Botswana Accountancy Oversight Authority

SUMMARY OF
AUDIT PRACTICE REVIEWS

31 DECEMBER 2019

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Foreword from Board Chairperson

Botswana Accountancy Oversight Authority (BAOA) is responsible for provision of oversight to accounting and auditing services and promotion of the standard, quality and credibility of providing financial and non-financial information by entities, including Public Interest Entities (PIEs), through standard setting, financial reporting monitoring, audit practice reviews, corporate governance reviews, enforcement of compliance and oversight over Professional Accountancy Organisations; and education and training of professional accountants in Botswana.

On behalf of the Audit Practice Review Committee and the Board of the Authority, I have the pleasure of presenting the Audit Practice Review Committee summarised report on audit practice reviews for the year ending 31 December 2019, as well as the second review cycle to date (2018-2019).

The Authority believes that this report will serve as a valuable tool for audit firms of all sizes in developing, enhancing, and evolving their audit practices and contributing to their own processes of continuous improvement; and thereby further demonstrating their ongoing commitment to enhancing audit quality.

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Board Chairperson
March 2020

1. INTRODUTION

One of the major mandates of the Authority is to undertake audit practice reviews of Certified Audit Firms and their Certified Auditors. Audit practice reviews are performed in accordance with the Financial Reporting Act, 2010, Section 57.

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

A firm review consists of an examination 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 examination 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; International Financial Reporting Standards; Code of Ethics; and applicable Laws and Regulations, and that engagement partners issue reports that are appropriate in the circumstances.

In terms of its audit practice review mandate, the Authority is responsible for Certified Audit Firms and Certified Auditors of Public Interest Entities. However, the Authority has a Memorandum of Understanding with the Botswana Institute of Chartered Accountants (BICA), which requires that the Authority undertakes audit practice reviews of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities until such a time that the legislation is changed to give the Authority the responsibility to undertake reviews of all Certified Audit Firms and Certified Auditors in Botswana.

The Authority has adopted a three-year review cycle, which requires that all Certified Audit Firms and their Practitioners be reviewed within the three-year cycle period. The Authority completed its first audit practice review cycle on 31 December 2017 and the second cycle commenced on 01 January 2018.

This report discusses hereunder the results of the reviews for the year 2019; and the second cycle to date (2018-2019) in summary.

2. PROCESS OF APPROVAL OF AUDIT PRACTICE REVIEW REPORTS

After carrying out an audit practice review, the Technical Department prepares and submits audit practice review reports to the Audit Practice Review Committee (APRC), a subcommittee of the Authority's Board, for their consideration.

The Authority revised the Audit Practice Review Methodology during the year and the revised methodology became effective on the 01 September 2019. The Audit Practice Review Methodology is available on the BAOA website at this link: http://www.baoa.org.bw/?q=node/114.

Ten of the twelve Certified Audit Firms with a total of eighteen Certified Auditors were reviewed under the old audit practice review methodology while the remaining two Certified Audit Firms with a total of five Certified Auditors were reviewed under the revised audit practice review methodology.

Final results of audit practice reviews are determined in terms of predetermined criteria applicable to the audit practice review cycle. The APRC's final decision on a Certified Audit Firm or Practitioner would be one of the following:

Old Audit Practice Review Methodology

- Satisfactory, meaning that the next audit practice review will be carried out in the next cycle;
- Unsatisfactory, meaning that some matters still require attention before a satisfactory result can be achieved and a follow-up audit practice review will be scheduled; or
- Referral to the Enforcement Committee, which could then attract possible sanctions by the Committee.

Revised Audit Practice Review Methodology *(Effective for audit practice reviews commencing on or after 01 September 2019)*

Risk	Overall Rating Consequence
➢ Low	Low risk. Review in the next cycle.
➢ Medium	Review in the next cycle if the weighted rating is Low risk to Medium risk OR Re-review and / or refer to Enforcement if the weighted rating is Medium risk to High risk.
➢ High	High risk to Very High risk. Refer to Enforcement for final decision (re-review or immediate strike off).

Audit practice review reports for Certified Audit Firms and Certified Auditors of Public Interest Entities are examined by the APRC, who then recommend a course of action to the Authority's Board.

