1. SAICA supports the content of the Proposed Guide and believes that it is a useful reference point for auditors performing audits where the AGSA has opted not to. Members engaged with during the public consultation process agreed with this view. Below, please find suggestions of areas where clarity will further enhance the usefulness of the Proposed Guide.
2. The purpose for referring to other guidance, as included in Paragraph 1.2 of the Proposed Guide, is not clear. It is not clear whether this guidance needs to be read in conjunction with the Proposed Guide for the auditor to obtain a complete view or whether this guidance is applicable to other types of engagements that auditors may enter into with the AGSA. SAICA suggests that this sentence be expanded to explain the need for the auditor to refer to the additional material so suggested. In addressing this comment, SAICA cautions the IRBA from included references to other general guidance that is available, at the risk of this list being incomplete.
3. Definition of “auditor/audit firm” in section 2 of the Proposed Guide: It is not clear why the terms *auditor* and *audit firm* are used interchangeably in the Proposed Guide. If there is a need to distinguish between the auditor and the audit firm in that an individual is referred to as the *auditor* while the legal structure is referred to as the *audit firm*, SAICA suggests that this be explicitly explained in the Proposed Guide.
4. Continuing with the definition of “auditor/audit firm”: The purpose of the reference to “referred to as the auditor” at the end of this definition is not clear. SAICA’s suggestion is that amending the definition of “audit firm” as follows, with a separate definition included for auditor if considered necessary will clarify the matter:

~~Auditor/Audit firm:~~ A firm registered as an auditor with the Independent Regulatory Board for Auditors (IRBA) in terms of Section 38 of the Auditing Profession Act, No. 26 of 2005 (APA), engaged in public practice and appointed by an auditee that the AGSA opted not to audit referred to as the “auditor”.

SAICA SUBMISSION ON THE  
**PROPOSED GUIDE FOR REGISTERED AUDITORS: GUIDANCE  
ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT  
(REVISED AUGUST 2020)**

5. The definitions make reference to the “audit partner”. The ISAs refer to the *engagement partner* and SAICA therefore suggests that the terminology contained in the Proposed Guide be made consistent with that contained in the ISAs.
6. With reference to the definition of “Executive Authority”, SAICA proposed that the definition be expanded to say: The Executive Authority in relation to a national public entity as defined by the Public Finance Management Act, No.1 of 1999, which means the cabinet member who is accountable to Parliament for that public entity or in whose portfolio it falls.
7. Paragraph 3.6 of the Proposed Guide makes reference to a “revised or updated Directive” that is issued, and the question is whether there is a difference between a *revised* Directive and an *updated* Directive. SAICA’s suggestion is to only make reference to a *revised Directive*.
8. Paragraph 3.6 is also confusing in that it is not clear whether the Directive is effective until revised or effective for the period under audit. SAICA suggests that the Proposed Guide should clarify this.
9. The intention of the guidance contained in Paragraph 3.9 of the Proposed Guide and when this will apply is not clear. A concern with how this guidance can be interpreted is that the AGSA has unrestricted access to the auditee at all times, which may put the auditor in a difficult position. A view expressed by the Working Group was that the AGSA will become more involved in the audit when a decision has been taken to take back the audit. SAICA suggests that the wording of this paragraph be revisited to clarify the intention of this section of the guidance, as well as when this will be applicable. Please also refer to Paragraph 34 of this comment letter for SAICA’s suggestion on expanding on a situation where a decision has been taken to take back the audit.
10. Paragraph 3.9 of the Proposed Guide also seems incomplete in that it does not indicate when the auditor is relieved of such accountability, responsibility and control and may therefore be interpreted to have an indefinite lifespan. SAICA suggests that the Proposed Guide should clarify when the accountability, responsibility and control that the auditor has come to an end. This could be linked to Paragraphs 4.14 and 4.21 of the Proposed Guide.
11. After outlining the requirements for the appointment of the auditor, Paragraph 4.8 of the Proposed Guide for the first time makes reference to “a new procurement process”. It is not clear whether this is different to the process for the appointment of the auditor, which may create confusion. SAICA therefore suggests that to be consistent, this rather be replaced with *a new procurement process for appointing the auditor*.
12. In confirming the referencing contained in the Proposed Guide, it was found that Section 25(1)(b) of the PAA states: “If the Auditor-General has opted not to perform the audit of an auditee referred to in Section 4(3): (b) the auditee must appoint as its auditor a person registered in terms of the Auditing Profession Act as an accountant and auditor and engaged in public practice as such.” We further found that Regulation 5 of the Regulations deals with the withdrawal of consent by the AGSA. At face value, it therefore appears that it is more appropriate to refer to Regulation 5(3) of the PAA Regulations and not to Section 25(1)(b) of the PAA in Paragraph 4.11 of the Proposed Guide. SAICA, however understands that the PAA sets out the legal principles whilst the Regulations are subsidiary legislation. SAICA therefore suggests that the Proposed Guide make reference to the related sections of both the PAA and the Regulations.
13. Paragraph 4.14 states: “Completion of an audit would consist of all duties, including communication with those charged with governance, as detailed in section 8 of this proposed Revised Guide”. It is not clear why this paragraph specifically highlights communication with those charged with governance and not other completion matters such as the issuance of the auditor’s report. SAICA therefore suggests that this sentence be deleted from the Proposed Guide. SAICA further recommends that the Proposed Guide should make it clear that the withdrawal of consent happens because of a serious and exceptional occurrence and is not expected to be a regular occurrence. This comment is also applicable to Paragraph 4.21 of the Proposed Guide.

