Botswana Accountancy Oversight Authority

AUDIT PRACTICE REVIEW REPORT
31 DECEMBER 2021

VISION: *Enhanced Global Confidence in Financial Reporting, Audit and Corporate Governance*

MISSION STATEMENT: *To provide oversight and regulation by Developing and Enforcing Financial Reporting, Auditing and Corporate Governance Standards and Codes to Protect Public Interest*

MANDATE: *Standard Setting, Audit Practice Reviews, Financial Reporting Monitoring Reviews, Corporate Governance Reviews & Oversight of Professional Accountancy Organisations*

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Foreword from Board Chairperson

On behalf of the Audit Practice Review Committee and the Board of the Authority, I have the pleasure of presenting the summarized report on Audit Practice Reviews for the year ending 31 December 2021. The year 2021 was the commencement of the Audit Practice Reviews' third cycle.

Audit Practice Reviews were performed in accordance with the Financial Reporting Act, 2010, Section 57 which states that the Authority, or any officer, other accountancy regulatory agencies in other countries, regional and subregional accountancy bodies and other international accountancy bodies authorised by the Authority in writing, may review the practice of a certified auditor of Public Interest Entities ….

This report highlights areas of audit quality that were identified as being deficient during our firm-wide and individual assurance engagement reviews. The Authority believes that this report will serve as a valuable tool for all audit firms in strengthening their firms' systems of quality control and it would also drive consistent execution of high-quality audits throughout the nation.

The Authority is also identified as a supervisory authority under Schedule II of the Financial Intelligence (FI) Act, 2019. The Authority's responsibilities are as per section 44 of the FI Act, 2019. These include among others ensuring that specified parties or accountable institutions regulated by BAOA comply with the FI Act, 2019. The report on the compliance with FI Act, 2019 has been issued separately and it is published under AML in the BAOA's website.

Board Chairperson
March 2022

1. BACKGROUND

The Authority is mandated to undertake audit practice reviews of Certified Audit Firms and Certified Auditors of Public Interest Entities (PIEs) at least once every three years. In addition, the Authority had a Memorandum of Understanding (MoU) with the Botswana Institute of Chartered Accountants (BICA), which required the Authority to undertake audit practice reviews of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities (Non-PIEs) on BICA's behalf.

The MoU between the Authority & BICA elapse on the 31 March 2022 due to the Financial Reporting (Amendment) Act, 2020 coming into effect. The new Act provides that all Certified Audit Firms and Certified Auditors of Non-PIEs who were regulated by BICA be transferred to BAOA. All auditors in Botswana would be under the jurisdiction of BAOA from 01 April 2022, when the Financial Reporting (Amendment) Act, 2020 comes into effect.

Audit practice reviews consist of a firm (quality control) review and a review of selected assurance engagements carried out and signed off by each firm's Certified Auditors.

A firm review consists of an inspection of the six elements of a firm's system of Quality Control Policies and Procedures namely: Leadership Responsibilities for quality within the firm; Relevant Ethical Requirements; Client Acceptance & Continuance of client relationships and specific engagements; Human Resources; Engagement Performance; and Monitoring. The aim of the review is to ensure that the system conforms in all material respects to the requirements of the International Standard on Quality Control (ISQC)1.

An engagement review aims to obtain reasonable assurance that audit engagements are performed in accordance with the applicable Assurance Standards including International Standards on Auditing; International Financial Reporting Standards; Code of Ethics; and applicable Laws and Regulations, and that the engagement Partners issue audit opinions that are appropriate in the circumstances.

This report discusses hereunder the results of the reviews for the year 2021, the first year of the third cycle and the 2020 comparative reviews. The report highlights significant themes arising from firm reviews and individual assurance engagement file reviews that were carried out and reported in 2021. The Authority is a member of the International Forum of Independent Audit Regulators (IFIAR) and, therefore, participates in the Survey of Inspection Findings in which member countries are required, among other things, to classify findings into review/inspection themes provided by the IFIAR. All findings arising from both the firm and engagement reviews have been classified into the IFIAR Inspection Themes.