In respect of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities, the APRC examines audit practice review reports prepared by the Technical Department and recommends a course of action to BICA, through the Authority's Board. BICA then makes the final decision and informs their members accordingly.

With regard to Certified Audit Firms and Certified Auditors of Public Interest Entities, the Authority has adopted a developmental policy which requires that a Certified Audit Firm or Practitioner will be deregistered if they are re-reviewed:

- two times in a row, with no prospect of making minimal improvements to attain the required performance standards in the short-term; or
- at first or second review, where it is determined that the performance is so bad that continued practice of the firm or practitioner could seriously harm public interest or the interests of those who rely on the reports of the Certified Audit Firm or Certified Auditor.
- In respect of Certified Audit Firms and Certified Auditors of Non-Public Interest Entities, BICA has adopted a three-strike rule, which requires that a Certified audit firm or Certified Auditor be deregistered if their performance in an audit practice review is unsatisfactory three times in a row.

3. AUDIT PRACTICE REVIEWS UNDERTAKEN IN 2019

3.1 Overview of Audit Practice Reviews

In the current year, the Authority reviewed a total of 12 Certified Audit Firms with a total of 23 Certified Auditors. These comprised 6 Certified Audit Firms of PIEs with a total of 14 Certified Auditors, and 6 Certified Audit Firms of Non-PIEs with a total of 9 Certified Auditors.

Of the 12 audit firm reviews undertaken during 2019, 4 (33%) Certified Audit Firms of PIEs attained a Satisfactory/Low to Medium risk rating while 2 (17%) Certified Audit Firms of PIEs and 6 (50%) Certified Audit Firms of Non-PIEs attained an Unsatisfactory/Medium to High risk rating. There were no practising certificates revoked for any Certified Firm in 2019.

21 firms were reviewed in the second cycle to date. 4 (19%) Certified Audit Firms of PIEs and 2 (10%) Certified Audit Firms of Non-PIEs attained a Satisfactory/Low to medium risk rating; 12 (57%) Certified Audit Firms of Non-PIEs and (3) 14% Certified Audit Firms of PIEs attained Unsatisfactory/Medium to High risk rating. 1 of the Certified Audit Firms of Non-PIE obtained unsatisfactory results three times in a row and its certificate was revoked in 2018 in line with the BICA three strike rule.

Of the total 23 Certified Auditors reviewed in 2019, the performance of 10 (44%) Certified Auditor of PIEs were rated Satisfactory/low to medium risk while the performances of 4 (17%) Certified Auditors of PIEs and 9 (39%) Certified Auditors of Non-PIEs were rated Unsatisfactory/ Medium to High risk. There were no practising certificates revoked for any Certified Auditor in 2019.

For the second cycle to date, out of the 36 Certified Auditors reviewed, 11(30%) Certified Auditors of PIEs and 5(14%) Certified Auditors of Non-PIEs were rated Satisfactory/low to medium risk while 5(14%) Certified Auditors of PIEs and 15(42%) Certified Auditors of Non-PIEs were rated as Unsatisfactory/medium to High risk.

Overall, the quality of the firms' system of quality control (firm reviews) and Engagement reviews is of concern to the Authority as only 29% of the Certified Audit Firms reviewed to date were rated satisfactory/ low to medium risk while 71% were rated unsatisfactory/medium to high risk and 44% of the Certified Auditors reviewed were rated as satisfactory/low to medium risk while 56% unsatisfactory/medium to high risk (see Table A below).

A clear distinction can be noted for small audit firms (Certified Auditors of Non-PIEs) which continue to record a high number of unsatisfactory/medium to high risk ratings when compared to the "big" audit firms (Certified Auditors of PIEs). Small audit firms find it difficult to resource their practices with adequately competent staff and engagement quality control structures to cope with the ever-changing audit and International Financial Reporting Standards (IFRS) landscape.