SAICA SUBMISSION ON THE  
**PROPOSED GUIDE FOR REGISTERED AUDITORS: GUIDANCE  
ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT  
(REVISED AUGUST 2020)**

14. Paragraph 4.15 provides guidance on who the AGSA must report the withdrawal of consent to and lists the “relevant legislature”. It is not clear who this relevant legislature is and SAICA questions whether this is not meant to make reference to the auditee.
15. In referencing Paragraph 5.3 back to the PAA, this is somewhat confusing in that Section 27(5) of the PAA does not specifically list the matters listed in the Proposed Guide. To clarify this, SAICA suggests that this paragraph be reworded as follows:

Section 27(5) of the PAA requires that the AGSA or a person designated by the AGSA may request information regarding the audit from an auditor appointed in terms of Section 25(1)(b). To facilitate further reporting by the AGSA, it may also request the following information from the auditor in terms of Section 27(5) of the PAA:

- A copy of the audited financial statements;
  - Copies of the annual report;
  - A copy of the management report, which includes the audit outcome of audit procedures performed on specific focus areas; and
  - The completed monitoring checklist as prescribed in the Directive.
16. Paragraph 6.1 of the Proposed Guide makes reference to “auditing pronouncements developed and issued by the IRBA”. SAICA suggests that this wording be aligned to the wording contained in the Auditing Profession Act, No. 26 of 2005 (the APA), namely *developed, adopted, issued or prescribed*.
17. The current construct of Paragraph 6.4 of the Proposed Guide is not clear in terms of what the auditor is required to include in the engagement letter. It can be assumed that this is the auditor’s compliance with the IRBA Code, but SAICA suggests that this be clearly spelt out.
18. Members engaged with finalising this comment letter requested that Paragraph 6.6 of the Proposed Guide should indicate that the engagement manager should alert the auditor to the publication of new or amended technical guidance to ensure that the auditor is on top of the latest technical guidance, especially during the pressure months leading up to the reporting deadlines.
19. Paragraph 6.9 is another paragraph that gave rise to some confusion. The auditor is required to comply with the *International Quality Control, Auditing, Review, Other Assurance and Related Services Pronouncements issued by the International Auditing and Assurance Standards Board*. In terms of ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Service Engagements* (ISQC 1), the firm shall establish policies and procedures for the acceptance and continuance of client relationships and specific engagements, designed to provide the firm with reasonable assurance that it will only undertake or continue relationships or engagements where the firm is competent to perform the engagement.<sup>1</sup> Paragraph 6.9 of the Proposed Guide seems to imply that the engagement can be accepted contrary to the requirements contained in ISQC 1.
20. Continuing with Paragraph 6.9: One view expressed was whether the option to consult with the AGSA where clarification on public sector specific requirements is considered necessary is not aimed at the auditee. A second view expressed on Paragraph 6.9 was that this relates to consultation on technical matters, where the auditor is required to exhaust the audit firm’s internal consultation process and if this does not resolve the matter, then the auditor may seek support from the AGSA. SAICA therefore requests that clarity be provided on the meaning of this paragraph.
21. In reading paragraph 6.12 of the Proposed Guide in isolation, the concept of “measurable and relevant” may appear to be open to interpretation. SAICA suggests that these criteria be referenced

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<sup>1</sup> ISQC 1.26(a).