2. PROCESS OF APPROVAL OF AUDIT PRACTICE REVIEW REPORTS

Audit Practice Review by the Technical Department

Audit Practice Review Committee (APRC) reviews Recommendations and Conclusions made by the Technical Department

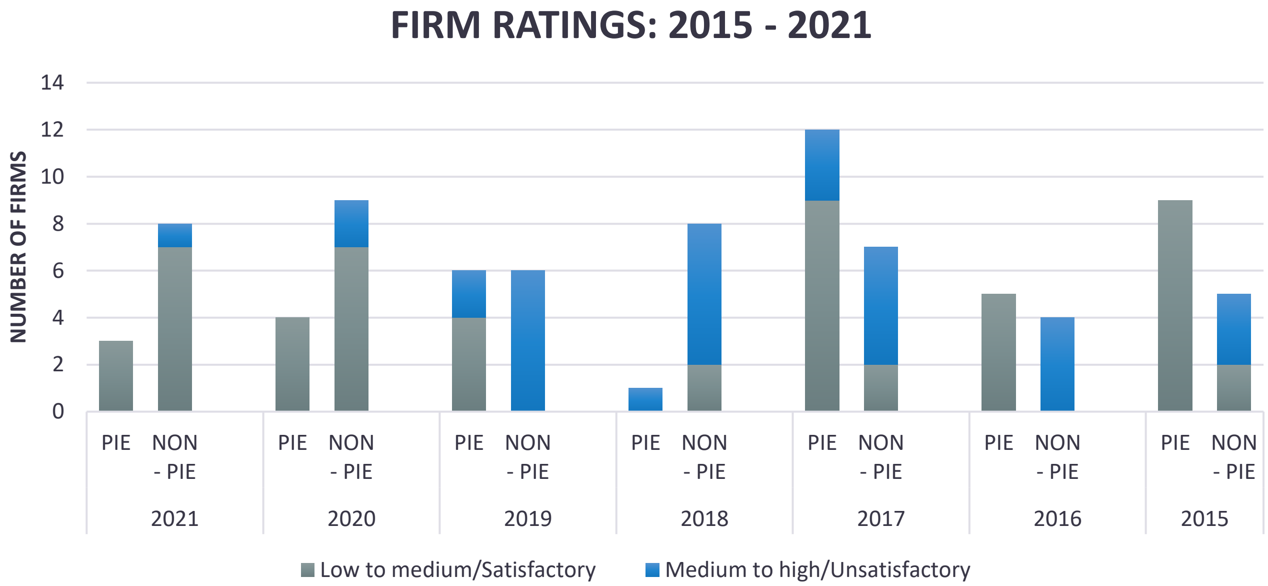
Board reviews APRC Recommendations and Conclusions

OUTCOME

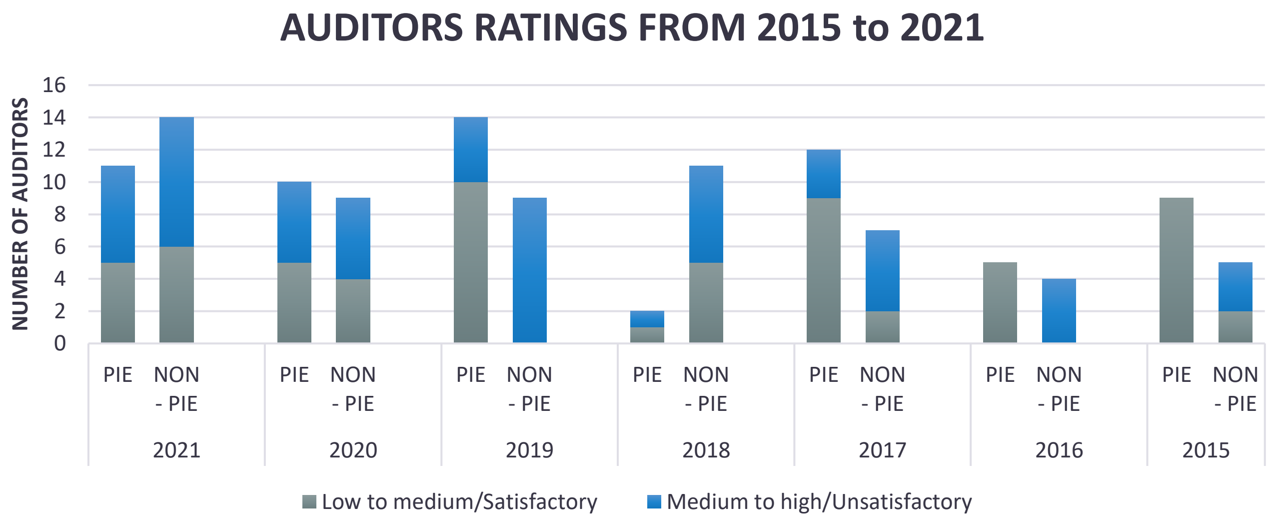
OVERALL RISK RATING	TYPE OF CONCLUSION	CONSEQUENCE
• Low risk • Low risk to Medium risk	- Documented non-compliance with standards, codes, legislation, or policies and procedures but risk of inappropriate audit opinion is unlikely	➢ Review in the next cycle
• Medium risk to High risk	- Significant issues of non-compliance, and appropriateness of audit opinion could not be determined.	➢ Re-review or Re-review and refer to Enforcement Committee
• High risk to Very High risk	- Significant issues of non-compliance or fundamental none or inadequate documentation and risk of inappropriate audit opinion is very likely or has probably been expressed.	➢ Refer to Enforcement Committee