Table A: Summary of Firm and Engagement Review Results for Certified Auditors of Public Interest Entities and Certified Auditors of Non-Public Interest Entities

DESCRIPTIONS	2019			Second Cycle to Date (2018-2019)		
	CERTIFIED AUDITORS OF PIE	CERTIFIED AUDITORS OF NON - PIE	TOTAL	CERTIFIED AUDITORS OF PIE	CERTIFIED AUDITORS OF NON - PIE	TOTAL
NUMBER OF FIRMS	**6**	**6**	**12**	**7**	**14**	**21**
Total Number of Partners	20	9	29	22	20	**42**
Total Number of Attest Partners Reviewed	14	9	23	16	20	**36**
Total Number of Attest Clients	877	193	**1070**	947	448	**1395**
Total Number of Attest (Assurance) Engagements Reviewed	20	15	35	24	37	**61**
Total Number of Engagement Review Findings	96	189	285	141	456	**597**
Findings per Attest Partner(average)	**7**	**21**	**12**	**9**	**23**	**17**
Attest Partner Rating:						
1. Satisfactory	10	0	10	11	5	**16**
2. Unsatisfactory	4	9	13	5	15	**20**
Total Partners	**14**	**9**	**23**	**16**	**20**	**36**
Total Number of Firm Review Findings	13	31	**44**	18	75	**93**
Findings per Firm(average)	**2**	**5**	**4**	**3**	**5**	**4**
Firm Rating						
1. Satisfactory	4	0	4	4	2	**6**
2. Unsatisfactory	2	6	8	3	12	**15**
Total Firms	**6**	**6**	**12**	**7**	**14**	**21**

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 audit practice 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.

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3.2 Firm Reviews

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 B below

Table B: Firm Review Findings

	2019						SECOND CYCLE TO DATE (2018-2019)					
	NUMBER OF FINDINGS ON CERTIFIED AUDIT FIRMS OF PIEs		NUMBER OF FINDINGS ON CERTIFIED AUDIT FIRMS OF NON - PIEs		TOTAL NUMBER OF FINDINGS ON ALL CERTIFIED AUDIT FIRMS		NUMBER OF FINDINGS ON CERTIFIED AUDIT FIRMS OF PIEs		NUMBER OF FINDINGS ON CERTIFIED AUDIT FIRMS OF NON - PIEs		TOTAL NUMBER OF FINDINGS ON ALL CERTIFIED AUDIT FIRMS	
SYSTEM OF QUALITY CONTROL IFIAR Inspection Theme	#	%	#	%	#	%	#	%	#	%	#	%
Leadership Responsibilities for Quality within the Firm (i.e., Tone at the Top)	2	4	2	5	**4**	**9**	3	3	4	5	**7**	8
Independence and Ethical Requirements	3	7	4	9	**7**	**16**	3	3	9	10	**12**	13
Client Risk Assessment, Acceptance and Continuance	0	0	1	2	**1**	**2**	0	0	4	4	**4**	4
Human Resources	2	5	1	2	**3**	**7**	3	3	3	3	**6**	6
Engagement Performance	3	6	17	39	**20**	**45**	5	5	41	45	**46**	50
Monitoring	3	7	6	14	**9**	**21**	4	4	14	15	**18**	19
Total Findings	**13**	**30**	**31**	**70**	**44**	**100**	**18**	18	**75**	82	**93**	100
Number of Audit Firms	**6**		**6**		**12**		**7**		**14**		**21**	
Average Findings Per Audit Firm	**2**		**5**		**4**		**3**		**5**		**4**	

13 (30%) of the 44 total findings for 2019 were for Certified Audit Firms of PIEs, the remainder of 31 (70%) were for Audit Firms of Non- PIEs. In 2018, 5 (10%) of the 49 total findings were for Audit Firms of PIEs, the remainder of 44 (90%) were for Certified Auditors of Non- PIEs. A total of 93 findings have been noted in the second cycle to date. These are made up of 18 (19%) contributed by Audit Firms of PIEs and 75 (81%) by Audit Firms of Non- PIEs.

Themes which emerged with a higher contribution to the total findings are further discussed below.

a) Engagement Performance

Firms are required to establish policies and procedures designed to provide them with reasonable assurance that engagements are performed in accordance with professional standards and applicable legal and regulatory requirements, and that the firm or the engagement partners issue reports that are appropriate in the circumstances.