SAICA SUBMISSION ON THE  
**PROPOSED GUIDE FOR REGISTERED AUDITORS: GUIDANCE  
ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT  
(REVISED AUGUST 2020)**

back to the criteria developed from the Performance Management and Reporting Framework as outlined in the Directive.

22. In “Auditing of Compliance with Key Legislation”, Paragraph 6.14 makes reference to the auditor expressing an “opinion or conclusion”. An opinion is associated with a reasonable assurance engagement, i.e. an audit and conclusion with a limited assurance engagement, i.e. a review. The guidance contained in Paragraph 6.14, namely the expression of an opinion/conclusion on “whether anything has come to the auditor’s attention to cause the auditor to believe”, suggests that this is a limited assurance engagement. SAICA suggests that the Proposed Guide should clarify whether this is a reasonable and limited assurance engagement.
23. Since the subject matter “information” referred to non-financial information, these engagements would fall within the scope of ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000 (Revised)). SAICA suggests that the Proposed Guide state this.
24. In the section dealing with Material Irregularities, the introductory paragraph, namely 7.1, does not seem to fit. Reportable Irregularities as contained in Section 45 of the APA, as well as non-compliance with laws and regulations, have been dealt with in preceding sections of the Proposed Guide and SAICA therefore suggests that it is not necessary to repeat this information.
25. Paragraph 9.1 of the Proposed Guide refers the auditor to South African Auditing Practice Statement (SAAPS) 3: *Illustrative Reports (Revised May 2019)* (SAAPS 3) and any other guidance that may be published by the AGSA from time to time for the prescribed format for public sector reports. In a closer analysis of the illustrative report contained in SAAP 3 and the audit report template issued by the AGSA, differences are noted which may create confusion. Obvious differences include that the illustrative report contained in SAAPS 3 does not include the sections relating to the *Report on the audit of the annual performance report* and *Report on the audit of compliance with legislation*. Other, subtler differences include inconsistencies in the introductory heading. The relevance and usefulness of referring to SAAPS 3 is therefore questioned.
26. Paragraph 10.1 of the Proposed Guide refers to complaints against auditors. SAICA suggests that the Proposed Guide clarify that this is required by Paragraph 47 of the Directive.
27. The second block of the illustration contained in Appendix 2 indicates that “The AGSA does not notify the auditee that the AGSA opts to perform audit before the start of the next financial year”. It is SAICA’s understanding that Section 25(1)(a) of the PAA requires that if the Auditor-General has opted not to perform the audit of an auditee referred to in Section 4(3)(a), the Auditor-General must give notice of his or her decision to that auditee before the start of the auditee’s financial year for which the appointment is to be made. SAICA therefore proposes that this block should rather read: “The AGSA ~~does not notify~~ notifies the auditee that the AGSA has opted not to perform audit before the start of the next financial year”.

**Question 2**

Are there further significant aspects that should be included in this proposed Revised Guide? If so, please list those aspects and the guidance required.

28. Paragraph 6.3 indicates that “auditors performing audits in the public sector are subject to the IBRA Code” and should “consider the additional ethical standards that are relevant in the public sector and contained in ISSAI 130, *Code of Ethics*, published by the INTOSAI”. SAICA suggests that the Proposed Guide should highlight the additional responsibilities contained in the additional ethical standards that are relevant when performing an audit in the public sector to make it clear that the additional ethical standards do include **additional** considerations.