3. OVERVIEW ON AUDIT PRACTICE REVIEWS

<u>Quality Control Reviews</u>: Firms of PIEs have shown mostly satisfactory results throughout the years with more than half of the firms reviewed each passing the ISQC 1 review. The opposite holds for Firms of non-PIEs, as more than half of all firms reviewed between 2015 and 2019 were rated as unsatisfactory. However, there has been a significant improvement in the last two years where the majority of the non-PIE firms reviewed were rated satisfactory. Below is summary of the Firm results from 2015 to date:



<u>Engagement Reviews</u>: The average pass rate for Auditors of PIEs has been 48% with the exception of 2015, 2016 and 2017 where the average pass rate was 92%. Auditors of Non-PIEs have an average pass rate of 29%. In 2016 and 2019, 100% of the Auditors of Non-PIEs reviewed were rated unsatisfactory. The performance of Auditors continues to be a concern, as per the chart below, in the last two years the pass rate has been below 50% for both Auditors of PIEs and Auditors of Non-PIEs.



4. AUDIT PRACTICE REVIEWS UNDERTAKEN IN 2021

4.1 Firm Reviews

In 2021, 11 Certified Audit Firms were reviewed. 3 of these were Certified Audit Firms of PIEs and 8 were Certified Audit Firms of Non-PIEs. The results of the Quality Control reviews of these audit firms were as follows:

Risk Rating	Number of Certified Firms		Total	Recommendation	
	PIE	Non-PIE		PIE	Non-PIE
Low	0	4	**4**	Review in the next cycle	
Low to Medium	3	3	**6**		
Medium to High	0	1	**1**	Not Applicable	Re-review in 18 to 24 months
TOTAL	**3**	**8**	**11**		

The Medium to High-risk rating on one Certified Audit firm was due the firm having no policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalised. This led to the Firm being unable to avail the audit engagement files selected for review timely as the Auditor only started assembling the files at the time of the review. Various audit documentation was provided as additional audit evidence during the review, and it was not part of the engagement's files.

All the key elements of each firm's system of Quality Control Policies and Procedures were reviewed on a sample basis and were then compared to the standard requirements of ISQC 1. All deviations from the requirements of ISQC 1 were noted as "findings" and were allocated to their respective ISQC 1 element as provided at Table A below.

Table A: Firm Review Findings

	2021						2020					
	CERTIFIED AUDIT FIRMS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDIT FIRMS OF NON - PUBLIC INTEREST ENTITIES		ALL CERTIFIED AUDIT FIRMS		CERTIFIED AUDIT FIRMS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDIT FIRMS OF NON - PUBLIC INTEREST ENTITIES		ALL CERTIFIED AUDIT FIRMS	
SYSTEM OF QUALITY CONTROL IFIAR Inspection Theme	#	%	#	%	#	%	#	%	#	%	#	%
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	0	0	2	8	**2**	**8**	0	0	4	8	**4**	**8**
Independence and Ethical Requirements	0	13	3	13	**6**	**26**	2	4	5	10	**7**	**14**

	2021						2020					
	CERTIFIED AUDIT FIRMS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDIT FIRMS OF NON - PUBLIC INTEREST ENTITIES		ALL CERTIFIED AUDIT FIRMS		CERTIFIED AUDIT FIRMS OF PUBLIC INTEREST ENTITIES		CERTIFIED AUDIT FIRMS OF NON - PUBLIC INTEREST ENTITIES		ALL CERTIFIED AUDIT FIRMS	
SYSTEM OF QUALITY CONTROL IFIAR Inspection Theme	#	%	#	%	#	%	#	%	#	%	#	%
Client Risk Assessment, Acceptance and Continuance	0	0	0	0	**0**	**0**	0	0	1	2	**1**	**2**
Human Resources	1	4	1	4	**2**	**8**	4	8	2	4	**6**	**12**
Engagement Performance	0	0	7	33	**8**	**33**	5	10	13	27	**18**	**37**
Monitoring	3	12	3	13	**6**	**25**	4	8	9	19	**13**	**27**
Total Findings	**7**	**29**	**17**	**71**	**24**	**100**	**15**	**30**	**34**	**70**	**49**	**100**