The Engagement Performance theme made the largest contribution to the total findings; 45% in 2019 and 50% in the second cycle to date. Certified Audit Firms of Non-PIEs accounted for 39% of the findings, while Certified Audit Firms of PIEs accounted for the remainder of 6%

in 2019. In the second cycle to date (50%), which is made up of 45% contributed by Certified Audit Firms of Non- PIEs and 5% by Certified Audit Firms of PIEs. The common findings noted in this theme included the following:

i) *Completion of the assembly of final engagement files*

Firms were unable to provide us with evidence that final engagement files were completed and assembled timely after the engagement reports have been finalised. ISQC 1 gives guidance that assembling of audit files should ordinarily be completed within 60 days after the date of the auditor's report. In other firms, there were no systematic or documented procedures in place to verify/support that backups of electronic documentation, in particular engagement files, had been successfully done.

ii) *No policies and procedures to address some of the ISQC 1 requirements:*

Engagement Quality Control Reviews

Policies and procedures did not have any provision for the replacement of the engagement quality control reviewer where the reviewer's ability to perform an objective review may be impaired.

Policies and procedures did not require engagement quality control review to include discussion of significant matters with the engagement partner, and review of the financial statements or other subject matter information and the proposed report.

No policies and procedures on what documentation is required on an engagement quality control review.

Differences of opinion

Firms did not have policies and procedures for dealing with and resolving differences of opinion within the engagement team, with those consulted and, where applicable, between the engagement partner and the engagement quality control reviewer.

Consultations

There were no policies and procedures designed to provide the firms with reasonable assurance that consultations are documented and are agreed by both the individual seeking consultation and the individual consulted and conclusions resulting from consultations are documented thereof.

b) *<u>Monitoring</u>*

Firms are required 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.

The Monitoring theme accounted for the second highest contribution to total findings; 21% in 2019 and 19% for the second cycle to date. Certified Audit Firms of Non-PIEs contributed 14% of the findings compared to 7% contributed by

Certified Audit Firms of PIEs in 2019. In the second cycle to date 15% was contributed by Certified Audit Firms of Non- PIEs and 4% by Certified Audit Firms of PIEs.

The main area of concern on this area was the Internal Quality Control Reviews. Out of the 12 Certified Firms reviewed in 2019, 6 had not carried out reviews of the firms' system of quality control including, on a cyclical basis, inspection of at least one completed engagement for each engagement partner as required by ISQC 1.

c) *Relevant Ethical Requirements Theme's contribution*

Firms are required to establish policies and procedures designed to provide them with reasonable assurance that the firm and its personnel comply with relevant ethical requirements.

This theme accounted for the third highest contribution to total findings; 16% in 2019 and 13% for the second cycle to date. Certified Audit Firms of Non-PIEs contributed 9% of the findings compared to 7% contributed by Certified Audit Firms of PIEs in 2019. For the second cycle to date 10% was contributed by Certified Audit Firms of Non- PIEs and 3% by Certified Audit Firms of PIEs. The common findings in this theme included the following:

i) *Independence*

Annual written independence confirmations were not obtained from the firms' personnel to ensure compliance with the firms' policies and procedures on independence as required by ISQC 1.

Financial statements of the audit clients were bound on the firms' branding, implying that the financial statements were prepared by the auditors. ISQC 1 requires that firms should have policies and procedures that enable them to identify and evaluate circumstances and relationships that create threats to independence, and to take appropriate action to eliminate those threats or reduce them to an acceptable level by applying safeguards.

3.3 Engagement Reviews

During 2019, a total of 35 engagement reviews under the responsibility of 23 Certified Auditors across 12 Certified Audit Firms were carried out. A total of 61 engagements under the responsibility of 36 Certified Auditors across 21 Certified Audit Firms have been undertaken in the second cycle to date.

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 C below.