SAICA SUBMISSION ON THE  
**PROPOSED GUIDE FOR REGISTERED AUDITORS: GUIDANCE  
ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT  
(REVISED AUGUST 2020)**

29. Paragraph 4.6 of the Proposed Guide makes references to conditions to the consent granted by the AGSA. SAICA suggests that this paragraph be unpacked to provide clarity around where these conditions are formally communicated to the auditor and provide examples of such conditions. The examples can either be listed in the body of the Proposed Guide or in an annexure.
30. Paragraphs 4.11–4.16 of the Proposed Guide cover the situation when the AGSA withdraws consent. Although SAICA recognises that the Proposed Guide is aimed at auditors, it is recommended that the Proposed Guide be expanded to briefly cover the fact that when the AGSA withdraws consent, the auditee is required to start the process of procurement for appointing an auditor. SAICA's view is that it is important to cover this because it provides an important link to the incoming auditor and what they should be aware of and consider in accepting the engagement.
31. Paragraph 4.27 makes reference to the auditor resigning. SAICA recognises that the wording contained in this paragraph is aligned with the wording contained in the Regulations. SAICA's view is that it is not clear when the auditor is permitted to resign and what responsibilities need to be fulfilled before the resignation becomes effective and suggests that the Proposed Guide be expanded on to provide clarity on this.
32. An engagement undertaken by an auditor who is appointed to audit public entities or institutions that the AGSA has opted not to audit consists of three parts, namely the audit of the financial statements, the audit of predetermined objectives, and compliance with legislation. The Proposed Guide includes sections dealing with auditing on reported performance information (Paragraphs 6.11–6.13) and auditing of compliance with key legislation (Paragraphs 6.14–6.15), but there is no section dealing with the audit of the financial statements, making the Proposed Guide seem incomplete. SAICA suggests that a section for the audit of financial statements be added.
33. SAICA acknowledges reference to Material Irregularities in Section 7 of the Proposed Guide. It is SAICA's view that the Proposed Guide is not clear in terms of the auditor's reporting responsibilities relating to Section 5(1A) of the Public Audit Act, No. 25 of 2004 dealing with Material Irregularities and how a Material Irregularity relates to a Reportable Irregularity as outlined in Section 45 of the APA. To this end, SAICA suggests that the Proposed Guide be expanded to deal with these matters.
34. SAICA also suggests that the Proposed Guide be expanded to include a section dealing with the applicable process when the AGSA has decided to take back a Section 4(3) audit as this is becoming more prevalent of late.
35. Another point that does not seem to be covered in either SAAPS 3 or technical guidance issued by the AGSA relates to where the auditor is required to include reference in the auditor's report to Reportable Irregularities that have been reported by the auditor.

### **C. OTHER GENERAL COMMENTS**

36. In the preamble to the Proposed Guide, reference is made to the fact that the Proposed Guide "provides guidance to auditors who are appointed to audit public entities or institutions that the Auditor-General South Africa has opted not to audit". Paragraph 1.1 of the Proposed Guide then states that the Proposed Guide "provides guidance for auditors who audit public sector auditees that the Auditor-General of South Africa (AGSA) has opted not to audit". SAICA suggests that reference to what the Proposed Guide covers be made consistent. Our preference is for the wording

SAICA SUBMISSION ON THE  
**PROPOSED GUIDE FOR REGISTERED AUDITORS: GUIDANCE  
ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT  
(REVISED AUGUST 2020)**

contained in the preamble and as such, we suggest the following changes be made to Paragraph 1.1:

This proposed Revised Guide provides guidance ~~for~~ to auditors who are appointed to audit public ~~sector entities and other institutions~~ that the Auditor-General of South Africa (AGSA) has opted not to audit.