84% of the deficiencies noted in 2021 were distributed among three themes; Engagement Performance with 33%, Independence & Ethical Requirements with 26% and Monitoring with 25%. This is consistent with the 2020 statistics where 78% of the deficiencies noted were distributed among the same elements; Engagement Performance contributing 37%, Monitoring 27% and Independence and Ethical Requirements 14% of the total findings.

a) <u>Engagement Performance (33%) (2020:37%)</u>

Certified Audit Firms of Non-PIEs accounted for all the entire 33% of the findings under the Engagement Performance element. In 2020, Certified Audit Firms of PIEs accounted for 27% of the findings, while Certified Audit Firms of PIEs accounted for the remainder of 10%. The significant and common findings noted under this theme included the following:

i) *No documented evidence that Audit Files were archived / insufficient archiving procedures performed*

ISQC 1 Paragraph 45 requires firms to establish policies and procedures for engagement teams to complete the assembly of final engagement files on a timely basis after the engagement reports have been finalised. It further indicates that such a time limit would ordinarily not be more than 60 days after the date of the auditor's report. ISQC 1 Paragraph 47 requires firms to establish policies and procedures for the retention of engagement documentation for a period sufficient to meet the needs of the firm or as required by law or regulation.

- In the ISQC 1 reviews, some firms could not provide a list of archived files and, for some, upon selection of few files to confirm compliance with the requirements of ISQC 1, it was noted that engagement files were not archived within the 60 days as required by ISQC 1 Paragraph 45.

- Some firms had the archived listings; however, these did not indicate for example, the audit opinion date and the archive date. It was, therefore, not clear how the firms ensured that engagement files were retained for the period as required by ISQC 1 Paragraph 47. Furthermore, upon sampling of some engagements file, one firm was unable to provide us the specific engagement file despite that it was indicated as archived in the listing and still within its retention period.

ii) *Audit of Public Interest Entities by Certified Auditors of Non- Public Interest Entities*

A number of Certified Auditors of Non-PIEs issued audit opinions on PIEs. This was contrary to the Financial Reporting Act,2010 which states that … a person shall not hold appointment, or offer any services for remuneration, as a Certified Auditor of a PIE, unless he or she is registered with the Authority as a Certified Auditor of PIE. These were specifically PIEs as defined at Section 22(d) of the Financial Reporting Act, 2010 which states that an entity shall be considered to be a Public Interest Entity if at the end of the preceding accounting year the entity exceeded at least two of the following thresholds:

- Annual revenue of P300 million;
- 200 employees;
- Total assets of P200 million; or
- Total liabilities of P100 million, not including shareholder's equity.

Under the Financial Reporting (Amendment) Act, 2020, the above thresholds have been reduced to the following:

- Annual revenue of P200 million
- 150 employees
- Total assets of P150 million; or
- Total liabilities of P50 million, not including shareholder's equity.

Certified Auditors of Non-PIEs are, therefore, required to assess whether an entity is a PIE or not before accepting the audit engagement. Failure of which would result in penalties in accordance with the Financial Reporting (Amendment) Act, 2020.

b) Independence and Ethical Requirements (26%) (2020:14%)

Certified Audit Firms of PIEs and Non-PIEs contributed 13% of the findings each in 2021. In 2020, 10% was contributed by Certified Audit Firms of Non-PIEs, while 4% was contributed by Certified Audit Firms of PIEs. In 2020, this theme was the third highest. This theme being the second highest in the current year and findings having increased by 12% indicates that Certified Auditor Firms are not doing enough on ensuring that proper procedures are performed to provide them with reasonable assurance that the firm and its personnel comply with relevant ethical requirements as required by ISQC 1. The following where areas of concern:

- Firms did not fully comply with the BAOA Audit firm rotation Recommended Best Practice guidelines. It was noted, upon sampling, that the Audit Firms had entities that they had been auditing for more than 10 years. The Audit firm rotation Recommended Best Practice guidelines came into effect on 01 January 2019. The guidelines required that on 1 January 2019, an Audit Firm that had been the auditor of an entity for more than 10 continuous years, its current term shall be the last term. The audit firm can, therefore, not re-tender after expiry of the current term and will only be eligible to tender after the expiration of the cooling off period. If on 1 January 2019, the audit firm had been the auditor of an entity for less than 10 continuous years, the audit firm may renew its term such that the continuous period will not exceed 10 years. The 10 years are taken to include the years before 1 January 2019. After the 10 years, the Auditor shall not re-tender until after the expiration of the cooling off period. The Mandatory Audit Firm Rotation is now law in the Financial Reporting (Amendment) Act, 2020. Audit Firms are therefore required to comply with the requirements of the Act.