Table C: Engagement Review Findings split by IFIAR Inspection Themes

	2019						SECOND CYCLE TO DATE					
	FINDINGS ON ENGAGEMENTS AUDITED BY CERTIFIED AUDITORS OF PIEs		FINDINGS ON ENGAGEMENTS AUDITED BY CERTIFIED AUDITORS OF NON- PIEs		TOTAL FINDINGS ON ALL AUDIT ENGAGEMENTS		FINDINGS ON ENGAGEMENTS AUDITED BY CERTIFIED AUDITORS OF PIEs		FINDINGS ON ENGAGEMENTS AUDITED BY CERTIFIED AUDITORS OF NON- PIEs		TOTAL FINDINGS ON ALL AUDIT ENGAGEMENTS	
IFIAR INSPECTION THEMES	#	%	#	%	#	%	#	%	#	%	#	%
Internal Control Testing	2	1	0	0	**2**	**1**	2	0	0	0	**2**	**0**
Adequacy of Financial Statement Presentation and Disclosures	17	6	24	8	**41**	**14**	21	4	55	9	**76**	**13**
Use of Experts/Specialists	0	0	1	0	**1**	**0**	0	0	1	0	**1**	**0**
Substantive Analytical Procedures	1	0	0	0	**1**	**0**	1	0	0	0	**1**	**0**
Audit Committee Communication	1	0	0	0	**1**	**0**	1	0	0	0	**1**	**0**
Fraud Procedures	0	0	7	2	**7**	**2**	0	0	11	2	**11**	**2**
Risk Assessment	1	0	2	1	**3**	**1**	1	0	10	2	**11**	**2**
Audit Report	3	1	12	4	**15**	**5**	4	1	30	5	**34**	**6**
Accounting Estimates, including Fair Value Measurement	6	2	5	2	**11**	**4**	12	2	16	3	**28**	**5**
Revenue Recognition	0	0	2	1	**2**	**1**	0	0	4	1	**4**	**1**
Inventory Procedures	0	0	0	0	**0**	**0**	0	0	1	0	**1**	**0**
Related Party Transactions	2	1	7	2	**9**	**3**	3	1	24	4	**27**	**5**
Going Concern	0	0	1	0	**1**	**0**	2	0	3	1	**5**	**1**
Adequacy of Review and Supervision	45	16	116	41	**161**	**56**	74	12	281	47	**355**	**59**
Audit Sampling	4	1	12	4	**16**	**6**	6	1	20	3	**26**	**4**
Audit of Allowance for Loan Losses and Loan Impairments	1	0	0	0	**1**	**0**	1	0	0	0	**1**	**0**
Insufficient Challenge and Testing of Management's Judgement and Assessments	3	1	0	0	**3**	**1**	3	1	0	0	**3**	**1**
Testing of Customer Deposits and loans	7	2	0	0	**7**	**2**	7	1	0	0	**7**	**1**
Audit Methodology Including Programs and Tools	3	1	0	0	**3**	**1**	3	1	0	0	**3**	**1**
TOTAL FINDINGS	**96**	**34**	**189**	**66**	**285**	**100**	**141**	**24**	**456**	**76**	**597**	**100**

96 (34%) of the 285 total findings for 2019 were for Certified Auditors of PIEs, the remainder of 189 (66%) were for Certified Auditors of Non- PIEs. A total of 597 findings have been noted in the second cycle to date. These are made up of 141 (24%) contributed by Certified Auditors of PIEs and 456 (76%) by Certified Auditors of Non- PIEs.

Engagement files reviewed continue to show significant deficiencies mainly in the following themes: 'Adequacy of Review and Supervision' with 56% and the 'Adequacy of Financial Statement Presentation and Disclosures' with 14%.

In the second cycle to date most of the findings also related to the two themes with 59% under 'Adequacy of Review and Supervision' theme, split between Certified Auditors of PIEs 12% and Certified Auditors of Non-PIEs 47% and 13% under the 'Adequacy of Financial Statement Presentation and Disclosures' theme, split between Certified Auditors of PIEs (4%) and Certified Auditors of Non- PIEs (9%) respectively.

a) *Adequacy of Review and Supervision Theme's contributions*

Findings noted under this theme are mainly a result of failure of senior members of the audit engagement teams to properly supervise audit work performed (e.g., insufficient time devoted to review or no evidence of review). The common findings noted under this theme included:

i) *Preliminary Engagement Activities (ISA 300)*

- No documented evidence that the firm had evaluated the engagement teams' compliance with ethical requirements, including independence, at the beginning of the audit engagements.