37. In the preamble to the Proposed Guide, reference is made to the fact that this engagement includes “the audit of the financial statements in accordance with International Standards on Auditing, the audit of predetermined objectives and compliance with legislation, and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act (No. 25 of 2004)”. Paragraph 1.1 of the Proposed Guide states that the engagement “includes the audit of the financial statements in accordance with International Standards on Auditing (ISAs); the audit of reported performance information and compliance with key legislation; and the additional audit procedures relating to focus areas, in accordance with the specific requirements of the Public Audit Act, No. 25 of 2004 (PAA)”. This inconsistency may be a source of confusion for an auditor new to these engagements. SAICA suggests that the Proposed Guide be made consistent in referring to the scope of the engagement throughout.
38. Reference is made to the “AGSA” as well as the “Auditor-General” throughout the Proposed Guide, which may create confusion. SAICA recognises that the AGSA relates to the institution, whilst *Auditor General* refers to the person leading the organisation and that the difference of the meaning needs to be taken into the context of the sentences. SAICA’s suggests that this background information be included in the Proposed Guide. SAICA further suggests that the Proposed Guide should include a definition for the AGSA as contained in the Public Audit Act, No. 25 of 2004.
39. To be consistent with the terminology used in the ISAs, as well as the heading of the section, SAICA suggests that the reference to “functions and powers” in Paragraph 3.7 be replaced with *roles and responsibilities*.
40. Paragraph 4.6 of the Proposed Guide deals with two distinct points, namely the providing of consent with conditions and the auditor not accepting an appointment if no formal consent has been obtained. SAICA therefore suggests that this be split into two separate paragraphs.
41. The terms *audit firm* and *auditor* are included in the definitions relevant to the Proposed Guide. SAICA therefore suggests that reference to the “responsible auditor” as contained in Paragraph 6.6 of the Proposed Guide be amended to refer to only the *auditor*.
42. Other editorials identified are included in the table below:

Reference to the Proposed Guide	Suggested change
Section 2: Definitions Executive Authority	The Executive Authority as defined by the Public Finance Management Act, <u>No. 1 of 1999</u> .
Paragraph 3.3	In terms of <u>Section 52(1)</u> of the PAA, <del>Section 52(1)</del> ,—the Auditor-General may make Regulations pertaining to any matter to facilitate the application of the PAA.
Paragraph 3.5	In terms of <u>Section 13(3)(b)</u> of the PAA, <del>Section 13(3)(b)</del> the <del>Auditor-General</del> AGSA may issue a Directive (hereafter referred to as the Directive). In addition to matters provided for in Section 13, read with Section 11 <u>of the PAA</u> ,

SAICA SUBMISSION ON THE  
**PROPOSED GUIDE FOR REGISTERED AUDITORS: GUIDANCE  
ON PERFORMING AUDITS WHERE THE AGSA HAS OPTED NOT TO PERFORM THE AUDIT  
(REVISED AUGUST 2020)**

	the Directive also includes matters to facilitate optimal levels of accountability and transparency in the management of public resources.
Paragraph 4.2	In terms of Section 25(1) of the PAA, the Auditor-General may opt not to perform the audit of an auditee, in accordance with Section 4(3). The AGSA, however, must notify the auditee before the start of the auditee's financial year for <u>which the appointment is to be made</u> of its decision not to perform the audit.
Paragraph 4.24	As per <u>Regulation 7 of the Regulations</u> , an auditor appointed in terms of Section 25(1) of the PAA may resign from that audit ...
Paragraph 5.3	<u>Section 27(5) of the PAA requires that the AGSA or a person designated by the AGSA may request information regarding the audit from an auditor appointed in terms of Section 25(1)(b).</u> To facilitate further reporting by the AGSA, it may also request the following information <del>in terms of Section 27(5) of the PAA:</del> <ul style="list-style-type: none"> <li>• A copy of the audited financial statements;</li> <li>• Copies of the annual report;</li> <li>• A copy of the management report, which includes the audit outcome of audit procedures performed on specific focus areas; and</li> <li>• The completed monitoring checklist, as prescribed in the Directive.</li> </ul>
Paragraph 6.8, second bullet point	The consultation form is submitted to the engagement manager who, in turn, submits it to the AGSA's technical division via the <del>P</del> product <del>C</del> champion.
Paragraph 6.11	The objective of the audit is to obtain assurance <u>about</u> <del>on</del> whether the reported performance information for the selected programmes or objectives presented in the annual performance report is free from material misstatement, i.e. the reported performance information is useful and reliable in all material respects in accordance with the applicable criteria as developed <del>from</del> <u>by</u> the performance management and reporting framework <u>as</u> set out in the Directive.
Appendix 3, first block on the left	The AGSA notifies the auditor of the <del>intention</del> to withdraw consent of appointment.