- Various ffinancial statements of audit clients were printed on the Firms labelled paper / Firms Letterheads, giving the impression that the financial statements were prepared by the Auditor. Preparation of financial statements is the responsibility of management with oversight from those charged with governance.

c) <u>Monitoring (25%) (2020:27%)</u>

Certified Audit Firms of Non-PIEs contributed 13% of the findings while the Certified Audit Firms of PIE contributed 12% in 2021. In 2020 19% was contributed by Certified Audit Firms of Non-PIEs and 8% Certified Audit Firms of PIEs.

The main area of concern was the Internal Monitoring Quality Control Reviews. For most of the firms, the Monitoring quality control reviews were either considered to be insufficient or were not performed at all. ISQC 1 Paragraph 48 requires firms to establish a monitoring process designed to provide them with reasonable assurance that the policies and procedures relating to the system of quality control are relevant, adequate, and operating effectively. This process shall include an ongoing consideration and evaluation of the firm's system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner.

For firms that performed the monitoring reviews, the following exceptions were noted:

- The engagement file names selected for review were not stated on the Monitoring report making it difficult to determine which engagement Partner was reviewed.

- The Monitoring reports did not, clearly state the scope on the ISQC 1 reviews; detail the findings noted on these reviews; and recommendations for appropriate remedial actions for deficiencies as required by ISQC 1.

- There was also no documented description of the monitoring procedures performed on both the Firm Quality Control and Engagement reviews and the Firms were unable to provide evidence that the monitoring procedures were communicated to the engagement Partners, firm's Chief Executives Officers or its managing board of Partners as required by ISQC 1. A description of monitoring procedures performed are required to be communicated as part of communications the results of the monitoring of the Firm's system of quality control.

Overall, the quality of the firms' system of quality control has improved from 84% pass rate in the previous year to 91% in 2021. 23% of the Certified Audit Firms were considered Medium to high risk/Unsatisfactory in 2020 compared to 9% in 2021.

4.2 Engagement Reviews

25 Certified Auditors were reviewed in 2021. 11 of these were Certified Auditors of PIEs while 14 were Certified Auditors of Non-PIEs. The performance of these were as follows:

<table>
<tr><th rowspan="2">Risk Rating</th><th colspan="2">Number of Certified Auditors</th><th rowspan="2">Total</th><th rowspan="2">Recommendation</th></tr>
<tr><th>PIE</th><th>Non-PIE</th></tr>
<tr><td>Low</td><td>0</td><td>5</td><td>5</td><td rowspan="2">Review in the next cycle (1 Certified Auditor with a Low to Medium rating was also issued a warning)</td></tr>
<tr><td>Low to Medium</td><td>6</td><td>1</td><td>7</td></tr>
<tr><td>Medium to High</td><td>5</td><td>4</td><td>9</td><td>Re-review in 18 to 24 months (1 Certified Auditor issued a warning)</td></tr>
<tr><td>High</td><td>0</td><td>4</td><td>4</td><td>Re-review in 18 to 24 months and referred to Disciplinary Committee of BICA.</td></tr>
<tr><td>Total</td><td>11</td><td>14</td><td>25</td><td></td></tr>
</table>

4 Certified Auditors rated as High Risk have been referred to the BICA Disciplinary Committee for appropriate sanctioning, following the significant deficiencies noted on their engagement reviews. The Authority is awaiting the final decisions from BICA. 2 of these were re-reviews. For both, the findings that were rated as High risk were recurring. This indicated that the Practitioners were not taking reasonable steps to address the review findings that were raised by the Authority. On the other 2 Certified Auditors, significant deficiencies resulted from material audit balances that were not audited. The Auditors, therefore, did not have sufficient, appropriate audit evidence to support the audit opinions issued on the specific engagement files.

All deviations from the requirements of applicable Assurance Standards, International Financial Reporting Standards; Code of Ethics; and applicable laws and regulations were noted as "findings". Each engagement finding was allocated to the IFIAR themes as per Table B below.