- Engagement letters not signed off by the engagement partners.

ii) *Risk Assessment, Evaluation of controls and Walkthroughs (ISA 315, ISA 240)*

- The preliminary engagement team discussions involving the engagement partners and key members of the audit team did not cover most of the mandatory requirements of ISA 315.

- Revenue recognition not identified as a risk of material misstatement due to fraud as required by ISAs; nor was there any document that this presumption was not applicable.

- No documented evidence that the auditors had evaluated the design of the related controls, including the relevant control activities, and the implementation thereof, in respect of the significant risks identified.

- Areas considered to be significant to the financial statements as a whole, not identified as such at planning stage and therefore no documentation of audit work undertaken to understand the information systems, including the related businesses processes relevant to financial reporting for these classes of transactions.

- Inquiries of management and those charged with governance regarding fraud were not documented as required by ISA 240.

iii) *Litigation and claims (ISA 501)*

No documented evidence of the audit procedures performed by the auditors to identify any litigation and claims involving the entity which may give rise to a risk of material misstatement.

iv) *Audit Evidence and Audit Documentation (ISA 500, ISA 230)*

- Evidence of audit work carried out on material balances stated in the financial statements was either inadequate or was not documented altogether. In some cases, the auditors had indicated on the working papers that the samples were traced to various supporting documents, however the identifying characteristics of those supporting documents were not documented.

- Insufficient audit work carried out on Related Parties as there was no documented evidence that the auditors had enquired from management, the identity of related parties, nature of the relationship & type and purpose of the transactions. There was also no documented evidence that the auditors had considered the adequacy of control activities over the authorisation and recording of related party transactions as part of obtaining an understanding of the entities' internal controls and it was also noted that some related party balances/transaction were not disclosed at all in the financial statements or were disclosed at various notes, not under the Related Parties Note for easier user reference.

- In some engagements, there was no documented evidence that confirmations of bank balances, loans had been requested and/or received.

- No documented evidence of audit work performed on dividends paid. There were no audit working papers on file confirming that the solvency test had been undertaken to ensure compliance with the Companies Act requirements and there were also no accounting policies on dividend payments disclosed in the financial statements.

v) *Assessment of useful lives and residual values (IAS 16 & ISA 540)*

No documented evidence that the auditor had evaluated management's assessments, if any, of 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. The auditors are therefore required by ISA 540 to evaluate whether the accounting estimates in the financial statements are reasonable or misstated.

vi) *Selecting items for testing to obtain evidence / Sampling (ISA 500 & ISA 530)*

When designing tests of controls and tests of detail the auditor is required to determine means of selecting items for testing that are effective in meeting the purpose of the audit procedure. It was noted in various engagement files reviewed that there was no documented evidence of the sampling plan which the auditors had used to determine sample sizes; and to select sample items for detailed testing.

vii) *Impairment of Assets (IAS 2, IAS 36, IFRS 9)*

Assets were not sufficiently and appropriately assessed for impairment as required by various IFRSs.

viii) *Testing of Journal Entries*

No documented evidence of any journal entry testing carried out by the auditors to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of financial statements as required by ISA 240.

ix) *Analytical procedures*

Analytical procedures not performed at end of the audit to assist in forming the overall conclusions on consistency of financial statements with the auditors' understanding of the entities.

x) *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management (ISA 260 & ISA 265)*

No documented evidence of management letters to those charged with governance at the end of the audit to communicate deficiencies in internal controls and/or significant difficulties encountered during the audit.

xi) *Subsequent Events (ISA 560)*

No documented evidence of any subsequent events procedures carried out. ISA 560 requires the auditor to perform audit procedures designed to obtain sufficient appropriate audit evidence that all events up to the date of the auditor's report, or as near as practicable thereto, that may require adjustment of, or disclosure in, the financial statements have been identified.

b) *Adequacy of Financial Statement Presentation and Disclosures*

As a general observation, the quality of review of financial statements continues to be a matter of concern as practically all financial statements reviewed had numerous disclosure deficiencies of varying magnitudes, which could mislead the users of financial statements. These deficiencies included the following:

i) *Inadequate / Incorrect Disclosures and accounting policies:*

- No accounting policies on significant balances disclosed in the financial statements and accounting policies that were considered not to be relevant based on the nature of the businesses were disclosed in some financial statements.