Table B: Engagement Review Findings split by IFIAR Inspection Themes

	2021						2020					
	CERTIFIED AUDITORS OF PUBLIC INTEREST ETITIES		CERTIFIED AUDITORS OF NON-PUBLIC INTEREST ETITIES		TOTAL AUDIT ENGAGEMENTS		CERTIFIED AUDITORS OF PUBLIC INTEREST ETITIES		CERTIFIED AUDITORS OF NON-PUBLIC INTEREST ETITIES		TOTAL AUDIT ENGAGEMENTS	
IFIAR INSPECTION THEMES	#	%	#	%	#	%	#	%	#	%	#	%
Internal Control Testing	1	1	0	0	**1**	**1**	1	0	0	0	**1**	**0**
Adequacy of Financial Statement Presentation and Disclosures	10	5	22	12	**32**	**17**	11	5	10	5	**21**	**10**
Use of Experts/Specialists	1	1	0	0	**1**	**1**	0	0	1	0	**1**	**0**
Substantive Analytical Procedures	1	1	6	3	**7**	**3**	2	1	2	1	**4**	**2**
Fraud Procedures	1	1	5	3	**6**	**2**	2	1	11	5	**13**	**6**
Risk Assessment	0	0	7	4	**7**	**4**	0	0	1	0	**1**	**0**
Audit Report	0	0	4	2	**4**	**2**	2	1	3	1	**5**	**2**
Accounting Estimates, including Fair Value Measurement	7	4	2	1	**9**	**4**	1	0	1	0	**2**	**1**
Revenue Recognition	3	2	10	5	**13**	**7**	2	1	4	2	**6**	**3**
Inventory Procedures	1	1	0	0	**1**	**1**	2	1	3	1	**5**	**2**
Related Party Transactions	1	1	1	1	**2**	**1**	4	2	5	2	**9**	**4**
Adequacy of Review and Supervision	28	15	57	30	**85**	**45**	58	27	83	39	**141**	**66**
Audit Sampling	0	0	12	6	**12**	**6**	3	1	3	1	**6**	**3**
Audit of Allowance for Loan Losses and Loan Impairments	2	1	5	3	**7**	**4**	0	0	0	0	**0**	**0**
Insufficient Challenge and Testing of Management's Judgement and Assessments	0	0	1	1	**1**	**1**	0	0	0	0	**0**	**0**
Testing of Customer Deposits and loans	2	1	0	0	**2**	**1**	0	0	0	0	**0**	**0**
TOTAL FINDINGS	**58**	**31**	**132**	**69**	**190**	**100**	**88**	**41**	**127**	**59**	**215**	**100**

69% (132) of the total findings were from Certified Auditors of Non- PIEs while the remaining 31% (58) were from Certified Auditors of PIEs in 2021. There has been an improvement in the performance of Certified Auditors of PIEs as the findings have decreased by 10% from the previous year. The performance of Certified Auditors of Non- PIEs continues to be a concern as the number of findings noted have increased by 10% from 2020.

The engagement files reviewed continue to show significant deficiencies mainly in the 'Adequacy of Review and Supervision' theme with 45%, split between Certified Auditors of PIEs with 15% and Certified Auditors of Non-PIEs with 30%. In 2020 the same theme had the highest number of findings, 66%, split between Certified Auditors of PIEs with 27% and Certified Auditors of Non-PIEs with 39%. The 'Adequacy of Financial Statement Presentation and Disclosures' accounted for the second highest number of findings with 17% split between Certified Auditors of PIEs with 5% and Certified Auditors of Non-PIEs with 12%. In 2020 this theme also accounted for second highest number of findings with 10%, split at 5% each between the Certified Auditors of PIEs and Non-PIEs contributed.

Adequacy of Review and Supervision (45%) (2020:66%)

Findings noted under this theme were mainly a result of failure of review of work of less experienced team members by the more experienced team members. For example, work performed was either not in line with professional standards & applicable legal & regulatory requirements, work performed did not support conclusions made or there was insufficient documentation of the audit work performed and verified. The significant findings noted included:

a) *Insufficient, inappropriate or no audit procedures performed on material balances*

ISA 500 requires the auditor to design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence. One of the factors to consider when designing such procedures is the assertions being addressed.

i. Local placement (cash and cash equivalents) balances were not confirmed. It was observed that when auditing banks, Auditors generally do not obtain external confirmations to confirm the existence and accuracy of the balances as at year end that were held with other banks for example loans and advances. In some instances, balances were agreed to initial deal placement slips, excel documents or internal generated documents.

ii. Confirmations of Material balances were not obtained. These included Cash and cash equivalents, Bank Overdrafts, Receivables, Finance lease liabilities balances were not confirmed. There were no alternative procedures performed or the alternative procedures performed were considered to be insufficient as they did not adequately address the specific risks of each balance as at year end.

iii. On auditing the Trade Receivable balance, Auditors performed subsequent receipts testing. However, some selected customers were not fully paid subsequent to year end, and the outstanding balances were material. There was, however, no further audit work performed on these outstanding balances, for example proof of delivery testing.

iv. Inventory Cost formulae were not tested. It has been noted that Auditors generally do not perform any audit work to test the inventory costing formulae to ensure that inventory is valued according to the company's accounting policies

v. A number of assertions on Property Plant and Equipment (PPE) are usually not addressed at all. These include completeness - for example, physically verifying PPE from the floor and tracing it back to the asset register, Rights, and obligations, especially on motor vehicles and land & buildings – this could be addressed through verifying the title deeds and registration books respectively.

vi. Incorrect direction of testing has been noted when testing revenue for completeness, which is the main risk on the Revenue. Auditors tend to select samples from the ledger and traced them to invoices. This audit procedure does not address the completeness assertion and both the ledger and invoices are internal generated information.

b) *Differences on confirmations not concluded on*

Auditors are required to investigate exceptions to determine whether or not they are indicative of misstatements. (ISA 505.14)

i. Various confirmations obtained by the Auditors did not reconcile to the ledger balances and the differences noted were not concluded on. Some of these differences were above the materiality thresholds. Some confirmations received had material balances which were not recorded in the ledger.

c) *Information used as audit evidence*

When designing and performing audit procedures, Auditors are required to consider the ***relevance*** and ***reliability*** of the information used as audit evidence, including information obtained from an external information source. (ISA 500.7)

i. On some engagements, confirmations obtained for Loan payables, Loan receivable, Banks, Trade Debtors and Related Parties were not stamped and also not on letterheads. There was also no documented evidence of how the auditor evaluated the reliability of the information used as audit evidence. It was, therefore, difficult to ascertain the authenticity of the confirmations used as audit evidence.

ii. In testing the trade receivables balances, samples were agreed to the customer statements as at year end and to subsequent year end customer ledgers. These procedures did not address the existence of the Trade receivables as at year end as the documents used were internally generated audit evidence.

d) *Testing How Management Made Accounting Estimates*

When testing management's accounting estimate, Auditors are required to obtain sufficient appropriate audit evidence regarding the risks of material misstatement relating to the selection and application of the methods, significant assumptions and the data used by management in making the accounting estimate. (ISA 540.22)

i. It was noted in some engagement files that the fair valuation of the land and buildings was performed by Management using the expected cash flow (Income) approach. There was, however, no documented audit evidence of how the Entity arrived at the projections and the basis of discount rates used.

There was also no documented audit evidence of how the Auditor tested the inputs used in the calculations

ii. There was no documented evidence that the Auditors had evaluated management's assessments on useful lives and residual values of Property, Plant & Equipment. IAS 16 requires that the residual value and useful life of an asset be reviewed at least at each financial year-end. Rates used in depreciation calculations and assessment of useful lives and residual values were not in line with the accounting policies.

e) *Insufficient audit work performed on Planning procedures*

There was no documented audit evidence that Auditors had performed the following procedures as required by ISAs:

i. Established and documented an overall audit strategy that sets the scope, timing, direction of the audit and guides the development of the audit plan. (ISA 300.7)

ii. Evaluated the team's members compliance with ethical requirements, including independence. (ISA 300.6)

iii. Obtained an understanding of the information system, including the related business processes, relevant to financial reporting for the classes of transactions in the entity's operations that were significant to the financial statements. (ISA 315.8)

iv. Designed and performed audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatements. (ISA 501.9)

v. Made all inquiries of Management and Those Charged with Governance regarding fraud. (ISA 240.17)

vi. Designed and performed audit procedures to respond to the risk of management override of controls. (240.33)

f) *Opening balances not audited*

In conducting an initial audit engagement, the objective of the auditor with respect to opening balances is to obtain sufficient appropriate audit evidence about whether opening balances contain misstatements that materially affect the current period's financial statements; and appropriate accounting policies reflected in the opening balances have been consistently applied in the current period's financial statements, or changes thereto are appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework. (ISA 510.3)

i. On a number of engagement files that were reviewed, there was no documented evidence on files that the auditors had tested opening balances even though it was the auditor's first year of auditing the entities. This area continues to be a concern despite ISA 510 having specific requirements on what an auditor is required to do and extensive application material on how to go about auditing opening balances.

g) *Insufficient Audit Evidence and Audit Documentation*

ISA 230 requires Auditors to prepare audit documentation that is sufficient to enable the conduct of external inspections and an experienced Auditor, having no previous connection with the audit, to understand and arrive at the same conclusion. It further states that oral explanations by the auditor, on their own, do not represent adequate support for the work the auditor performed or conclusions the auditor reached, but may be used to explain or clarify information contained in the audit documentation.

i. It was noted in various engagement files that there was a significant lack of audit documentation of audit work performed or verified during the audit. Auditors tend to try and explain what they believe they had performed despite the procedure performed and the evidence verified not documented in the audit file. ISA 230 clearly states the extent of documentation that is required in an audit file and oral explanations are not considered as support for the work performed or conclusions reached by an Auditor.