- The accounting policies on financial instruments did not either include a list of all the financial instrument categories for financial assets and liabilities the entities had as required by IFRSs or the categories of financial instruments indicated were of the wrong framework, i.e. categories disclosed were for IFRS for SMEs whereas the framework used was full IFRS.

- New IFRS that were issued but not yet effective were either not disclosed or incomplete and the impact the new standards would have on the financial statements were also not disclosed. This is an IAS 8 disclosure requirement.

- Disclosures on inventories were not fully compliant with the disclosure requirements of IAS 2.

- Payroll accruals were presented as provisions in the statement of financial position. This is not in line with IAS 37 (Provisions), as the payroll accruals do not meet the definition of provisions.

- Material misstatements of disclosures in the financial statements, i.e. discrepancies between balances disclosed on the notes and balances disclosed on the face of the four main statements in the financial statements.

- Incorrect / no cross-referencing between the main financial statements and the notes.

- Disclosures in the notes not casting to balances indicated as totals in the financial statements.

ii) *Consolidated Financial Statements not prepared (IFRS 10, IAS 27)*

Disclosures in the financial statements of some entities showed that the entities held shares in subsidiaries. However, consolidated financial statements were not prepared and presented. There were no disclosures in the financial statements, as to why consolidated financial statements had not been prepared or whether the conditions for exemption from preparation of consolidated financial statements as per requirements of the IFRSs had been met. It was, however, noted that most of the entities reviewed did not meet the exemption requirements and should therefore have prepared the consolidated financial statements.

c) *Other Significant Areas of concern*

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

i) *Audit Report*

Incorrect Modified Audit Opinions issued (ISA 705)

Audit opinions issued in some engagement files reviewed were considered to be inappropriate as the balances that were subjected to modification were considered to represent a **substantial proportion of the financial statements** and also were **not confined to one area.** However, **qualified opinions** were issued in these engagement files instead of considering at a minimum either an **adverse opinion** or a **disclaimer of opinion** as guided by ISA 705. As per ISA 705, the decision regarding which type of modified opinion is appropriate depends upon:

- The nature of the matter giving rise to the modification, that is, whether the financial statements are materially misstated or, in the case of an inability to obtain sufficient appropriate audit evidence, may be materially misstated; and

- The auditor's judgment about the pervasiveness of the effects or possible effects of the matter on the financial statements. ***Pervasive*** is a term used, in the context of misstatements, to describe the effects on the financial statements of misstatements or the possible effects on the financial statements of misstatements, if any, that are undetected due to an inability to obtain sufficient appropriate audit evidence. Pervasive effects on the financial statements are those that, in the auditor's judgment:
    - Are not confined to specific elements, accounts or items of the financial statements;
    - If so confined, represent or could represent a substantial proportion of the financial statements; or
    - In relation to disclosures, are fundamental to users' understanding of the financial statements

- The table below illustrates how the auditor's judgment about the nature of the matter giving rise to the modification, and the pervasiveness of its effects or possible effects on the financial statements, affects the type of opinion to be expressed.

Nature of Matter Giving Rise to the Modification	**Auditor's Judgment about the Pervasiveness of the Effects or Possible Effects on the Financial Statements**	
	Material but Not Pervasive	Material and Pervasive
Financial statements are materially misstated	Qualified opinion	Adverse opinion
Inability to obtain sufficient appropriate audit evidence	Qualified opinion	Disclaimer of opinion

Other information not covered in the Independent Auditor's report (ISA 720)

The Independent Auditors' Reports did not include the other information disclaimer paragraph as required by ISA 720. When an entity produces a set of financial statements that are accompanied by other information such as the annual report, ISA 720 requires the Auditor to include in the Independent Auditor's Reports a specific paragraph headed 'Other Information' which should include among other things:

- A statement that the auditor's opinion does not cover the other information and, accordingly, that the auditor does not express (or will not express) an audit opinion or any form of assurance conclusion thereon; and

- A description of the auditor's responsibilities relating to reading, considering and reporting on other information as required by this ISA 720.