Adequacy of Financial Statement Presentation and Disclosures (17%) (2020:10%)

A number of significant findings noted under this theme included the following:

a) Failure to identify material misstatements in the financial statements

i. Leases were incorrectly accounted for using IFRS 16 (Leases) of the full IFRS framework while the entity had adopted IFRS for SMEs financial reporting framework.

ii. An agency Payable was disclosed as contingent Liability instead of being recognised in the financial statements, despite the entity having a legal contract with the third party.

iii. Amounts receivable from Shareholders were incorrectly presented as Equity in the Statement of Financial Position.

Other Significant Areas of Concern

The following findings, even though they did not form part of the themes with the highest percentage contributions to the engagement findings, were considered to be of concern:

a) *Revenue Recognition*

- Agent sales transactions were incorrectly accounted for on a gross basis as if the Entities were the principals, instead, of the Entities accounting for commission only. This was not in line with the requirements of IFRS 15 (Revenue recognition).

b) *Impairment Testing*

i. Investments in Subsidiaries and Investments in Associates were neither audited nor assessed for impairment at year end as required by IAS 36 (*Impairment of Assets*).

ii. It has been noted that in performing the expected credit loss on financial assets, Auditors do not consider fully the requirements of IFRS 9 (*Financial Instruments*), for example, time value of money, credit risk, historical information, and supportable forward-looking information. Some auditors do not consider these requirements at all while others just conclude that the probability of default is zero without conclusive audit evidence or analysis of how the auditor arrived at that conclusion.

  - Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity is required to account for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information provided about expected credit losses.

  - IFRS 9 requires an entity to estimate the risk of a default occurring on the financial instruments during its expected life. IFRS 9 requires consideration of all reasonable and supportable information that is relevant to the estimate of the expected credit loss, including the effect of expected payments, factors that are specific to the borrower, general economic conditions, and assessment of both the current as well as the forecast direction of conditions at the reporting date. Estimates of any changes in expected credit loss should reflect and be directional consistent with changes in related observable data from period to period.

c) *Incorrect audit opinions issued*

Audit opinions issued on a number of entities were not modified despite the following significant departures from IFRSs:

- An Entity had an Investment in Associates. The reporting Entity' year end was different from the year end of its Associates and no adjustments were made despite the reporting period of the two Entities being 8 months apart. This is contrary to IAS 28 which states that the difference between the end of the reporting period of the associate and that of the entity should not be more than three (3) months and any adjustments shall be made for the effects of the significant transactions.

- An entity had a new Business Combination, an Investment in a Subsidiary, which was incorrectly accounted for at cost instead of fair value as required by IFRS 3.

- Entities which had Investments in subsidiaries did not prepare consolidated financial statements despite the entities not meeting the exemptions in IFRS 10. For some entities that prepared consolidated financial statements it was noted that not all investments in subsidiaries, associates were consolidated.

The quality of the audit performed by Auditors continues to be of serious concern as only 44% of the Certified Auditors reviewed in 2021 were considered to be Low to Medium risk (satisfactory) and 56% were considered Medium to High risk (unsatisfactory). In the previous year, only 48% of the Certified Auditors reviewed were rated as Low to Medium risk while 52% were considered Medium to Very High risk.

5. CONCLUSION

Firms' systems of Quality Control serve as the foundation for executing quality audits. A strong system of quality control is a critical element in improved and sustained audit quality. The Authority plans to continue its dialogue with the Audit Firms to make continual improvement to systems of quality control. In addition, the International Auditing and Assurance Standards Board (IAASB) approved and issued the International Standard on Audit Quality Management (ISQM) 1 (*Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements)* with an effective date of December 15, 2022. ISQM1 presents an opportunity for the Audit Firms to revisit their quality control systems with the goal of identifying the applicable risks that affect audit quality and designing and implementing controls that best address those risks.

The role of the Auditor is critical in enhancing the confidence of users of financial statements. The execution of consistent, sustainable high-quality audits promotes the integrity of financial statements and enables reliance thereon by the investing public. Auditors are therefore, encouraged to follow through these reports and make appropriate improvements to ensure compliance and improve audit quality. Although the Authority values developing the Certified Auditors to ensure the highest standards of compliance with applicable standards and code, the new emphasis will be towards sanctioning non-compliance in accordance with the Financial Reporting (Amendment) Act, 2020. It is evident, based on the audit practice reviews carried out to date, that audit firms need to improve their systems of quality controls, particularly the quality of the work performed, and evidence obtained to support the audit opinions issued.