Emphasis of Matter Paragraph (ISA 706)

An Emphasis of Matter paragraph is a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

It was noted in a number of engagement files reviewed that there were matters that needed to be highlighted to the users' attention in the financial statements, however these were not highlighted in the auditors' reports.

Circumstances in which an Emphasis of Matter Paragraph may be necessary include the following among others: *(ISA 706 provides further guidance on this area)*

- When a financial reporting framework prescribed by law or regulation would be unacceptable but for the fact that it is prescribed by law or regulation.

- To alert users that the financial statements are prepared in accordance with a special purpose framework.

- An uncertainty relating to the future outcome of exceptional litigation or regulatory action.

- Early application (where permitted) of a new accounting standard that has a material effect on the financial statements.

- A major catastrophe that has had, or continues to have, a significant effect on the entity's financial position.

ii) *Going Concern (ISA 570)*

The auditor's responsibilities under this ISA are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements; and to conclude, based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

Procedures performed by the auditors in this area were considered to be insufficient especially when events or conditions exist that may cast significant doubt on the entity's ability to continue as a going concern. Additional procedures are required to be performed when such events or conditions are identified. These include:

- Where management has not yet performed an assessment of the entity's ability to continue as a going concern, the auditor should request management to make this assessment.

- Evaluating management's plans for future actions in relation to its going concern assessment.

- Where the entity has prepared a cash flow forecast, the auditor is required to interrogate the forecast by evaluating the reliability of the underlying data generated to prepare the forecast; and determining whether there is adequate support for the assumptions underlying the forecast.

- Requesting written representations from management and, where appropriate, those charged with governance, regarding their plans for future actions and the feasibility of these plans.

- Based on the audit evidence obtained, the auditor shall conclude whether, in the auditor's judgment, a material uncertainty exists related to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern and:

    - Ensure financial statements adequately disclose this fact and that the entity may be unable to realise its assets and discharge its liabilities in the normal course of business;

    - The auditor's report shall include a separate section under the heading "Material Uncertainty Related to Going Concern and this should be referenced to the note in the financial statements that discloses the matters set out in this paragraph (Emphasis of matter);

    - The auditor shall communicate with those charged with governance events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern.

iii) *Offering Services as a Certified Auditor of PIE - Assessment of the Entities PIE Status*

Section 24(1) of the Financial Reporting Act, 2010 states that; 'Notwithstanding anything contained in the Companies Act, or any other law, a person shall not hold any appointment, or offer any services for remuneration, as a certified auditor of a PIE, unless he or she is registered by the Authority as a certified auditor of PIE under this Act.

The Authority would like to emphasise that all Certified Auditors are required to comply with this Section. It is the Certified Auditor's responsibility to make an assessment on an annual basis to determine the PIE status of the entities that are accepted as audit clients. If an entity is found to be a PIE as per the definition in the Financial Reporting Act, 2010, it is the Certified

Auditor's responsibility to ensure compliance with Section 24 (Registration of certified auditor of public interest entity), subsection 1 of the Financial Reporting Act, 2010. In addition, the Certified Auditor is expected to advise the client accordingly if it is found not to be registered with BAOA as all PIEs are required to register with the Authority as per Section 4 of the Financial Reporting Act (Public Interest Entities) Regulations, 2016.

4. CONCLUDING REMARKS

The Authority wishes to emphasise that the primary objective of the audit practice reviews is to raise the standard of audit and protect public interest. For that reason, the Authority's audit practice review reports are proactive and forward looking, contain detailed recommendations and guidance to enable audit practices to improve their performance and overall standard of audit, where such need has been identified. Based on the developmental approach adopted by the Authority, deregistration of an audit practitioner or firm is a last resort.

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.

The Authority noted that most findings identified during the reviews are recurring. Firms are therefore required to ensure that all deficiencies identified during a firm or an engagement review are addressed throughout the entire firm, i.e. where improvements are required, these should be addressed by all audit teams across the firm on all of their audits.

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